AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 08, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from to

Commission File Number 1-8787

American International Group, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: (212) 770-7000
Former name, former address and former fiscal year, if changed since last report: None

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

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

Large accelerated filer þ	**Accelerated filer o**	**Non-accelerated filer o** **(Do not check if a smaller reporting company)**	**Smaller reporting company o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of April 30, 2008, there were 2,492,061,043 shares outstanding of the registrant s common stock.

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Explanatory Note

Throughout this report, AIG s operations formerly referred to as the Domestic Brokerage Group (DBG) are referred to as AIG Commercial Insurance (Commercial Insurance). See page 48 for additional information.

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American International Group, Inc. and Subsidiaries

Part I FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

CONSOLIDATED BALANCE SHEET

(in millions) (unaudited)

	March 31, 2008	December 31, 2007
Assets:		
Investments and Financial Services assets:		
Fixed maturities:		
Bonds available for sale, at fair value (amortized cost: 2008 $396,168; 2007 $393,170)	**$ 395,487**	$ 397,372
Bonds held to maturity, at amortized cost (fair value: 2008 $21,839; 2007 $22,157)	**21,566**	21,581
Bond trading securities, at fair value	**9,375**	9,982
Equity securities:		
Common stocks available for sale, at fair value (cost: 2008 $12,387; 2007 $12,588)	**16,122**	17,900
Common and preferred stocks trading, at fair value	**21,671**	21,376
Preferred stocks available for sale, at fair value (cost: 2008 $2,609; 2007 $2,600)	**2,451**	2,370
Mortgage and other loans receivable, net of allowance (2008 $87; 2007 $77) (held for sale: 2008 $6; 2007 $377 (amount measured at fair value: 2008 $810)	**34,373**	33,727
Financial Services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2008 $10,932; 2007 $10,499)	**42,832**	41,984
Securities available for sale, at fair value (cost: 2008 $1,143; 2007 $40,157)	**1,096**	40,305
Trading securities, at fair value	**35,998**	4,197
Spot commodities, at fair value in 2008	**728**	238
Unrealized gain on swaps, options and forward transactions, at fair value	**20,598**	16,442
Trade receivables	**8,896**	6,467
Securities purchased under agreements to resell, at fair value in 2008	**19,708**	20,950
Finance receivables, net of allowance (2008 $985; 2007 $878) (receivables held for sale: 2008 $80; 2007 $233)	**32,601**	31,234
Securities lending invested collateral, at fair value (cost: 2008 $73,610; 2007 $80,641)	**64,261**	75,662
Other invested assets (amount measured at fair value: 2008 $21,688; 2007 $20,827)	**61,191**	58,823
Short-term investments (amount measured at fair value: 2008 $2,801)	**52,298**	51,351
Total Investments and Financial Services assets	**841,252**	851,961
Cash	**2,489**	2,284
Investment income due and accrued	**6,696**	6,587

Premiums and insurance balances receivable, net of allowance (2008 $638; 2007 $662)	**20,437**	18,395
Reinsurance assets, net of allowance (2008 $526; 2007 $520)	**22,895**	23,103
Deferred policy acquisition costs	**44,066**	43,150
Investments in partially owned companies	**710**	654
Real estate and other fixed assets, net of accumulated depreciation (2008 $5,630; 2007 $5,446)	**5,635**	5,518
Separate and variable accounts, at fair value	**72,973**	78,684
Goodwill	**10,182**	9,414
Income taxes receivable	**2,762**	
Other assets (amount measured at fair value: 2008 $5,123; 2007 $4,152)	**20,989**	20,755
Total assets	**$ 1,051,086**	$ 1,060,505

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)

	March 31, 2008	December 31, 2007
Liabilities:		
Reserve for losses and loss expenses	**$ 86,860**	$ 85,500
Unearned premiums	**28,889**	28,022
Future policy benefits for life and accident and health insurance contracts	**143,425**	136,068
Policyholders contract deposits (amount measured at fair value: 2008 $4,118; 2007 $295)	**261,264**	258,459
Other policyholders funds	**13,191**	12,599
Commissions, expenses and taxes payable	**5,523**	6,310
Insurance balances payable	**5,504**	4,878
Funds held by companies under reinsurance treaties	**2,505**	2,501
Income taxes payable		3,823
Financial Services liabilities:		
Securities sold under agreements to repurchase (amount measured at fair value: 2008 $8,271)	**9,674**	8,331
Trade payables	**9,494**	10,568
Securities and spot commodities sold but not yet purchased, at fair value	**3,806**	4,709
Unrealized loss on swaps, options and forward transactions, at fair value	**30,376**	20,613
Trust deposits and deposits due to banks and other depositors (amount measured at fair value: 2008 $262)	**5,662**	4,903
Commercial paper and extendible commercial notes	**13,261**	13,114
Long-term borrowings (amount measured at fair value: 2008 $59,254)	**158,909**	162,935
Separate and variable accounts	**72,973**	78,684
Securities lending payable	**77,775**	81,965
Minority interest	**10,834**	10,422
Other liabilities (amount measured at fair value: 2008 $6,295; 2007 $3,262)	**31,358**	30,200
Total liabilities	**971,283**	964,604
Preferred shareholders equity in subsidiary companies	**100**	100
Commitments, Contingencies and Guarantees (See Note 6)		
Shareholders equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2008 and 2007 2,751,327,476	**6,878**	6,878
Additional paid-in capital	**2,938**	2,848
Payments advanced to purchase shares	**(179)**	(912)
Retained earnings	**79,732**	89,029
Accumulated other comprehensive income (loss)	**(1,271)**	4,643
Treasury stock, at cost; 2008 255,499,218; 2007 221,743,421 shares of common stock	**(8,395)**	(6,685)

Total shareholders equity	**79,703**	95,801
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 1,051,086**	$ 1,060,505

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME (LOSS)

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

	Three Months Ended March 31, 2008	2007
Revenues:		
Premiums and other considerations	$ **20,672**	$ 19,642
Net investment income	**4,954**	7,124
Net realized capital gains (losses)	**(6,089)**	(70)
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**(9,107)**	
Other income	**3,601**	3,949
Total revenues	**14,031**	30,645
Benefits and expenses:		
Incurred policy losses and benefits	**15,882**	16,146
Insurance acquisition and other operating expenses	**9,413**	8,327
Total benefits and expenses	**25,295**	24,473
Income (loss) before income taxes (benefits) and minority interest	**(11,264)**	6,172
Income taxes (benefits)	**(3,537)**	1,726
Income (loss) before minority interest	**(7,727)**	4,446
Minority interest	**(78)**	(316)
Net income (loss)	**$ (7,805)**	$ 4,130
Earnings (loss) per common share:		
Basic	**$ (3.09)**	$ 1.58
Diluted	**$ (3.09)**	$ 1.58
Dividends declared per common share	**$ 0.200**	$ 0.165
Average shares outstanding:		
Basic	**2,528**	2,612
Diluted	**2,528**	2,621

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)

	Three Months Ended March 31, 2008	2007
Summary:		
Net cash provided by operating activities	**$ 8,293**	$ 9,930
Net cash provided by (used in) investing activities	**3,529**	(18,024)
Net cash provided by (used in) financing activities	**(11,675)**	8,216
Effect of exchange rate changes on cash	**58**	(10)
Change in cash	**205**	112
Cash at beginning of year period	**2,284**	1,590
Cash at end of year period	**$ 2,489**	$ 1,702
Cash flows from operating activities:		
Net income (loss)	**$ (7,805)**	$ 4,130
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**9,107**	
Net gains on sales of securities available for sale and other assets	**(245)**	(250)
Foreign exchange transaction (gains) losses	**996**	305
Net unrealized (gains) losses on non-AIGFP derivatives and other assets and liabilities	**2,124**	61
Equity in income of partially owned companies and other invested assets	**(79)**	(1,329)
Amortization of deferred policy acquisition costs	**3,156**	2,868
Depreciation and other amortization	**885**	824
Provision for mortgage, other loans and finance receivables	**251**	87
Other-than-temporary impairments	**5,642**	467
Changes in operating assets and liabilities:		
General and life insurance reserves	**4,855**	4,380
Premiums and insurance balances receivable and payable net	**(1,588)**	(1,192)
Reinsurance assets	**241**	223
Capitalization of deferred policy acquisition costs	**(4,183)**	(3,697)
Investment income due and accrued	**(37)**	(109)
Funds held under reinsurance treaties	**(12)**	(158)
Other policyholders funds	**289**	412
Income taxes receivable and payable net	**(2,635)**	1,076
Commissions, expenses and taxes payable	**(27)**	661
Other assets and liabilities net	**814**	636

Trade receivables and payables net		**(3,503)**		1,805
Trading securities		**1,079**		(1,453)
Spot commodities		**(490)**		147
Net unrealized (gain) loss on swaps, options and forward transactions		**(2,646)**		962
Securities purchased under agreements to resell		**1,241**		889
Securities sold under agreements to repurchase		**1,283**		(2,100)
Securities and spot commodities sold but not yet purchased		**(914)**		(20)
Finance receivables and other loans held for sale originations and purchases		**(166)**		(2,473)
Sales of finance receivables and other loans held for sale		**363**		2,574
Other, net		**297**		204
Total adjustments		**16,098**		5,800
Net cash provided by operating activities	**$**	**8,293**	$	9,930

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)

	Three Months Ended March 31,	
	2008	2007
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales and maturities of fixed maturity securities available for sale and hybrid investments	**$ 21,208**	$ 30,073
Sales of equity securities available for sale	**2,772**	2,137
Proceeds from fixed maturity securities held to maturity	**46**	18
Sales of trading securities	**14,196**	
Sales of flight equipment	**128**	27
Sales or distributions of other invested assets	**4,895**	2,701
Payments received on mortgage and other loans receivable	**1,843**	733
Principal payments received on finance receivables held for investment	**3,510**	3,349
Purchases of fixed maturity securities available for sale and hybrid investments	**(21,054)**	(34,016)
Purchases of equity securities available for sale	**(2,512)**	(2,436)
Purchases of fixed maturity securities held to maturity	**(16)**	(9)
Purchases of trading securities	**(9,126)**	
Purchases of flight equipment (including progress payments)	**(1,388)**	(1,917)
Purchases of other invested assets	**(6,363)**	(5,740)
Mortgage and other loans receivable issued	**(1,711)**	(2,543)
Finance receivables held for investment originations and purchases	**(4,978)**	(3,409)
Change in securities lending invested collateral	**4,153**	(5,521)
Net additions to real estate, fixed assets, and other assets	**(237)**	(259)
Net change in short-term investments	**(1,682)**	(1,250)
Net change in non-AIGFP derivative assets and liabilities	**(155)**	38
Net cash provided by (used in) investing activities	**$ 3,529**	$ (18,024)
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholders contract deposits	**$ 16,439**	$ 14,001
Policyholders contract withdrawals	**(15,600)**	(15,309)
Change in other deposits	**629**	(1,340)
Change in commercial paper and extendible commercial notes	**112**	396
Long-term borrowings issued	**12,559**	24,358
Repayments on long-term borrowings	**(19,908)**	(16,324)
Change in securities lending payable	**(4,200)**	5,716
Issuance of treasury stock	**14**	52
Payments advanced to purchase treasury stock	**(1,000)**	(3,000)
Cash dividends paid to shareholders	**(498)**	(430)

Acquisition of treasury stock				(16)
Other, net		**(222)**		112
Net cash provided by (used in) financing activities	**$**	**(11,675)**	$	8,216
Supplementary disclosure of cash flow information:				
Cash paid (received) during the period for:				
Interest	**$**	**1,615**	$	1,901
Taxes	**$**	**(901)**	$	640
Non-cash financing activities:				
Interest credited to policyholder accounts included in financing activities	**$**	**1,241**	$	2,879
Treasury stock acquired using payments advanced to purchase shares	**$**	**1,733**	$	149
Non-cash investing activities:				
Debt assumed on acquisitions and warehoused investments	**$**		$	638

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)

	Three Months Ended March 31, 2008	2007
Net income (loss)	**$ (7,805)**	$ 4,130
Other comprehensive income (loss):		
Cumulative effect of accounting changes	**(162)**	
Deferred income tax benefit on above changes	**57**	
Unrealized (depreciation) appreciation of investments net of reclassification adjustments	**(10,572)**	1,309
Deferred income tax benefit (expense) on above changes	**3,748**	(458)
Foreign currency translation adjustments	**1,346**	(165)
Deferred income tax benefit (expense) on above changes	**(251)**	28
Net derivative gains (losses) arising from cash flow hedging activities net of reclassification adjustments	**(133)**	1
Deferred income tax benefit on above changes	**45**	27
Change in pension and postretirement unrecognized periodic benefit	**6**	3
Deferred income tax benefit (expense) on above changes	**2**	(1)
Other comprehensive income (loss)	**(5,914)**	744
Comprehensive income (loss)	**$ (13,719)**	$ 4,874

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States (GAAP) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2007 (2007 Annual Report on Form 10-K).

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated.

Certain reclassifications and format changes have been made to prior period amounts to conform to the current period presentation.

Recent Accounting Standards

Accounting Changes

FAS 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements but does not change existing guidance about whether an asset or liability is carried at fair value. FAS 157 nullifies the guidance in Emerging Issues Task Force (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, (EITF 02-3) that precluded the recognition of a trading profit at the inception of a derivative contract unless the fair value of such contract was obtained from a quoted market price or other valuation technique incorporating observable market data. FAS 157 also clarifies that an issuer s credit standing should be considered when measuring liabilities at fair value. The fair value measurement and related disclosure guidance in FAS 157 do not apply to fair value measurements associated with AIG s share-based employee compensation awards accounted for in accordance with FAS 123(R), Share-Based Payment.

AIG adopted FAS 157 on January 1, 2008, its required effective date. FAS 157 must be applied prospectively, except for certain stand-alone derivatives and hybrid instruments initially measured using the guidance in EITF 02-3, which must be applied as a cumulative effect accounting change to retained earnings at January 1, 2008. The cumulative effect, net of taxes, of adopting FAS 157 on AIG s consolidated balance sheet was an increase in retained earnings of $4 million.

The most significant effect of adopting FAS 157 on AIG s first quarter 2008 results related to changes in fair value methodologies with respect to both liabilities already carried at fair value, primarily hybrid notes and derivatives, and newly elected liabilities measured at fair value (see FAS 159 discussion below). Specifically, the incorporation of AIG s own credit spreads and the incorporation of explicit risk margins (embedded policy derivatives only) resulted in an increase of $2.8 billion to pre-tax income ($1.8 billion after tax) for the first three months of 2008. The total increase in pre-tax income attributable to changes in AIG s own credit spreads of $2,648 million for AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) was substantially offset by the effect of changes in counterparty credit spreads for assets measured at fair value at AIGFP of $2,620 million.

See Note 3 to the Consolidated Financial Statements for additional FAS 157 disclosures.

FAS 159

In February 2007, the FASB issued FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in income. FAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. FAS 159 permits the fair value option election on an instrument-by-instrument basis for eligible items existing at the adoption date and at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

AIG adopted FAS 159 on January 1, 2008, its required effective date. The adoption of FAS 159 with respect to elections made in the Life Insurance & Retirement Services segment resulted in an after-tax decrease to 2008 opening retained earnings of $559 million. The adoption of FAS 159 with respect to elections made by AIGFP resulted in an after-tax decrease to 2008 opening retained earnings of $448 million. Included in this amount are net unrealized gains of $105 million that were reclassified to retained earnings from accumulated other comprehensive income (loss) related to available for sale securities recorded on the consolidated balance sheet at January 1, 2008 for which the fair value option was elected.

See Note 3 to the Consolidated Financial Statements for additional FAS 159 disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

1. Summary of Significant Accounting Policies *(continued)*

FAS 157 and FAS 159

The following table summarizes the after-tax increase (decrease) from adopting FAS 157 and FAS 159 on the opening shareholders equity accounts at January 1, 2008:

	At January 1, 2008		
(in millions)	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Cumulative Effect of Accounting Changes
FAS 157	$	$ 4	$ 4
FAS 159	(105)	(1,007)	(1,112)
Cumulative effect of accounting changes	$ (105)	$ (1,003)	$ (1,108)

FIN 39-1

In April 2007, the FASB directed the FASB Staff to issue FSP No. FIN 39-1, Amendment of FASB Interpretation No. 39 (FSP FIN 39-1). FSP FIN 39-1 modifies FIN No. 39, Offsetting of Amounts Related to Certain Contracts, and permits companies to offset cash collateral receivables or payables against derivative instruments under certain circumstances. FSP FIN 39-1 became effective on January 1, 2008 for AIG. Consistent with prior practice, AIG elected not to offset cash collateral receivables or payables against derivative instruments. At March 31, 2008, the amounts of cash collateral received and paid were $8.7 billion and $7.2 billion, respectively.

Future Application of Accounting Standards

FAS 141(R)

In December 2007, the FASB issued FAS 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) changes the accounting for business combinations in a number of ways, including broadening the transactions or events that are considered business combinations; requiring an acquirer to recognize 100 percent of the fair value of assets acquired, liabilities assumed, and noncontrolling (i.e., minority) interests; recognizing contingent consideration arrangements at their acquisition-date fair values with subsequent changes in fair value generally reflected in income; and recognizing preacquisition loss and gain contingencies at their acquisition-date fair values, among other changes.

AIG is required to adopt FAS 141(R) for business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is prohibited.

FAS 160

In December 2007, the FASB issued FAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FAS 160). FAS 160 requires noncontrolling (i.e., minority) interests in partially owned consolidated subsidiaries to be classified in the consolidated balance sheet as a separate component of consolidated shareholders equity. FAS 160 also establishes accounting rules for subsequent acquisitions and sales of noncontrolling interests and how noncontrolling interests should be presented in the consolidated statement of income. The noncontrolling interests share of subsidiary income should be reported as a part of consolidated net income with disclosure of the attribution of consolidated net income to the controlling and noncontrolling interests on the face of the consolidated statement of income.

FAS 160 is required to be adopted by AIG on January 1, 2009 and early adoption is prohibited. FAS 160 must be adopted prospectively, except that noncontrolling interests should be reclassified from liabilities to a separate component of shareholders equity and consolidated net income should be recast to include net income attributable to both the controlling and noncontrolling interests retrospectively. Had AIG adopted FAS 160 at March 31, 2008, AIG would have reclassified $10.8 billion of noncontrolling (i.e., minority) interests from liabilities to shareholders equity. Additionally, both consolidated net income (loss) and consolidated comprehensive income (loss) for the three-month periods ended March 31, 2008 and 2007 would have increased by $78 million and $316 million, respectively, to include the net income (loss) attributed to the noncontrolling interests.

FAS 161

In March 2008, the FASB issued FAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 requires enhanced disclosures about (a) how and why AIG uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), and its related interpretations, and (c) how derivative instruments and related hedged items affect AIG s consolidated financial condition, results of operations, and cash flows. FAS 161 is effective for AIG beginning with financial statements issued in the first quarter of 2009. Because FAS 161 only requires additional disclosures about derivatives, it will have no effect on AIG s consolidated financial condition, results of operations or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

2. Segment Information

AIG identifies its reportable segments by product line consistent with its management structure. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management.

AIG s operations by major operating segment were as follows:

Operating Segments *(in millions)*	Three Months Ended March 31, **2008**	2007
Total revenues[(a)]:		
General Insurance	**$ 12,289**	$ 12,903
Life Insurance & Retirement Services[(b)]	**8,752**	13,682
Financial Services[(c)(d)]	**(6,560)**	2,201
Asset Management[(e)]	**(149)**	1,669
Other	**(128)**	131
Consolidation and eliminations	**(173)**	59
Total	**$ 14,031**	$ 30,645
Operating income (loss)[(a)]:		
General Insurance	**$ 1,337**	$ 3,096
Life Insurance & Retirement Services[(b)]	**(1,831)**	2,281
Financial Services[(c)(d)]	**(8,772)**	292
Asset Management[(e)]	**(1,251)**	758
Other[(f)]	**(768)**	(470)
Consolidation and eliminations	**21**	215
Total	**$ (11,264)**	$ 6,172

(a) For the three-month periods ended March 31, 2008 and 2007, includes other-than-temporary impairment charges of $5.6 billion and $467 million, respectively. Also includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the three-month periods ended March 31, 2008 and 2007, the effect was $(748) million and $(452) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.

(b) For the three-month periods ended March 31, 2008 and 2007, includes other-than-temporary impairment charges of $4.4 billion and $392 million, respectively.

(c) Includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the three-month periods ended March 31, 2008 and 2007, the effect was $(204) million and $(160) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.

(d)

For the three-month period ended March 31, 2008, both revenues and operating income (loss) include an unrealized market valuation loss of $9.1 billion on AIGFP s super senior credit default swap portfolio.

(e) Includes net realized capital losses of $1.4 billion for the three-month period ended March 31, 2008, including other-than-temporary impairment charges of $1.0 billion.

(f) Includes AIG parent and other operations that are not required to be reported separately. The following table presents the operating loss for AIG s Other category:

Other *(in millions)*	Three Months Ended March 31, **2008**		2007	
Operating income (loss):				
Equity earnings in partially owned companies	**$**	**8**	$	41
Interest expense		**(368)**		(252)
Unallocated corporate expenses[(a)]		**(93)**		(172)
Net realized capital gains (losses)[(b)]		**(265)**		(49)
Other miscellaneous, net		**(50)**		(38)
Total Other	**$**	**(768)**	$	(470)

(a) Includes expenses of corporate staff not attributable to specific operating segments, expenses related to efforts to improve internal controls, corporate initiatives and certain compensation plan expenses.

(b) The increase in net realized capital losses reflected higher foreign exchange losses on foreign-denominated debt, a portion of which was economically hedged but did not qualify for hedge accounting treatment under FAS 133, and losses on non-hedged derivatives in the first three months of 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

2. Segment Information *(continued)*

AIG s General Insurance operations by major internal reporting unit were as follows:

General Insurance *(in millions)*	Three Months Ended March 31, **2008**	2007
Total revenues:		
Commercial Insurance	**$ 5,987**	$ 7,091
Transatlantic	**1,119**	1,096
Personal Lines	**1,252**	1,213
Mortgage Guaranty	**298**	248
Foreign General Insurance	**3,628**	3,262
Reclassifications and eliminations	**5**	(7)
Total	**$ 12,289**	$ 12,903
Operating income (loss):		
Commercial Insurance	**$ 785**	$ 1,929
Transatlantic	**162**	151
Personal Lines	**3**	106
Mortgage Guaranty	**(354)**	8
Foreign General Insurance	**736**	909
Reclassifications and eliminations	**5**	(7)
Total	**$ 1,337**	$ 3,096

AIG s Life Insurance & Retirement Services operations by major internal reporting unit were as follows:

Life Insurance & Retirement Services *(in millions)*	Three Months Ended March 31, **2008**	2007
Total revenues:		
Foreign:		
Japan and Other	**$ 3,896**	$ 4,770
Asia	**4,277**	4,491
Domestic:		
Domestic Life Insurance	**1,283**	2,521
Domestic Retirement Services	**(704)**	1,900

Total	**$ 8,752**	$ 13,682
Operating income (loss):		
Foreign:		
Japan and Other	**$ 483**	$ 913
Asia	**252**	371
Domestic:		
Domestic Life Insurance	**(870)**	345
Domestic Retirement Services	**(1,696)**	652
Total	**$ (1,831)**	$ 2,281

AIG s Financial Services operations by major internal reporting unit were as follows:

Financial Services *(in millions)*	Three Months Ended March 31, **2008**	2007
Total revenues:		
Aircraft Leasing	**$ 1,165**	$ 1,058
Capital Markets[(a)]	**(8,743)**	228
Consumer Finance[(b)]	**931**	845
Other, including intercompany adjustments	**87**	70
Total	**$ (6,560)**	$ 2,201
Operating income (loss):		
Aircraft Leasing	**$ 221**	$ 164
Capital Markets[(a)]	**(8,927)**	68
Consumer Finance[(b)]	**(52)**	36
Other, including intercompany adjustments	**(14)**	24
Total	**$ (8,772)**	$ 292

(a) *Revenues, shown net of interest expense of $511 million and $1.1 billion in the three-month periods ended March 31, 2008 and 2007, respectively, were primarily from hedged financial positions entered into in connection with counterparty transactions. In the three-month period ended March 31, 2008, both revenues and operating income (loss) include an unrealized market valuation loss of $9.1 billion on AIGFP s super senior credit default swap portfolio.*

(b) *For the three-month period ended March 31, 2007 includes a pre-tax charge of $128 million in connection with domestic Consumer Finance s mortgage banking activities.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements

Effective January 1, 2008 AIG adopted FAS 157 and FAS 159, which specify measurement and disclosure standards related to assets and liabilities measured at fair value. See Note 1 to the Consolidated Financial Statements for additional information.

The most significant effect of adopting FAS 157 on AIG s first quarter 2008 results related to changes in fair value methodologies with respect to both liabilities already carried at fair value, primarily hybrid notes and derivatives, and newly elected liabilities measured at fair value (see FAS 159 discussion below). Specifically, the incorporation of AIG s own credit spreads and the incorporation of explicit risk margins (embedded policy derivatives only) resulted in an increase of $2.8 billion to pre-tax income ($1.8 billion after tax) for the first three months of 2008 as follows:

(in millions)		Net Pre-tax Increase (Decrease)	Liabilities Carried at Fair Value	Business Segment Affected
Income statement caption:				
Net realized capital gains (losses)	$	288	Freestanding derivatives	All segments - excluding AIGFP
		(155)	Embedded policy derivatives	Life Insurance & Retirement Services
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio		65*	Super senior credit default swap portfolio	AIGFP
Other income		2,583*	Notes, GICs, derivatives, other liabilities	AIGFP
Net pre-tax increase	$	2,781		
Liabilities already carried at fair value	$	1,334		
Newly elected liabilities measured at fair value (FAS 159 elected)		1,447		
Net pre-tax increase	$	2,781		

* *The total increase to pre-tax income attributable to changes in AIG s own credit spreads of $2,648 million for AIGFP was substantially offset by the effect of changes in counterparty credit spreads for assets measured at fair value at AIGFP of $2,620 million.*

Fair Value Measurements on a Recurring Basis

AIG measures at fair value on a recurring basis financial instruments in its trading and available for sale securities portfolios, certain mortgage and other loans receivable, certain spot commodities, derivative assets and liabilities, securities purchased (sold) under agreements to resell (repurchase), securities lending invested collateral, non-traded equity investments included in other invested assets, certain short-term investments, separate and variable account assets, certain policyholders contract deposits, securities and spot commodities sold but not yet purchased, certain trust deposits and deposits due to banks and other depositors, certain long-term borrowings, and certain hybrid financial instruments included in other liabilities. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fixed Maturities Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value fixed maturity instruments in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

AIG estimates the fair value of fixed maturity instruments not traded in active markets, including securities purchased (sold) under agreements to resell (repurchase), and mortgage and other loans receivable for which AIG elected the fair value option, by referring to traded securities with similar attributes, using dealer quotations and a matrix pricing methodology, or discounted cash flow analyses. This methodology considers such factors as the issuer s industry, the security s rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For fixed maturity instruments that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management s best estimate is used.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

Equity Securities Traded in Active Markets Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

Direct Private Equity Securities Not Traded in Active Markets Other Invested Assets

AIG initially estimates the fair value of equity instruments not traded in active markets by reference to the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets, and changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management s best estimate is used. AIG initially estimates the fair value of investments in private limited partnerships and hedge funds by reference to the transaction price. Subsequently, AIG obtains the fair value of these investments generally from net asset value information provided by the general partner or manager of the investments, the financial statements of which generally are audited annually.

Separate and Variable Account Assets

Separate and variable account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over the counter (OTC). AIG generally values exchange-traded derivatives within portfolios using models that calibrate to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying instruments.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

With the adoption of FAS 157 on January 1, 2008, AIG s own credit risk has been considered and is incorporated into the fair value measurement of all freestanding derivative liabilities.

Embedded Policy Derivatives

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG s historical experience. With respect to embedded policy derivatives in AIG s variable annuity contracts, because of the dynamic and complex nature of the expected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG s equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity indexed growth rates, volatility of the equity index, future interest rates, and determination on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. With the adoption of FAS 157, these methodologies were not changed, with the exception of incorporating an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

AIGFP s Super Senior Credit Default Swap Portfolio

AIGFP values its credit default swaps written on the most senior risk layers (super senior) of designated pools of debt securities or loans using internal valuation models, third- party prices and market indices. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices. AIGFP uses a modified version of the Binomial Expansion Technique (BET) model to value its credit default swap portfolio written on super senior tranches of collateralized debt obligations (CDOs), including maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term eligible 2a-7 investments under the Investment Company Act of 1940 (2a-7 Puts). The BET model uses default probabilities derived from credit spreads implied from market prices for the individual securities included in the underlying collateral pools securing the CDOs, as well as diversity scores, weighted average lives, recovery rates and discount rates. The determination of some of these inputs requires the use of judgment and estimates, particularly in the absence of market observable data. AIGFP also employs a Monte Carlo simulation to assist in quantifying the effect on the valuation of the CDOs of the unique aspects of the CDOs structures such as triggers that divert cash flows to the most senior part of the capital structure. In the determination of fair value, AIGFP also considers collateral calls and the price estimates for the super senior CDO securities provided by third parties, including counterparties to these transactions.

In the case of credit default swaps written on investment-grade corporate debt and collateralized loan obligations (CLOs), AIGFP estimates the value of its obligations by reference to the relevant market indices or third-party quotes on the underlying super senior tranches where available.

In the case of credit default swaps written to facilitate regulatory capital relief for AIGFP s European financial institution counterparties, AIGFP estimates the fair value of these derivatives by considering observable market transactions, including the early termination of these transactions by counterparties, and other market data, to the extent relevant.

Policyholders Contract Deposits

Policyholders contract deposits accounted for at fair value beginning January 1, 2008 are measured using an income approach by taking into consideration the following factors:

Current policyholder account values and related surrender charges,

The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors, and

A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholders contract deposits is recorded as incurred policy losses and benefits in the consolidated statement of income (loss).

Fair Value Measurements on a Non-Recurring Basis

AIG also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. These assets include held to maturity securities, cost and equity-method investments, life settlement contracts, aircraft, collateral securing foreclosed loans and real estate and other fixed assets, goodwill, and other intangible assets. AIG uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

Held to Maturity Securities, Cost and Equity-Method Investments: When AIG determines the carrying value of these assets may not be recoverable, AIG records the assets at fair value with the loss recognized in income. In such cases, AIG measures the fair value of these assets using the techniques discussed above for fixed maturities and equity securities.

Life Settlement Contracts: AIG measures the fair value of individual life settlement contracts (which are included in other invested assets) whenever the carrying value plus the undiscounted future costs that are expected to be incurred to keep the life settlement contract in force exceed the expected proceeds from the contract. In those situations, the fair value is determined on a discounted cash flows basis, incorporating current life expectancy assumptions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life settlement contract and AIG s estimate of the risk margin an investor in the contracts would require.

Flight Equipment Primarily Under Operating Leases: When AIG determines the carrying value of its commercial aircraft may not be recoverable, AIG records the aircraft at fair value with the loss recognized in income. AIG measures the fair value of its commercial aircraft using an income approach based on the present value of all cash flows from existing and projected lease payments (based on historical experience and current expectations of market participants) including net contingent rentals for the period extending to the end of the aircraft s economic life in its highest and best use configuration, plus its disposition value.

Collateral Securing Foreclosed Loans and Real Estate and Other Fixed Assets: When AIG takes collateral in connection with foreclosed loans, AIG generally bases its estimate of fair value on the price that would be received in a current transaction to sell the asset by itself.

Goodwill: AIG tests goodwill for impairment whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable, but at least annually. When AIG determines goodwill may be impaired, AIG uses techniques that consider market-based earnings multiples of the unit s peer companies or discounted cash flow techniques based on the price that could be received in a current transaction to sell the asset assuming the asset would be used with other assets as a group (in-use premise).

Intangible Assets: AIG tests its intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an intangible asset may not be recoverable. AIG measures the fair value of intangible assets based on an in-use premise that considers the same factors used to estimate the fair value of its real estate and other fixed assets under an in-use premise discussed above.

See Notes 1(c), (d), (e), (t), and (v) to Consolidated Financial Statements included in the 2007 Annual Report on Form 10-K for additional information about how AIG tests various asset classes for impairment.

Fair Value Hierarchy

Beginning January 1, 2008, assets and liabilities recorded at fair value in the consolidated balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that AIG has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. AIG does not adjust the quoted price for such instruments. Assets and liabilities measured at fair value on a recurring basis and classified as Level 1 include certain government and agency securities, actively traded listed common stocks and derivative contracts, most separate account assets and most mutual funds.

Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government securities, most investment-grade and high-yield corporate bonds, certain asset-backed securities, certain listed equities, state, municipal and provincial obligations, hybrid securities, mutual fund and hedge fund investments, derivative contracts, guaranteed investment agreements at AIGFP and physical commodities.

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. AIG s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain distressed asset-backed securities, structured credit products, certain derivative contracts (including AIGFP s super senior credit default swap portfolio), policyholders contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG s non-financial-instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about assets and liabilities measured at fair value on a recurring basis at March 31, 2008, and indicates the level of the fair value measurement based on the levels of the inputs used:

(in millions)	Level 1	Level 2	Level 3	Counterparty Netting	Total March 31, 2008
Assets:					
Bonds available for sale	$ 731	$ 377,558	$ 17,198	$	$ 395,487
Bond trading securities	2	9,257	116		9,375
Common stocks available for sale	15,473	398	251		16,122
Common and preferred stocks trading	19,814	1,832	25		21,671
Preferred stocks available for sale		2,318	133		2,451
Mortgage and other loans receivable		810			810
Financial Services assets:					
Securities available for sale	2	800	294		1,096
Trading securities	1,130	31,449	3,419		35,998
Spot commodities		728			728
Unrealized gain on swaps, options and forward transactions		72,071	3,582	(55,055)	20,598
Securities purchased under agreements to resell		19,708			19,708
Securities lending invested collateral[(a)]		45,904	10,611		56,515
Other invested assets[(b)]	2,739	7,550	11,399		21,688
Short-term investments[(a)]		21,280			21,280
Separate and variable accounts	68,820	3,088	1,065		72,973
Other assets	83	4,937	371	(268)	5,123
Total	$ 108,794	$ 599,688	$ 48,464	$ (55,323)	$ 701,623
Liabilities:					
Policyholders contract deposits	$	$	$ 4,118	$	$ 4,118
Financial Services liabilities:					
Securities sold under agreements to repurchase		8,051	220		8,271
Securities and spot commodities sold but not yet purchased	399	3,407			3,806
Unrealized loss on swaps, options and forward transactions[(c)]		60,989	24,442	(55,055)	30,376
Trust deposits and deposits due to banks and other depositors		262			262
Long-term borrowings		56,416	2,838		59,254
Other liabilities	2	6,453	108	(268)	6,295

Total	$ 401	$ 135,578	$ 31,726	$ (55,323)	$ 112,382

(a) Included in Level 2 securities lending invested collateral and short-term investments are securities that are carried at cost, which approximates fair value, of $1.1 billion and $18.5 billion, respectively.

(b) Approximately 13 percent of the fair value of the assets recorded as Level 3 are a result of the consolidation of various private equity, hedge fund and fund-of-funds investments. AIG s ownership in these funds represented 23 percent, or $1.5 billion of the Level 3 amount.

(c) Included in Level 3 are unrealized market valuation losses of $20.6 billion on AIGFP super senior credit default swap portfolio.

At March 31, 2008, Level 3 assets totaled $48.5 billion, representing 5 percent of total assets, and Level 3 liabilities totaled $31.7 billion, representing 3 percent of total liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

The following table presents changes during the three-month period ended March 31, 2008 in Level 3 assets and liabilities measured at fair value on a recurring basis, together with the balances of such assets and liabilities at January 1, 2008 and March 31, 2008, and the realized and unrealized gains (losses) recorded in income during the three-month period ended March 31, 2008 related to the Level 3 assets and liabilities that remained on the consolidated balance sheet at March 31, 2008:

(in millions)	Balance January 1, 2008	Net Realized and Unrealized Gains (Losses) Included in Income*	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements-net	Transfers In (out)	Balance March 31, 2008	Unrealized Gains (Losses) on Instruments Held at March 31, 2008
Assets:							
Bonds available for sale	$ 19,024	$ (1,049)	$ (464)	$ (177)	$ (136)	$ 17,198	$
Bond trading securities	141	(25)				116	(12)
Common stocks available for sale	224	(1)	3	25		251	
Common and preferred stocks trading	30		1	(6)		25	
Preferred stocks available for sale	135	1	(2)	(8)	7	133	
Financial Services assets:							
Securities available for sale	285		6	5	(2)	294	
Trading securities	4,422	(962)		(10)	(31)	3,419	(963)
Securities lending invested collateral	12,890	(2,333)	167	(217)	104	10,611	
Other invested assets	10,411	345	67	625	(49)	11,399	111
Separate and variable accounts	1,003	30		32		1,065	31
Other assets	158	24	1	188		371	25
Total	$ 48,723	$ (3,970)	$ (221)	$ 457	$ (107)	$ 44,882	$ (808)
Liabilities:							
	$ (3,674)	$ (186)	$ (64)	$ (194)	$	$ (4,118)	$ (199)

Policyholders contract deposits							
Financial Services liabilities:							
Securities sold under agreements to repurchase	(208)	(17)		5		(220)	(17)
Unrealized loss on swaps, options and forward transactions, net	(11,718)	(8,884)		(189)	(69)	(20,860)	(9,111)
Long-term borrowings	(3,578)	116		456	168	(2,838)	223
Other liabilities	(520)	(105)		517		(108)	82
Total	$ (19,698)	$ (9,076)	$ (64)	$ 595	$ 99	$ (28,144)	$ (9,022)

* *Net realized and unrealized gains and losses shown above are reported on the consolidated statement of income (loss) primarily as follows:*

Major category of Assets/ Liabilities	Consolidated Statement of Income (Loss) Line Items
Financial Services Assets and Liabilities	Other income
	Unrealized market valuation losses on AIGFP super senior credit default swap portfolio
Invested assets	Net realized capital gains (losses)
Policyholders contract deposits	Incurred policy losses and benefits
	Net realized capital gains (losses)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at March 31, 2008 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

AIG uses various hedging techniques to manage risks associated with certain positions, including those classified within Level 3. Such techniques may include the purchase or sale of financial instruments that are classified within Level 1 and/or Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities classified within Level 3 presented in the table above do not reflect the related realized or unrealized gains (losses) on hedging instruments that are classified within Level 1 and/or Level 2.

Changes in the fair value of separate and variable account assets are completely offset in the consolidated statement of income (loss) by changes in separate and variable account liabilities, which are not carried at fair value and therefore not included in the foregoing tables.

Fair Value Measured on a Non-Recurring Basis

At March 31, 2008, AIG had assets measured at fair value on a non-recurring basis on which it recorded an impairment charge totaling $45 million during the three-month period ended March 31, 2008. This charge resulted from the write-off of goodwill related to Mortgage Guaranty.

Fair Value Option

FAS 159 permits a company to choose to measure at fair value many financial instruments and certain other assets and liabilities that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in income. Unrealized gains and losses on financial instruments in AIG s insurance businesses and in AIGFP for which the fair value option was elected under FAS 159 are classified in incurred policy losses and benefits and in other income, respectively, in the consolidated statement of income (loss).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

The following table presents the gains or losses recorded during the three-month period ended March 31, 2008 related to the eligible instruments for which AIG elected the fair value option and the related transition adjustment recorded as a decrease to opening shareholders equity at January 1, 2008[(a)]:

(in millions)	January 1, 2008 prior to Adoption	Transition Adjustment upon Adoption	January 1, 2008 after Adoption	Gain (Loss) Three Months Ended March 31, 2008
Mortgage and other loans receivable	$ 1,109	$	$ 1,109	$ 68
Financial Services assets[(b)]:				
Trading securities (formerly available for sale)	39,278	5	39,283	(433)
Securities purchased under agreements to resell	20,950	1	20,951	268
Other invested assets	321	(1)	320	10
Short-term investments	6,969		6,969	24
Deferred policy acquisition costs	1,147	(1,147)		
Other assets	435	(435)		
Future policy benefits for life, accident and health insurance contracts	299	299		
Policyholders contract deposits[(c)]	3,739	360	3,379	115
Financial Services liabilities[(b)]:				
Securities sold under agreements to repurchase	6,750	(10)	6,760	(296)
Securities and spot commodities sold but not yet purchased	3,797	(10)	3,807	21
Trust deposits and deposits due to banks and other depositors	216	(25)	241	(15)
Long-term borrowings	57,968	(675)	58,643	(973)
Other liabilities	1,792		1,792	(33)
Total gain or loss for the three-month period ended March 31, 2008				$ (1,244)
Pre-tax cumulative effect of adopting the fair value option		(1,638)		
Decrease in deferred tax liabilities		526		
Cumulative effect of adopting the fair value option		$ (1,112)		

(a) Certain of AIG s financial instruments are required to be accounted for at fair value, with changes in fair value included in earnings, under FAS 115, Accounting for Certain Investments in Debt and Equity Securities, or

FAS 133 and are not included in the table above.

(b) *AIGFP elected to apply the fair value option to all eligible assets and liabilities (other than equity method investments, trade receivables and trade payables) because electing the fair value option will allow AIGFP to more closely align its earnings with the economics of its transactions by recognizing concurrently through earnings the change in fair value of its derivatives and the offsetting change in fair value of the assets and liabilities being hedged as well as the manner in which the business is evaluated by management. Substantially all of the gain (loss) amounts shown above are reported in other income on the consolidated statement of income (loss).*

(c) *AIG elected to apply the fair value option to certain single premium variable life products in Japan and an investment-linked life insurance product sold principally in Asia, both classified within policyholders contract deposits in the consolidated balance sheet. AIG elected the fair value option for these liabilities to more closely align its accounting with the economics of its transactions. For the investment-linked product sold principally in Asia, the election will more effectively align changes in the fair value of assets with a commensurate change in the fair value of policyholders liabilities. For the single premium life products in Japan, the fair value option election will allow AIG to economically hedge the inherent market risks associated with this business in an efficient and effective manner through the use of derivative instruments. The hedging program, once finalized and implemented, will result in the accounting presentation for this business more closely mirroring the underlying economics and the way the business is managed, with the change in the fair value of derivatives and underlying assets largely offsetting the change in fair value of the policy liabilities. AIG did not elect the fair value option for other liabilities classified in policyholders contract deposits because other contracts do not share the same contract features that created the disparity between the accounting presentation and the economic performance.*

Interest income and expense and dividend income on assets and liabilities elected under the fair value option are recognized and classified in the consolidated statement of income (loss) depending on the nature of the instrument and related market conventions. At AIGFP, interest and dividends and interest expense are included in other income. Otherwise, interest and dividends are included in interest and dividend income or interest expense. See Note 1(a) to the Consolidated Financial Statements included in the 2007 Annual Report on Form 10-K for additional information about AIG s policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

During the three-month period ended March 31, 2008, AIG recognized gains of $1.4 billion attributable to the observable effect of the widening of credit spreads on AIG s own liabilities for which the fair value option was elected. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

3. Fair Value Measurements *(continued)*

market interest rates, AIG s observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as collateral posted.

The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term borrowings, for which the fair value option was elected.

(in millions)	Fair Value at March 31, 2008	Principal Amount Due Upon Maturity	Difference
Assets:			
Mortgage and other loans receivable	$ 810	$ 774	$ 36
Liabilities:			
Long-term borrowings	$ 53,057	$ 51,769	$ 1,288

At March 31, 2008, there were no mortgage and other loans receivable for which the fair value option was elected, that were 90 days or more past due and in non-accrual status.

4. Shareholders Equity and Earnings (Loss) Per Share

Shareholders Equity

The changes in AIG s consolidated shareholders equity were as follows:

(in millions)	Three Months Ended March 31, **2008**	2007
Beginning of year	**$ 95,801**	$ 101,677
Net income (loss)	**(7,805)**	4,130
Unrealized (depreciation) appreciation of investments, net of tax	**(6,824)**	851
Cumulative translation adjustment, net of tax	**1,095**	(137)
Dividends to shareholders	**(488)**	(430)
Payments advanced to purchase shares, net	**733**	(2,851)
Share purchases	**(1,733)**	
Cumulative effect of accounting changes, net of tax	**(1,108)**	(203)
Other*	**32**	18
End of period	**$ 79,703**	$ 103,055

* *Reflects the effects of employee stock transactions.*

From time to time, AIG may buy shares of its common stock for general corporate purposes, including to satisfy its obligations under various share-based employee compensation plans. In February 2007, AIG s Board of Directors increased AIG s share repurchase program by authorizing the purchase of shares with an aggregate purchase price of $8 billion. In November 2007, AIG s Board of Directors authorized the purchase of an additional $8 billion in common stock. In 2007, AIG entered into structured share repurchase arrangements providing for the purchase of shares over time with an aggregate purchase price of $7 billion.

A total of 34,093,783 shares were purchased during the first quarter of 2008 to meet commitments that existed at December 31, 2007. The portion of the payments advanced by AIG under the structured share purchase arrangements that had not yet been utilized to purchase shares at March 31, 2008, amounting to $179 million, has been recorded as a component of shareholders equity under the caption, Payments advanced to purchase shares. Subsequent to March 31, 2008, an additional 3,832,276 shares were purchased, satisfying the balance of the commitments existing at December 31, 2007 that had not been satisfied at March 31, 2008. All shares purchased are recorded as treasury stock at cost.

At May 7, 2008, $9 billion was available for purchases under the aggregate authorization. AIG does not expect to purchase additional shares under its share repurchase program for the foreseeable future.

The quarterly dividend of $0.20 per common share declared in November 2007 was paid on March 21, 2008.

Share-based Employee Compensation Plans

During the first quarter of 2008, AIG reviewed the vesting schedules of its share-based employee compensation plans, and on March 11, 2008, AIG s management and the Compensation Committee of AIG s Board of Directors determined that, to fulfill the objective of attracting and retaining high quality personnel, the vesting schedules of certain awards outstanding under these plans and all awards made in the future under these plans should be shortened. As a result, the unamortized share-based employee compensation cost related to the affected awards will be amortized over shorter periods. AIG estimates the modifications will accelerate the amortization of this cost by $116 million and $90 million in 2008 and 2009, respectively, with a corresponding reduction in amortization expense related to these awards of $206 million in 2010 through 2013.

Earnings (Loss) Per Share (EPS)

Basic EPS is based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted EPS is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, adjusted to reflect all stock dividends and stock splits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

4. Shareholders Equity and Earnings (Loss) Per Share *(continued)*
The computation of basic and diluted EPS was as follows:

	Three Months Ended March 31,	
(in millions, except per share data)	**2008**	2007
Numerator for EPS:		
Net income (loss)	**$ (7,805)**	$ 4,130
Denominator for EPS:		
Weighted average shares outstanding used in the computation of EPS:		
Common stock issued	**2,751**	2,751
Common stock in treasury	**(237)**	(150)
Deferred shares	**14**	11
Weighted average shares outstanding basic	**2,528**	2,612
Incremental shares arising from awards outstanding under share-based employee compensation plans*		9
Weighted average shares outstanding diluted*	**2,528**	2,621
EPS:		
Basic	**$ (3.09)**	$ 1.58
Diluted	**$ (3.09)**	$ 1.58

* *Calculated using the treasury stock method. Certain potential common shares arising from share-based employee compensation plans were not included in the computation of diluted EPS because the effect would have been antidilutive. The number of potential shares excluded was 7 million for the three-month period ended March 31, 2007.*

5. Ownership

According to the Schedule 13D filed on March 20, 2007 by Starr, SICO, Edward E. Matthews, Maurice R. Greenberg, the Maurice R. and Corinne P. Greenberg Family Foundation, Inc., the Universal Foundation, Inc., the Maurice R. and Corinne P. Greenberg Joint Tenancy Company, LLC and the C.V. Starr & Co., Inc. Trust, these reporting persons could be considered to beneficially own 354,987,261 shares of AIG s common stock at that date. Based on the shares of AIG s common stock outstanding at April 30, 2008, this ownership would represent approximately 14 percent of the voting stock of AIG. Although these reporting persons have made filings under Section 16 of the Exchange Act, reporting sales of shares of common stock, no amendment to the Schedule 13D has been filed to report a change in ownership subsequent to March 20, 2007.

6. Commitments, Contingencies and Guarantees

AIG and its subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. At the current time, AIG cannot predict the outcome of the matters described below, or estimate any potential additional costs related to these matters, unless otherwise indicated. In AIG s insurance operations, litigation arising from claims settlement activities is generally considered in the establishment of AIG s reserve for losses and loss expenses. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. In addition, in the normal course of business, various commitments and contingent liabilities are entered into by AIG and certain of its subsidiaries. AIG also guarantees various obligations of certain subsidiaries.

(a) Litigation and Investigations

Litigation Arising from Insurance Operations Caremark. AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action have intervened in the first-filed action, and the second-filed action has been dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In addition, the intervenor-plaintiffs allege that various lawyers and law firms who represented parties in the underlying class and derivative litigation (the Lawyer Defendants) are also liable for fraud and suppression, misrepresentation, and breach of fiduciary duty. The complaints filed by the plaintiffs and the intervenor-plaintiffs request compensatory damages for the 1999 class in the amount of $3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

and have asserted that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement. AIG and its subsidiaries further assert that the current claims are barred by the statute of limitations and that plaintiffs assertions that the statute was tolled cannot stand against the public disclosure of the excess coverage. The plaintiffs and intervenor-plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations. On November 26, 2007, the trial court issued an order that dismissed the intervenors complaint against the Lawyer Defendants and entered a final judgment in favor of the Lawyer Defendants. The intervenors are appealing the dismissal of the Lawyer Defendants and on January 2, 2008, requested a stay of all trial court proceedings pending the appeal. On March 4, 2008, the trial court granted the motion for a stay. No further proceedings at the trial court level will occur until the appeal of the dismissal of the Lawyer Defendants is resolved. AIG cannot reasonably estimate either the likelihood of its prevailing in these actions or the potential damages in the event liability is determined.

Litigation Arising from Insurance Operations Gunderson. A subsidiary of AIG has been named as a defendant in a putative class action lawsuit in the 14th Judicial District Court for the State of Louisiana. The *Gunderson* complaint alleges failure to comply with certain provisions of the Louisiana Any Willing Provider Act (the Act) relating to discounts taken by defendants on bills submitted by Louisiana medical providers and hospitals that provided treatment or services to workers compensation claimants and seeks monetary penalties and injunctive relief. On July 20, 2006, the court denied defendants motion for summary judgment and granted plaintiffs partial motion for summary judgment, holding that the AIG subsidiary was a group purchaser and, therefore, potentially subject to liability under the Act. On November 28, 2006, the court issued an order certifying a class of providers and hospitals. In an unrelated action also arising under the Act, a Louisiana appellate court ruled that the district court lacked jurisdiction to adjudicate the claims at issue. In response, defendants in *Gunderson* filed an exception for lack of subject matter jurisdiction. On January 19, 2007, the court denied the motion, holding that it has jurisdiction over the putative class claims. The AIG subsidiary appealed the class certification and jurisdictional rulings. While the appeal was pending, the AIG subsidiary settled the lawsuit. On January 25, 2008, plaintiffs and the AIG subsidiary agreed to resolve the lawsuit on a class-wide basis for approximately $29 million. The court has preliminarily approved the settlement and will hold a final approval hearing on May 29, 2008. In the event that the settlement is not finally approved, AIG believes that it has meritorious defenses to plaintiffs claims and expects that the ultimate resolution of this matter will not have a material adverse effect on AIG s consolidated financial condition or results of operations for any period.

2006 Regulatory Settlements. In February 2006, AIG reached a resolution of claims and matters under investigation with the United States Department of Justice (DOJ), the Securities and Exchange Commission (SEC), the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). AIG recorded an after-tax charge of $1.15 billion relating to these settlements in the fourth quarter of 2005.

The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. These settlements did not, however, resolve investigations by regulators from other states into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately $1.64 billion, $225 million of which represented fines and penalties. Amounts held in escrow totaling $346 million, including interest thereon, are included in other assets at March 31, 2008. At that date, approximately $332 million of the funds were escrowed for settlement of claims resulting from the underpayment by AIG of its residual market assessments for workers compensation.

The remaining escrowed funds, which amounted to $14 million, were set aside to pay certain AIG insurance company subsidiary policyholders who purchased excess casualty policies through Marsh & McLennan Companies, Inc. (Marsh) and Marsh Inc. (the Excess Casualty Fund). As of February 29, 2008, eligible policyholders entitled to receive approximately $359 million (or 95 percent) of the Excess Casualty Fund had opted to receive settlement payments in exchange for releasing AIG and its subsidiaries from liability relating to certain insurance brokerage practices. In accordance with the settlement agreements, all amounts remaining in the Excess Casualty Fund were used by AIG to settle claims asserted by other policyholders relating to such practices.

In addition to the escrowed funds, $800 million was deposited into a fund under the supervision of the SEC as part of the settlements to be available to resolve claims asserted

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

against AIG by investors, including the shareholder lawsuits described herein.

Also, as part of the settlements, AIG agreed to retain, for a period of three years, an independent consultant to conduct a review that will include, among other things, the adequacy of AIG s internal control over financial reporting, the policies, procedures and effectiveness of AIG s regulatory, compliance and legal functions and the remediation plan that AIG has implemented as a result of its own internal review.

Other Regulatory Settlements. As noted above, AIG s 2006 regulatory settlements with the SEC, DOJ and NYAG did not resolve investigations by regulators from other states into insurance brokerage practices. AIG entered into agreements effective January 29, 2008 with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia; the Commonwealths of Massachusetts and Pennsylvania; and the District of Columbia; as well as the Florida Department of Financial Services and the Florida Office of Insurance Regulation, relating to their respective industry wide investigations into producer compensation and insurance placement practices. The settlements call for total payments of $12.5 million to be allocated among the ten jurisdictions representing restitution to state agencies and reimbursement of the costs of the investigation. During the term of the settlement agreements, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. AIG will also continue to cooperate with the industry wide investigations. The agreement with the Texas Attorney General also settles allegations of anticompetitive conduct relating to AIG s relationship with Allied World Assurance Company and includes an additional settlement payment of $500,000 related thereto.

AIG also entered into an agreement effective March 13, 2008 with the Pennsylvania Insurance Department relating to the Department s investigation into the affairs of AIG and certain of its Pennsylvania-domiciled insurance company subsidiaries. The settlement calls for total payments of approximately $13.5 million, of which approximately $4.4 million was paid under previous settlement agreements. During the term of the settlement agreement, AIG will provide annual reinsurance reports, as well as maintain certain producer compensation disclosure and ongoing compliance initiatives.

In addition, AIG has settled litigation that was filed by the Minnesota Attorney General with respect to claims by the Minnesota Department of Revenue and the Minnesota Special Compensation Fund that AIG underreported its workers compensation premium.

Private Litigation

Securities Actions Southern District of New York. Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as *In re American International Group, Inc. Securities Litigation.* Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds. The lead plaintiff in the class action is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG s publicly traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as Starr, SICO, General Reinsurance Corporation, and PricewaterhouseCoopers LLP (PwC), among others. The lead plaintiff alleges, among other things, that AIG: (1) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (2) concealed that it used income smoothing products and other techniques to inflate its earnings; (3) concealed that it marketed and sold income smoothing insurance products to other companies; and (4) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that AIG s former Chief Executive Officer manipulated AIG s stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act of 1933, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, Section 20(a) of the Exchange Act, and Section 20A of the Exchange Act. In April 2006, the court denied the defendants motions to dismiss the second amended class action complaint and the Florida complaint. In December 2006, a third amended class action complaint was filed, which does not differ substantially from the prior complaint. Fact and class discovery is currently ongoing. On February 20, 2008, the lead plaintiff filed a motion for class certification.

ERISA Actions Southern District of New York. Between November 30, 2004 and July 1, 2005, several Employee Retirement Income Security Act of 1974 (ERISA) actions were filed in the Southern District of New York on behalf of purported class participants and beneficiaries of three pension plans sponsored by AIG or its subsidiaries. A consolidated complaint filed on September 26, 2005 alleges a class period between September 30, 2000 and May 31, 2005 and names as defendants AIG, the members of AIG s Retirement Board and the Administrative Boards of the plans at issue, and present or former members of AIG s Board of Directors. The factual allegations in the complaint are essentially identical to those in the securities actions described above. The parties have reached an agreement in principle to settle this matter for an amount within AIG s insurance cov-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

erage limits. The court has scheduled a hearing for May 29, 2008 to consider preliminary approval of the settlement, prior to which a formal settlement agreement is to be submitted by the parties.

Securities Action Oregon State Court. On February 27, 2008, the State of Oregon, by and through the Oregon State Treasurer, and the Oregon Public Employee Retirement Board, on behalf of the Oregon Public Employee Retirement Fund, filed a lawsuit in Oregon state court against AIG for damages arising out of plaintiffs purchase of AIG common stock at prices that allegedly were inflated. Plaintiffs allege, among other things, that AIG: (1) made false and misleading statements concerning its accounting for a $500 million transaction with General Re; (2) concealed that it marketed and misrepresented its control over off-shore entities in order to improve financial results; (3) improperly accounted for underwriting losses as investment losses in connection with transactions involving CAPCO Reinsurance Company, Ltd. and Union Excess; (4) misled investors about the scope of government investigations; and (5) engaged in market manipulation through its then Chairman and CEO Maurice R. Greenberg. The complaint asserts claims for violations of Oregon securities law, and seeks compensatory damages in an amount in excess of $15 million, and prejudgment interest and costs and fees. On April 9, 2008, AIG removed the case to federal court and filed a motion to have the case transferred to the Southern District of New York.

Derivative Actions Southern District of New York. On November 20, 2007, two purported shareholder derivative actions were filed in the Southern District of New York naming as defendants the current directors of AIG and certain senior officers of AIG and its subsidiaries. Plaintiffs assert claims for breach of fiduciary duty, waste of corporate assets and unjust enrichment, as well as violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act, among other things, in connection with AIG s public disclosures regarding its exposure to what the lawsuits describe as the subprime market crisis. The actions were consolidated as *In re American International Group, Inc. 2007 Derivative Litigation*. On February 15, 2008, plaintiffs filed a consolidated amended complaint alleging the same causes of action. On April 15, 2008, motions to dismiss the action were filed on behalf of all defendants. AIG may become subject to litigation with respect to these or similar issues.

Between October 25, 2004 and July 14, 2005, seven separate derivative actions were filed in the Southern District of New York, five of which were consolidated into a single action. The New York derivative complaint contains nearly the same types of allegations made in the securities fraud action. The named defendants include current and former officers and directors of AIG, as well as Marsh, SICO, Starr, ACE Limited and subsidiaries (ACE), General Reinsurance Corporation, PwC, and certain employees or officers of these entity defendants. Plaintiffs assert claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, insider selling, auditor breach of contract, auditor professional negligence and disgorgement from AIG s former Chief Executive Officer and Chief Financial Officer of incentive-based compensation and AIG share proceeds under Section 304 of the Sarbanes-Oxley Act, among others. Plaintiffs seek, among other things, compensatory damages, corporate governance reforms, and a voiding of the election of certain AIG directors. AIG s Board of Directors has appointed a special committee of independent directors (special committee) to review the matters asserted in the operative consolidated derivative complaint. The court has entered an order staying the derivative case in the Southern District of New York pending resolution of the consolidated derivative action in the Delaware Chancery Court (discussed below). The court also has entered an order that termination of certain named defendants from the Delaware derivative action applies to the New York derivative action without further order of the court. On October 17, 2007, plaintiffs and those AIG officer and director defendants against whom the shareholder plaintiffs in the Delaware action are no longer pursuing claims filed a stipulation providing for all claims in the New York action against such defendants to be dismissed with prejudice. Former directors and officers Maurice R. Greenberg and Howard I. Smith have asked the court to refrain from so ordering this stipulation.

Derivative Actions Delaware Chancery Court. From October 2004 to April 2005, AIG shareholders filed five derivative complaints in the Delaware Chancery Court. All of these derivative lawsuits were consolidated into a single action as *In re American International Group, Inc. Consolidated Derivative Litigation*. The amended consolidated complaint named 43 defendants (not including nominal defendant AIG) who, like the New York consolidated derivative litigation, were current and former officers and directors of AIG, as well as other entities and certain of their current and former employees and directors. The factual allegations, legal claims and relief sought in the Delaware action are similar to those alleged in the New York derivative actions, except that shareholder plaintiffs in the Delaware derivative action assert claims only under state law. Earlier in 2007, the court approved an agreement that AIG be realigned as plaintiff, and, on June 13, 2007, acting on the direction of the special committee, AIG filed an amended complaint against former directors and officers Maurice R. Greenberg and Howard I. Smith, alleging breach of fiduciary duty and indemnification. Also on June 13, 2007, the special committee filed a motion to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

terminate the litigation as to certain defendants, while taking no action as to others. Defendants Greenberg and Smith filed answers to AIG s complaint and brought third-party complaints against certain current and former AIG directors and officers, PwC and Regulatory Insurance Services, Inc. On September 28, 2007, AIG and the shareholder plaintiffs filed a combined amended complaint in which AIG continued to assert claims against defendants Greenberg and Smith and took no position as to the claims asserted by the shareholder plaintiffs in the remainder of the combined amended complaint. In that pleading, the shareholder plaintiffs are no longer pursuing claims against certain AIG officers and directors. In November 2007, the shareholder plaintiffs moved to sever their claims to a separate action. AIG joined the motion to the extent that, among other things, the claims against defendants Greenberg and Smith would remain in prosecution in the pending action. In addition, a number of parties, including AIG, filed motions to stay discovery. On February 12, 2008, the court granted AIG s motion to stay discovery pending the resolution of claims against AIG in the New York consolidated securities action. The court also denied plaintiff s motion to sever and directed the parties to coordinate a briefing schedule for the motions to dismiss. On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which adds claims against Maurice Greenberg, Edward Matthews, and Thomas Tizzio for breach of fiduciary duty based on alleged bid-rigging in the municipal derivatives market. On April 15, 2008, shareholder plaintiffs submitted a stipulation dismissing Evan Greenberg without prejudice.

A separate derivative lawsuit was filed in the Delaware Chancery Court against twenty directors and executives of AIG as well as against AIG as a nominal defendant that alleges, among other things, that the directors of AIG breached the fiduciary duties of loyalty and care by approving the payment of commissions to Starr and of rental and service fees to SICO and the executives breached their duty of loyalty by causing AIG to enter into contracts with Starr and SICO and their fiduciary duties by usurping AIG s corporate opportunity. The complaint further alleges that the Starr agencies did not provide any services that AIG was not capable of providing itself, and that the diversion of commissions to these entities was solely for the benefit of Starr s owners. The complaint also alleges that the service fees and rental payments made to SICO and its subsidiaries were improper. Under the terms of a stipulation approved by the court on February 16, 2006, the claims against the outside independent directors were dismissed with prejudice, while the claims against the other directors were dismissed without prejudice. On October 31, 2005, Defendants Greenberg, Matthews and Smith, SICO and Starr filed motions to dismiss the amended complaint. In an opinion dated June 21, 2006, the Court denied defendants motion to dismiss, except with respect to plaintiff s challenge to payments made to Starr before January 1, 2000. On July 21, 2006, plaintiff filed its second amended complaint, which alleges that, between January 1, 2000 and May 31, 2005, individual defendants breached their duty of loyalty by causing AIG to enter into contracts with Starr and SICO and breached their fiduciary duties by usurping AIG s corporate opportunity. Starr is charged with aiding and abetting breaches of fiduciary duty and unjust enrichment for its acceptance of the fees. SICO is no longer named as a defendant. On April 20, 2007, the individual defendants and Starr filed a motion seeking leave of the Court to assert a cross-claim against AIG and a third-party complaint against PwC and the directors previously dismissed from the action, as well as certain other AIG officers and employees. On June 13, 2007, the court denied the individual defendants motion to file a third-party complaint, but granted the proposed cross-claim against AIG. On June 27, 2007, Starr filed its cross-claim against AIG, alleging one count that includes contribution, unjust enrichment and setoff. AIG has filed an answer and moved to dismiss Starr s cross-claim to the extent it seeks affirmative relief, as opposed to a reduction in the judgment amount. On November 15, 2007, the court granted AIG s motion to dismiss the cross-claim by Starr to the extent that it sought affirmative relief from AIG. On November 21, 2007, shareholder plaintiff submitted a motion for leave to file its third amended complaint in order to add Thomas Tizzio as a defendant. On February 14, 2008, the court granted this motion and allowed Mr. Tizzio until April 2008 to take additional discovery. Document discovery and depositions are otherwise complete. Plaintiff has informed the court that the parties do not intend to file motions for summary judgment. Trial is currently scheduled to begin in September 2008.

Derivative Action Supreme Court of New York, Nassau County. On February 29, 2008, a purported shareholder derivative complaint was filed in the Supreme Court of Nassau County, asserting the same state law claims against the same defendants as in the consolidated amended complaint filed on February 15, 2008 in the Southern District of New York, *In re American International Group, Inc. 2007 Derivative Litigation,* which is discussed above.

Policyholder Actions. After the NYAG filed its complaint against insurance broker Marsh, policyholders brought multiple federal antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in a broad conspiracy to allocate customers, steer business, and rig bids. These actions,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*
including 24 complaints filed in different federal courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States District Court for the District of New Jersey for coordinated pretrial proceedings. The consolidated actions have proceeded in that court in two parallel actions, *In re Insurance Brokerage Antitrust Litigation* (the *Commercial Complaint*) and *In re Employee Benefit Insurance Brokerage Antitrust Litigation* (the *Employee Benefits Complaint,* and, together with the *Commercial Complaint,* the multi-district litigation).

The plaintiffs in the *Commercial Complaint* are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs behalf with a number of insurance companies named as defendants, including AIG subsidiaries. The *Commercial Complaint* also named various brokers and other insurers as defendants (two of which have since settled). The *Commercial Complaint* alleges, among other things, that defendants engaged in a widespread conspiracy to allocate customers through bid-rigging and steering practices. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys fees as a result of the alleged RICO and Sherman Antitrust Act violations.

The plaintiffs in the *Employee Benefits Complaint* are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from August 26, 1994 to the date of any class certification. The *Employee Benefits Complaint* names AIG, as well as various other brokers and insurers, as defendants. The activities alleged in the *Employee Benefits Complaint,* with certain exceptions, track the allegations made in the *Commercial Complaint.*

The Court in connection with the Commercial Complaint granted (without leave to amend) defendants motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The court declined to exercise supplemental jurisdiction over the state law claims in the *Commercial Complaint* and therefore dismissed it in its entirety. On January 14, 2008, the court granted defendants motion for summary judgment on the ERISA claims in the *Employee Benefits Complaint* and subsequently dismissed the remaining state law claims without prejudice, thereby dismissing the *Employee Benefits Complaint* in its entirety. On February 12, 2008, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit with respect to the dismissal of the *Employee Benefits Complaint*. Plaintiffs previously appealed the dismissal of the *Commercial Complaint* to the United States Court of Appeals for the Third Circuit on October 10, 2007. On February 19, 2008, appellants filed their appeal brief with the Third Circuit with respect to the *Commercial Complaint*, and appellees filed their brief on April 7, 2008. Oral argument has not yet been scheduled in that appeal.

A number of complaints making allegations similar to those in the multi-district litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the multi-district litigation. These additional consolidated actions are still pending in the District Court, but are currently stayed pending a decision by the court on whether they will proceed during the appeal of the dismissal of the multi-district litigation. The AIG defendants have also sought to have state court actions making similar allegations stayed pending resolution of the multi-district litigation proceeding. These efforts have generally been successful, although plaintiffs in one case pending in Texas state court have moved to re-open discovery; a hearing on that motion was held on April 9, 2008 at which the court deferred ruling on the motion until defendants file their Special Exceptions. Using amounts from the Excess Casualty Fund described above, AIG has recently settled several of the various federal and state actions alleging claims similar to those in the multi-district litigation, including a state court action pending in Florida in which discovery had been allowed to proceed.

Ohio Attorney General Action. On August 24, 2007, the Ohio Attorney General filed a complaint in the Ohio Court of Common Pleas against AIG and a number of its subsidiaries, as well as several other broker and insurer defendants, asserting violation of Ohio s antitrust laws. The complaint, which is similar to the *Commercial Complaint*, alleges that AIG and the other broker and insurer defendants conspired to allocate customers, divide markets, and restrain competition in commercial lines of casualty insurance sold through the broker defendant. The complaint seeks treble damages on behalf of Ohio public purchasers of commercial casualty insurance, disgorgement on behalf of both public and private purchasers of commercial casualty insurance, as well as a $500 per day penalty for each day of conspiratorial conduct. AIG, along with other co-defendants, moved to dismiss the complaint on November 16, 2007. Discovery is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

stayed in the case pending a ruling on the motion to dismiss or until May 15, 2008, whichever occurs first.

Workers Compensation Litigation. On May 24, 2007, the National Workers Compensation Reinsurance Pool (the NWCRP), on behalf of its participant members, filed a lawsuit in the United States District Court for the Northern District of Illinois against AIG with respect to the underpayment by AIG of its residual market assessments for workers compensation. The complaint alleges claims for violations of RICO, breach of contract, fraud and related state law claims arising out of AIG s alleged underpayment of these assessments between 1970 and the present and seeks damages purportedly in excess of $1 billion. On August 6, 2007, the court denied AIG s motion seeking to dismiss or stay the complaint or, in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the court denied AIG s motion to dismiss the complaint. AIG filed its answer on January 22, 2008. On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against NCCI (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance companies that are members of the NWCRP. The counterclaims and third-party claims allege violations of RICO, as well as claims for conspiracy, fraud, and other state law claims. On April 3, 2008, the court entered an order staying discovery through June 17, 2008.

In addition, a similar lawsuit was filed by the Minnesota Workers Compensation Reinsurance Association and the Minnesota Workers Compensation Insurers Association in the United States District Court for the District of Minnesota. On August 6, 2007, AIG moved to dismiss the complaint. On March 28, 2008, the court granted that motion and dismissed the case in its entirety. On April 25, 2008, plaintiffs filed a notice of appeal of the dismissal with the United States Court of Appeals for the Eighth Circuit. On the same day, plaintiffs filed a new complaint making similar allegations in Minnesota state court. A purported class action was also filed in the United States District Court for the District of South Carolina on January 25, 2008 against AIG and certain of its subsidiaries, on behalf of a class of employers that obtained workers compensation insurance from AIG companies and allegedly paid inflated premiums as a result of AIG s alleged underreporting of workers compensation premiums. An amended complaint in the South Carolina action was filed on March 24, 2008, and AIG filed a motion to dismiss the amended complaint on April 21, 2008.

SICO. In July, 2005, SICO filed a complaint against AIG in the Southern District of New York, claiming that AIG had refused to provide SICO access to certain artwork and asked the court to order AIG immediately to release the property to SICO. AIG filed an answer denying SICO s allegations and setting forth defenses to SICO s claims. In addition, AIG filed counterclaims asserting breach of contract, unjust enrichment, conversion, breach of fiduciary duty, a constructive trust and declaratory judgment, relating to SICO s breach of its commitment to use its AIG shares only for the benefit of AIG and AIG employees. Fact and expert discovery has been concluded and SICO s motion for summary judgment is pending.

Starr Foundation. On May 7, 2008, the Starr Foundation filed a complaint in New York State Supreme Court against AIG, Martin Sullivan and Steven Bensinger, asserting a claim for common law fraud. The Starr Foundation is a not-for-profit corporation that holds approximately 15.4 million shares of AIG stock, and was created by AIG s founder, Cornelius Vander Starr. The complaint alleges that the defendants made materially misleading statements and omissions concerning alleged multi-billion dollar losses in AIG s portfolio of credit default swaps. The complaint asserts that if the Starr Foundation had known the truth about the alleged losses, it would have sold its remaining shares of AIG stock. The complaint alleges that the Starr Foundation has suffered damages of at least $300 million.

Regulatory Investigations. Various federal, state and foreign regulatory and governmental agencies are reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with industry wide and other inquiries. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests. During 2006, the Settlement Review Working Group of the National Association of Insurance Commissioners (NAIC), under the direction of Indiana, Minnesota and Rhode Island, began an investigation into the underreporting of workers compensation premiums. In late 2007, the Settlement Review Working Group recommended that a multi-state targeted market conduct examination focusing on workers compensation insurance be commenced under the direction of the NAIC s Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January of 2008. AIG has been advised that the lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, Pennsylvania and Rhode Island and that all other states (and the District of Columbia) have agreed to participate with the exception of New York, Ohio and Nevada. AIG has also been advised that the examination will focus on both legacy issues and AIG s current compliance with legal requirements applicable to AIG s writing and reporting of workers compensation insurance. Although AIG has been advised by counsel engaged by the lead states to assist in their investigation, to date no determinations have been made with

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

respect to these issues. AIG cannot predict the outcome of the investigation and there can be no assurance that any regulatory action resulting from the investigation will not have a material adverse effect on AIG s consolidated results of operations for an individual reporting period as well as on the ongoing operations of certain of AIG s businesses.

Wells Notices. AIG understands that some of its employees have received Wells notices in connection with previously disclosed SEC investigations of certain of AIG s transactions or accounting practices. Under SEC procedures, a Wells notice is an indication that the SEC staff has made a preliminary decision to recommend enforcement action that provides recipients with an opportunity to respond to the SEC staff before a formal recommendation is finalized. It is possible that additional current and former employees could receive similar notices in the future as the regulatory investigations proceed.

Effect on AIG

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

(b) Commitments

Flight Equipment

At March 31, 2008, ILFC had committed to purchase 211 new aircraft deliverable from 2008 through 2017 at an estimated aggregate purchase price of $18.8 billion. ILFC will be required to find customers for any aircraft acquired, and it must arrange financing for portions of the purchase price of such equipment.

ILFC ordered 74 Boeing 787 aircraft with the first ten originally scheduled to be delivered in 2010. Boeing has made several announcements concerning the delays in the deliveries of the 787s. Boeing has informed ILFC that its 787 deliveries will be delayed by an average in excess of 27 months per aircraft and span across ILFC s entire order, with the original contracted deliveries running from 2010 through 2017.

Other Commitments

In the normal course of business, AIG enters into commitments to invest in limited partnerships, private equities, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $8.5 billion at March 31, 2008.

On June 27, 2005, AIG entered into an agreement pursuant to which AIG agreed, subject to certain conditions, to make any payment that is not promptly paid with respect to the benefits accrued by certain employees of AIG and its subsidiaries under the SICO Plans (as discussed in the 2007 Annual Report on Form 10-K).

(c) Contingencies

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

Benefits Provided by Starr International Company, Inc. and C.V. Starr & Co., Inc. SICO has provided a series of two-year Deferred Compensation Profit Participation Plans (SICO Plans) to certain AIG employees. The SICO Plans were created in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset is AIG common stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG.

None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting amount credited to additional paid-in capital reflecting amounts considered to be contributed by SICO. The SICO Plans provide that shares currently owned by SICO are

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

6. Commitments, Contingencies and Guarantees *(continued)*

set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant s voluntary termination of employment with AIG prior to normal retirement age. Under the SICO Plans, SICO s Board of Directors may elect to pay a participant cash in lieu of shares of AIG common stock. Following notification from SICO to participants in the SICO Plans that it will settle specific future awards under the SICO Plans with shares rather than cash, AIG modified its accounting for the SICO Plans from variable to fixed measurement accounting. AIG gave effect to this change in settlement method beginning on December 9, 2005, the date of SICO s notice to participants in the SICO Plans.

(d) Guarantees

AIG and certain of its subsidiaries become parties to derivative financial instruments with market risk resulting from both dealer and end-user activities and to reduce currency, interest rate, equity and commodity exposures. These instruments are carried at their estimated fair values in the consolidated balance sheet. The majority of AIG s derivative activity is transacted by AIGFP. See Note 8 to the 2007 Annual Report on Form 10-K.

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP arising from transactions entered into by AIGFP.

SAI Deferred Compensation Holdings, Inc., a wholly owned subsidiary of AIG, has established a deferred compensation plan for registered representatives of certain AIG subsidiaries, pursuant to which participants have the opportunity to invest deferred commissions and fees on a notional basis. The value of the deferred compensation fluctuates with the value of the deferred investment alternatives chosen. AIG has provided a full and unconditional guarantee of the obligations of SAI Deferred Compensation Holdings, Inc. to pay the deferred compensation under the plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

7. Employee Benefits

The components of the net periodic benefit costs with respect to pensions and other postretirement benefits were as follows:

	Pensions			Postretirement		
(in millions)	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
Three Months Ended March 31, 2008						
Components of net periodic benefit cost:						
Service cost	**$ 24**	**$ 32**	**$ 56**	**$ 2**	**$ 2**	**$ 4**
Interest cost	**14**	**50**	**64**	**1**	**4**	**5**
Expected return on assets	**(11)**	**(60)**	**(71)**			
Amortization of prior service cost	**(3)**		**(3)**			
Amortization of net loss	**4**	**4**	**8**			
Net periodic benefit cost	**$ 28**	**$ 26**	**$ 54**	**$ 3**	**$ 6**	**$ 9**
Three Months Ended March 31, 2007						
Components of net periodic benefit cost:						
Service cost	$ 23	$ 30	$ 53	$ 1	$ 2	$ 3
Interest cost	12	45	57	1	4	5
Expected return on assets	(9)	(53)	(62)			
Amortization of prior service cost	(2)	(1)	(3)			
Amortization of net loss	2	9	11			
Net periodic benefit cost	$ 26	$ 30	$ 56	$ 2	$ 6	$ 8

8. Federal Income Taxes

Interim Period Tax Assumptions and Effective Tax Rates

AIG s interim period tax expense or benefit is measured using an estimated annual effective tax rate. To the extent that a portion of AIG s annual pretax income or loss cannot be reliably estimated, the actual tax expense or benefit applicable to that income or loss is reported in the interim period in which the related income or loss is reported. AIG is unable to reliably estimate other-than-temporary impairments and the operating results of AIGFP. Therefore, the related tax effects calculated at the statutory tax rate of 35 percent are reported as discrete adjustments to the estimated annual effective tax rate that AIG applies to all other pretax income.

The effective tax rate on pre-tax income for the year ended December 31, 2007 was 16.3 percent. The effective rate was low due to the unrealized market valuation losses on AIGFP s super senior credit default swap portfolio and other-than-temporary impairment charges. The effective tax rate on the pre-tax loss for the first three months of 2008 was 31.4 percent. The effective rate was lower than the statutory rate of 35 percent due primarily to $703 million of tax charges for the first three months of 2008, comprised of increases in the reserves for uncertain tax positions and other discrete period items.

Tax Filings and Examinations

On April 3, 2008, AIG filed a refund claim for tax years 1997 through 2004. The refund claim relates to the tax effect of the restatement of AIG s 2004 and prior financial statements.

On March 20, 2008, AIG received a Statutory Notice of Deficiency (the Notice) from the United States Internal Revenue Service (IRS) asserting liability for additional taxes for the 1997 through 1999 tax years. The Notice asserted that AIG owes additional taxes of $329 million, including penalties, and focuses principally on two issues: the timing of deductions and the disallowance of foreign tax credits associated with cross border financing transactions. The transactions that are the subject of the Notice (the Affected Transactions) extend beyond the period covered by the Notice, and it is likely that the IRS will seek to challenge those later periods. It is also possible that the IRS will consider other transactions to be similar to the Affected Transactions. AIG disagrees with the Notice and plans to contest the IRS assertions. AIG believes that it is adequately reserved for any liability that could result from the IRS actions.

In April 2008, two separate court decisions were rendered relating to certain lease-in, lease-out transactions, which were adverse to the taxpayers. In accordance with FIN 48, AIG will evaluate in the second quarter of 2008 the effect of these decisions on lease transactions of AIG subsidi-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

8. Federal Income Taxes *(continued)*

aries. Any resulting adjustment is not expected to be material to AIG s consolidated results of operations or its consolidated financial condition.

FIN 48

As of March 31, 2008 and December 31, 2007, AIG s unrecognized tax benefits, excluding interest and penalties, were $2.5 billion and $1.3 billion, respectively. The increase during the period is attributable to foreign tax credits associated with cross border financing transactions and to income and expense allocations across jurisdictions. As of March 31, 2008 and December 31, 2007, AIG s unrecognized tax benefits included $923 million and $299 million, respectively, related to tax positions the disallowance of which would not affect the effective tax rate. The increase during the period is attributable to U.S. deferred taxes associated with income and expense allocations across jurisdictions. Accordingly, as of March 31, 2008 and December 31, 2007, the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $1.5 billion and $1.0 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At March 31, 2008, AIG had accrued $351 million, for the payment of interest (net of the federal benefit) and penalties.

AIG continually evaluates proposed adjustments by taxing authorities. At March 31, 2008, such proposed adjustments would not result in a material change to AIG s consolidated financial condition, although it is possible that the effect could be material to AIG s consolidated results of operations for an individual reporting period. Although it is reasonably possible that a significant change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

American International Group, Inc. and Subsidiaries

9. Information Provided in Connection with Outstanding Debt

The following condensed consolidating financial statements reflect the following:

AIG Life Holdings (US), Inc. (AIGLH), formerly known as American General Corporation, is a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

AIG Liquidity Corp. is a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all obligations of AIG Liquidity Corp.

AIG Program Funding, Inc. is a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all obligations of AIG Program Funding, Inc., which was established in 2007.

Condensed Consolidating Balance Sheet

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	AIG Liquidity Corp.	AIG Program Funding, Inc.	Other Subsidiaries	Eliminations	Consolidated AIG
March 31, 2008							
Assets:							
Investments and Financial Services assets	**$ 12,895**	**$ 40**	**$**	**$**	**$ 850,273**	**$ (21,956)**	**$ 841,252**
Cash	**273**				**2,216**		**2,489**
Carrying value of subsidiaries and partially owned companies, at equity	**98,742**	**20,900**			**24,545**	**(143,477)**	**710**
Other assets	**8,339**	**2,621**			**195,436**	**239**	**206,635**
Total assets	**$ 120,249**	**$ 23,561**	**$**	**$**	**$ 1,072,470**	**$ (165,194)**	**$ 1,051,086**
Liabilities:							
Insurance liabilities	**$**	**$**	**$**	**$**	**$ 547,260**	**$ (99)**	**$ 547,161**
Debt	**37,363**	**2,136**			**151,859**	**(19,188)**	**172,170**
Other liabilities	**3,183**	**2,929**			**247,923**	**(2,083)**	**251,952**

Total liabilities	**40,546**	**5,065**			**947,042**	**(21,370)**	**971,283**
Preferred shareholders equity in subsidiary companies					**100**		**100**
Total shareholders equity	**79,703**	**18,496**			**125,328**	**(143,824)**	**79,703**
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 120,249**	**$ 23,561**	**$**	**$**	**$ 1,072,470**	**$ (165,194)**	**$ 1,051,086**
December 31, 2007							
Assets:							
Investments and Financial Services assets	$ 14,648	$ 40	$	$	$ 859,063	$ (21,790)	$ 851,961
Cash	84	1			2,199		2,284
Carrying value of subsidiaries and partially owned companies, at equity	111,714	24,396			18,542	(153,998)	654
Other assets	9,414	2,592			193,445	155	205,606
Total assets	$ 135,860	$ 27,029	$	$	$ 1,073,249	$ (175,633)	$ 1,060,505
Liabilities:							
Insurance liabilities	$ 43	$	$	$	$ 534,369	$ (75)	$ 534,337
Debt	36,045	2,136			156,003	(18,135)	176,049
Other liabilities	3,971	2,826			250,506	(3,085)	254,218
Total liabilities	40,059	4,962			940,878	(21,295)	964,604
Preferred shareholders equity in					100		100

subsidiary companies							
Total shareholders equity	95,801	22,067			132,271	(154,338)	95,801
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 135,860	$ 27,029	$	$	$ 1,073,249	$ (175,633)	$ 1,060,505

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

9. Information Provided in Connection with Outstanding Debt *(continued)*
Condensed Consolidating Statement of Income (Loss)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	AIG Liquidity Corp.	AIG Program Funding, Inc.	Other Subsidiaries	Eliminations	Consolidated AIG
Three Months Ended March 31, 2008							
Operating income (loss)	**$ (833)**	**$ (21)**	**$ ***	**$**	**$(10,410)**	**$**	**$(11,264)**
Equity in undistributed net income of consolidated subsidiaries	**(7,754)**	**(1,246)**				**9,000**	
Dividend income from consolidated subsidiaries	**749**					**(749)**	
Income taxes (benefits)	**(33)**	**(3)**	*****		**(3,501)**		**(3,537)**
Minority interest					**(78)**		**(78)**
Net income (loss)	**$ (7,805)**	**$(1,264)**	**$ ***	**$**	**$ (6,987)**	**$ 8,251**	**$ (7,805)**
Three Months Ended March 31, 2007							
Operating income (loss)	$ (261)	$ (73)	$ *	$	$ 6,506	$	$ 6,172
Equity in undistributed net income of consolidated subsidiaries	3,244	151				(3,395)	
Dividend income from consolidated subsidiaries	1,286	440				(1,726)	
Income taxes (benefits)	139	8	*		1,579		1,726
Minority interest					(316)		(316)

Net income (loss)	$ 4,130	$ 510	$ *	$	$ 4,611	$(5,121)	$ 4,130

**Less than $1 million.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

9. Information Provided in Connection with Outstanding Debt *(continued)*
Condensed Consolidating Statement of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	AIG Liquidity Corp.	AIG Program Funding, Inc.	Other Subsidiaries	Consolidated AIG
Three Months Ended March 31, 2008						
Net cash provided by operating activities	**$ 504**	**$ 557**	**$ ***	**$**	**$ 7,232**	**$ 8,293**
Cash flows from investing:						
Invested assets disposed	**214**				**52,537**	**52,751**
Invested assets acquired	**(329)**				**(48,656)**	**(48,985)**
Other	**2,723**	**(58)**	*****		**(2,902)**	**(237)**
Net cash provided by (used) in investing activities	**2,608**	**(58)**	*****		**979**	**3,529**
Cash flows from financing activities:						
Issuance of debt	**214**				**12,457**	**12,671**
Repayments of debt	**(28)**				**(19,880)**	**(19,908)**
Payments advanced to purchase shares	**(1,000)**					**(1,000)**
Cash dividends paid to shareholders	**(498)**					**(498)**
Other	**(1,610)**	**(500)**	*****		**(830)**	**(2,940)**
Net cash used in financing activities	**(2,922)**	**(500)**	*****		**(8,253)**	**(11,675)**
Effect of exchange rate changes on cash					**58**	**58**
Change in cash	**190**	**(1)**	*****		**16**	**205**
Cash at beginning of period	**84**	**1**			**2,199**	**2,284**

Cash at end of period	**$ 274**	**$**	**$ ***	**$**	**$ 2,215**	**$ 2,489**
Three Months Ended March 31, 2007						
Net cash provided by operating activities	$ 261	$ 48	$ *	$	$ 9,621	$ 9,930
Cash flows from investing:						
Invested assets disposed	170				38,906	39,076
Invested assets acquired	(3,520)				(53,321)	(56,841)
Other	349	(48)	*		(560)	(259)
Net cash used in investing activities	(3,001)	(48)	*		(14,975)	(18,024)
Cash flows from financing activities:						
Issuance of debt	6,831				17,923	24,754
Repayments of debt	(728)				(15,596)	(16,324)
Payments advanced to purchase shares	(3,000)					(3,000)
Cash dividends paid to shareholders	(430)					(430)
Other	38		*		3,178	3,216
Net cash provided by financing activities	2,711		*		5,505	8,216
Effect of exchange rate changes on cash					(10)	(10)
Change in cash	(29)		*		141	112
Cash at beginning of period	76				1,514	1,590
Cash at end of period	$ 47	$	$ *	$	$ 1,655	$ 1,702

**Less than $1 million.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*
American International Group, Inc. and Subsidiaries

10. Cash Flows

AIG has made certain revisions to the Consolidated Statement of Cash Flows, primarily relating to the effect of reclassifying certain policyholders account balances, the elimination of certain intercompany balances and revisions related to separate account assets. Accordingly, AIG revised the previous periods presented to conform to the revised presentation. There was no effect on ending cash balances.

The revisions and their effect on the Consolidated Statement of Cash Flows for the three months ended March 31, 2007 were as follows:

(in millions)	Originally Reported March 31, 2007	Revisions	As Revised
Cash flows from operating activities	$ 8,633	$ 1,297	$ 9,930
Cash flows from investing activities	(16,863)	(1,161)	(18,024)
Cash flows from financing activities	8,352	(136)	8,216

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

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Cautionary Statement Regarding Projections and Other Information About Future Events

This Quarterly Report on Form 10-Q and other publicly available documents may include, and AIG s officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are not historical facts but instead represent only AIG s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG s control. These projections and statements may address, among other things, the status and potential future outcome of the current regulatory and civil proceedings against AIG and their potential effect on AIG s businesses, financial condition, results of operations, cash flows and liquidity, AIG s exposures to subprime mortgages, monoline insurers and the residential real estate market and AIG s strategy for growth, product development, market position, financial results and reserves. It is possible that AIG s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements. Factors that could cause AIG s actual results to differ, possibly materially, from those in the specific projections and statements are discussed in Outlook and throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Item 1A. Risk Factors of AIG s Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Annual Report on Form 10-K). AIG is not under any obligation (and expressly disclaims any such obligations) to update or alter any projection or other statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

In addition to reviewing AIG s results for the first three months of 2008, this Management s Discussion and Analysis of Financial Condition and Results of Operations supplements and updates the information and discussion included in the 2007 Annual Report on Form 10-K. Throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, AIG presents its operations in the way it believes will be most meaningful. Statutory loss ratios and combined ratios are presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance filed with insurance regulatory authorities and used for analysis in the insurance industry and thus allow more meaningful comparisons with AIG s insurance competitors. AIG also uses cross-references to additional information included in this Quarterly Report on Form 10-Q and in the 2007 Annual Report on Form 10-K to assist readers seeking related information on a particular subject.

**Overview of Operations
and Business Results**

AIG identifies its reportable segments by product line, consistent with its management structure. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. Through these operating segments, AIG provides insurance, financial and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions. This geographic, product and service diversification is one of AIG s major strengths and sets it apart from its competitors. AIG s Other category consists of items not allocated to AIG s operating segments.

AIG s subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and are among the largest life insurance and retirement services operations as well. AIG s Financial Services businesses include commercial aircraft and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services to institutions and individuals. As part of its Spread-Based Investment activities, and to finance its operations, AIG issues various debt instruments in the public and private markets.

Outlook

The following paragraphs supplement and update the information and discussion included in Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook in the 2007 Annual Report on Form 10-K to reflect developments in or affecting AIG s business to date during 2008. These paragraphs also supplement and update Item 1A. Risk Factors in the 2007 Annual Report on Form 10-K.

General Trends

In mid-2007, the U.S. residential mortgage market began to experience serious disruption due to credit quality deterioration in a significant portion of loans originated, particularly to non-prime and subprime borrowers; evolving changes in the regulatory environment; a slower residential housing market; increased cost of borrowings for mortgage participants; and illiquid credit markets. The conditions continued and worsened throughout 2007 and the first quarter of 2008, expanding into the broader U.S. credit markets and resulting in greater volatility, less liquidity, widening of credit spreads, a lack of price transparency and increased credit losses in certain markets.

AIG participates in the U.S. residential mortgage market in several ways: American General Finance, Inc. (AGF) originates principally first-lien mortgage loans and to a lesser extent second-lien mortgage loans to buyers and owners of residential housing; United Guaranty Corporation (UGC) provides first loss mortgage guaranty insurance for high loan-to-value first-and second-lien residential mortgages; AIG insurance and financial services subsidiaries invest in mortgage-backed securities and collateralized debt obligations (CDOs), in which the underlying collateral is composed in whole or in part of residential mortgage loans; and AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) provides credit protection through credit default swaps on certain super senior tranches of CDOs, a significant majority of which have AAA underlying or subordinate layers.

Continuing disruption in the U.S. residential mortgage and other credit markets may also increase claim activity in the financial institution segment of AIG s directors and officers liability (D&O) and professional liability classes of business. However, based on its review of information currently available, AIG believes overall loss activity for the broader D&O and professional liability classes is likely to remain within or near the levels observed during the last several years, which include losses related to stock options backdating as well as to the U.S. residential mortgage market.

The operating results of AIG s consumer finance and mortgage guaranty operations in the United States have been and are likely to continue to be adversely affected by the factors referred to above. The downward cycle in the U.S. housing market is not expected to improve until residential inventories return to a more normal level and the mortgage credit market stabilizes. The duration and severity of the downward cycle could be further negatively affected in the event of an economic recession. AIG expects that this downward cycle will continue to adversely affect UGC s operating results for the foreseeable future and will result in a significant operating loss for UGC in 2008 and possibly beyond. AIG also incurred substantial unrealized market valuation losses on AIGFP s super senior credit default swap portfolio and substantial other-than-temporary impairment charges on AIG s available for sale securities in the first quarter of 2008 and fourth quarter of 2007. The results from AIG s operations with exposure to the U.S. residential mortgage market will be highly dependent on future market conditions. Continuing market deterioration will cause AIG to report additional unrealized market valuation losses and impairment charges.

The ongoing effect of the downward cycle in the U.S. housing market on AIG s consolidated financial condition could be material if the market disruption continues to expand beyond the residential mortgage markets, although AIG seeks to mitigate the risks to its business by disciplined underwriting and active risk management.

Credit ratings are important to AIG s business, results of operations and liquidity. Downgrades in AIG s credit ratings could increase AIG s borrowing costs and could adversely affect its competitive position and liquidity. With respect to AIG s liquidity, it is estimated that, as of the close of business on April 30, 2008, based on AIGFP s outstanding municipal guaranteed investment agreements (GIAs) and financial derivative transactions at that date, a downgrade of AIG s longer-term senior debt ratings to Aa3 by Moody s Investors Service (Moody s) or AA- by Standard & Poor s, a division of the McGraw-Hill Companies (S&P) would permit counterparties to call for approximately $1.8 billion of collateral, while a downgrade to A1 by Moody s or A+ by S&P would permit counterparties to call for approximately $9.8 billion of additional collateral. Further downgrades could result in requirements for substantial additional collateral, which could have a material adverse effect on how AIGFP manages its liquidity. The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. Additional obligations to post collateral would increase the demands on AIGFP s liquidity.

Globally, heightened regulatory scrutiny of financial services companies in many jurisdictions has the potential to affect future financial results through higher compliance costs. This is particularly true in the United States, where federal and state authorities have commenced various investigations of the financial services industry, and in Japan and Southeast Asia, where financial institutions have received remediation orders affecting consumer and policyholder rights.

Capital Resources

In light of the ongoing significant effects the disruption in the U.S. housing and credit markets is having on AIG s results, AIG is planning to raise additional capital to fortify its balance sheet and increase financial flexibility.

General Insurance

The commercial property and casualty insurance industry has historically experienced cycles of price erosion followed by rate strengthening as a result of catastrophes or other significant losses that affect the overall capacity of the industry to provide coverage. As premium rates decline, AIG will generally experience higher current accident year loss ratios, as the written premiums are earned, and higher expense ratios if written premiums decline more quickly than expenses. Despite industry price erosion in commercial lines, AIG expects to continue to identify profitable opportunities and build attractive new general insurance businesses as a result of AIG s broad product line and extensive distribution networks in the United States and abroad.

Workers compensation remains under considerable pricing pressure, as statutory rates continue to decline. Rates for most casualty lines of insurance continue to decline due to competitive pressures, particularly for aviation, excess casualty and D&O exposures. Rates for commercial property lines are also declining following another year of relatively low catastrophe losses. Further price erosion is expected during the remainder of 2008 for the commercial lines; AIG seeks to mitigate the decline by constantly seeking out profitable opportunities across its diverse product lines and distribution networks while maintaining a commitment to underwriting discipline. There can be no assurance that price erosion will not become more widespread or that AIG s profitability will not deteriorate from current levels in major commercial lines.

The personal lines market has softened considerably and further deterioration in underwriting results is expected to continue through 2009. A generally weakening economy and increasing loss trends are contributing factors. AIG is filing for rate increases and tightening underwriting guidelines where necessary in response to the changing market conditions.

Life Insurance & Retirement Services

Disruption in the U.S. residential mortgage and credit markets had a significant adverse effect on Life Insurance & Retirement Services operating results, specifically its net investment income and net realized capital losses in 2007 and the first three months of 2008, and AIG expects that this disruption will continue to be a key factor in the remainder of 2008 and beyond, especially in its U.S.-based operations. The volatility in operating results will be further magnified by the continuing market shift to variable products with living benefits.

In response to the market disruption, AIG, including Domestic Life and Domestic Retirement Services, has been increasing its liquidity position and investing in shorter duration investments. While prudent in the current environment, such actions will reduce overall investment yields.

Recent capital markets volatility has put pressure on credit lenders resulting in increased costs for premium financing, which could affect future sales of products where such financing is used, primarily in large universal life policies in Domestic Life Insurance.

The U.S. dollar has significantly weakened against many currencies, resulting in a favorable effect on operating results due to the translation of foreign currencies to the U.S. dollar. However, the weakened dollar has an unfavorable effect on other-than-temporary impairments in Foreign Life Insurance & Retirement Services and will continue to affect operating results throughout 2008.

An additional capital contribution to operations in Taiwan is planned for the second quarter of 2008 in order to meet the needs of this growing business and increased risk-based capital requirements. The amount of the additional capital contribution is expected to be approximately $400 million.

Financial Services

AIG exercises significant judgment in the valuation of its various credit default swap portfolios. AIG uses pricing models and other methodologies to value these portfolios that take into account, where applicable, and to the extent possible, third-party prices, pricing matrices, the movement of indices (such as the CDX and iTraxx), collateral calls and other observable market data. There is no uniform methodology used by market participants in valuing these types of portfolios. AIG believes that the assumptions and judgments it makes are reasonable and lead to an overall methodology that is reasonable, but other market participants may use other methodologies, including, among other things, models, indices and selection of third-party pricing sources, that are based upon different assumptions and judgments, and these methodologies may generate materially different values. AIG regularly updates and analyzes the appropriateness of its valuation methodologies. Updates to or changes in AIG s methodologies or assumptions may materially change AIG s estimates of the value of its credit default swap portfolios.

For additional information regarding AIG s methodology, models and assumptions with respect to the valuation and credit-based analyses of the AIGFP super senior credit default swap portfolio see Critical Accounting Estimates Fair Value Measurements of Certain Financial Assets and Liabilities AIGFP s Super Senior Credit Default Swap Portfolio, and Valuation of Level 3 Assets and Liabilities Super senior credit default swap portfolio. Also refer to Risk Management Credit Derivatives.

The ongoing disruption in the U.S. residential mortgage and credit markets and the downgrades of residential mortgage-backed securities and CDO securities by rating agencies continue to adversely affect the fair value of the super senior credit default swap portfolio written by AIGFP. AIG expects that continuing limitations on the availability of market observable data will affect AIG s determinations of the fair value of these derivatives, including by preventing AIG, for the foreseeable future, from recognizing the beneficial effect of the differential between credit spreads used to price a credit default swap and spreads implied from prices of the CDO bonds referenced by such swap. The fair value of these derivatives is expected to continue to fluctuate, perhaps materially, in response to changing market conditions, and AIG s estimates of the value of AIGFP s super senior credit derivative portfolio at future dates could therefore be materially different from current estimates. Further declines in the fair values of these derivatives may require AIGFP to post additional collateral which may be material to AIGFP s financial condition.

Under the terms of most of these credit derivatives, losses to AIG would generally result from the credit impairment of the referenced CDO bonds that AIG would acquire in satisfying its swap obligations. Based upon its most current analyses, AIG believes that any credit impairment losses which may emerge over time at AIGFP will not be material to AIG s consolidated financial condition, but could be material to the manner in which AIG manages its liquidity. In making this assessment, AIG uses a credit-based analysis to estimate potential realized credit impairment losses from AIGFP s super senior credit default swap portfolio. This analysis makes various assumptions as to estimates of future stresses on the portfolio resulting from further downgrades by the rating agencies of the CDO collateral. In addition, during the first quarter of 2008, AIG introduced another methodology called a roll rate analysis.

This methodology rolls forward current and estimated future delinquencies and defaults in underlying mortgages in the CDO collateral pools to estimate potential losses in the CDOs. Due to the dislocation in the market for CDO collateral, AIG does not use the market values of the underlying CDO collateral in estimating its potential realized credit impairment losses. The use of factors derived from market-observable prices in models used to determine the estimates for future realized credit impairment losses would result in materially higher estimates of realized credit impairment losses. AIG s credit-based analyses estimate potential realized credit impairment pre-tax losses at approximately $1.2 billion to approximately $2.4 billion. Other types of analyses or models could result in materially different estimates. AIG is aware that other market participants have used different assumptions and methodologies to estimate the potential realized credit impairment losses on AIGFP s super senior credit default swap portfolio, resulting in a significantly higher estimate than that resulting from AIG s credit-based analysis. For example, a third-party analysis provided to AIG, that AIG understands uses credit and market value inputs, estimates the potential realized pre-tax losses on AIGFP s super senior credit default swap portfolio at between approximately $9 billion and approximately $11 billion. (AIG expresses no view as to the reasonableness of this third-party estimate and does not intend to seek an update of this estimate.) There can be no assurance that AIG s estimate will not change or that the ultimate realized losses on AIGFP s super senior credit default swap portfolio will not exceed any current estimates.

Approximately $335 billion of the $469 billion in notional exposure on AIGFP s super senior credit default swap portfolio as of March 31, 2008 was written to facilitate regulatory capital relief for financial institutions primarily in Europe. AIG expects that the majority of these transactions will be terminated within the next 12 to 24 months by AIGFP s counterparties as they implement models compliant with the new Basel II Accord. As of April 30, 2008, $55 billion in notional exposures have either been terminated or are in the process of being terminated at the request of counterparties. In its 2007 Annual Report on Form 10-K, AIG had previously reported that as of February 26, 2008, $54 billion in notional exposures have either been terminated or are in the process of being terminated. AIG has recently refined its approach to estimating its net notional exposures on certain of these transactions that have unique features. The notional exposures on transactions terminated or that were in the process of being terminated as of February 26, 2008 is $46 billion under the refined method. AIGFP was not required to make any payments as part of these terminations and in certain cases was paid a fee upon termination.

In light of this experience to date and after other comprehensive analyses, AIG determined that there was no unrealized market valuation adjustment to be recognized for this regulatory capital relief portfolio for the three months ended March 31, 2008. AIG will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Given the significant deterioration in the global credit markets and the risk that AIGFP s expectations with respect to the termination of these transactions by its counterparties may not materialize, there can be no assurance that AIG will not recognize unrealized market valuation losses from this portfolio in future periods, and recognition of even a small percentage decline in the fair value of this portfolio could be material to an individual reporting period. These transactions contributed approximately $89 million to AIGFP s revenues in the three-months ended March 31, 2008. If AIGFP is not successful in replacing the revenues generated by these transactions, AIGFP s operating results could be materially adversely affected.

Approximately $57 billion of the $469 billion in notional exposure on AIGFP s super senior credit default swaps as of March 31, 2008 was written on investment grade corporate debt and CLOs. There is no uniform methodology to estimate the fair value of corporate super senior credit default swaps. AIG estimates the fair value of its corporate credit default swap portfolio by reference to benchmark indices, including the CDX and iTraxx, and third-party prices and collateral calls. AIG believes that its methodology to value the corporate credit default swap portfolio is reasonable, but other market participants use other methodologies and these methodologies may generate materially different fair value estimates. No assurance can be given that the fair value of AIG s corporate credit default swap portfolio would not change materially if other market indices or pricing sources were used to estimate the fair value of the portfolio.

For a description of important factors that may affect the operations and initiatives described above, see Item 1A. Risk Factors in the 2007 Annual Report on Form 10-K.

Consolidated Results

AIG s consolidated revenues, income (loss) before income taxes, minority interest and net income (loss) were as follows:

	Three Months Ended March 31,	Percentage

(in millions)	**2008**	2007	Increase/ (Decrease)
Total revenues	**$ 14,031**	$ 30,645	(54)%
Income (loss) before income taxes and minority interest	**(11,264)**	6,172	
Net income (loss)	**$ (7,805)**	$ 4,130	%

AIG s consolidated revenues decreased in the three months ended March 31, 2008 compared to the same period in 2007 due to an unrealized market valuation loss of $9.1 billion on AIGFP s super senior credit default swap portfolio recorded in other income, higher net realized capital losses and a decline in net investment income, which more than offset growth in premiums and other considerations in the Life Insurance & Retirement Services segment. Net realized capital losses of $6.1 billion in the three months ended March 31, 2008 included other-than-temporary impairment charges of $5.6 billion, primarily related to the significant disruption in the residential mortgage and credit markets and investment-related losses of $779 million where AIG lacks the intent to hold the investments to recovery. Total other-than-temporary impairment charges in the three months ended March 31, 2007 were $467 million. See Invested Assets Portfolio Review Other-than-temporary impairments herein. The decline in net investment income reflects lower returns from partnerships, hedge funds and mutual funds as well as lower policyholder trading gains in Life Insurance & Retirement Services. Policyholder trading gains are offset by a charge to incurred policy losses and benefits expense.

Income (loss) before income taxes and minority interest declined in the three months ended March 31, 2008 due primarily to the losses described above.

Income Taxes

The effective tax rate on pre-tax income for the year ended December 31, 2007 was 16.3 percent. The effective rate was low due to the unrealized market valuation losses on AIGFP s super senior credit default swap portfolio and other-than-temporary impairment charges. The effective tax rate on the pre-tax loss for the first three months of 2008 was 31.4 percent. The effective rate was lower than the statutory rate of 35 percent due primarily to $703 million of tax charges for the first three months of 2008, comprised of increases in the reserves for uncertain tax positions and other discrete period items. See also Note 8 to Consolidated Financial Statements.

Segment Results

The following table summarizes the operations of each principal segment. (See also Note 2 to Consolidated Financial Statements.)

Operating Segments *(in millions)*	Three Months Ended March 31, 2008	2007	Percentage Increase/ (Decrease)
Total revenues[(a)]:			
General Insurance	**$ 12,289**	$12,903	(5)%
Life Insurance & Retirement Services[(b)]	**8,752**	13,682	(36)
Financial Services[(c)(d)]	**(6,560)**	2,201	
Asset Management[(e)]	**(149)**	1,669	
Other	**(128)**	131	
Consolidation and eliminations	**(173)**	59	
Total	**$ 14,031**	$30,645	(54)%
Operating income (loss)[(a)]:			
General Insurance	**$ 1,337**	$ 3,096	(57)%
Life Insurance & Retirement Services[(b)]	**(1,831)**	2,281	
Financial Services[(c)(d)]	**(8,772)**	292	
Asset Management[(e)]	**(1,251)**	758	
Other	**(768)**	(470)	
Consolidation and eliminations	**21**	215	(90)
Total	**$(11,264)**	$ 6,172	%

(a) *For the three-month periods ended March 31, 2008 and 2007, includes other-than-temporary impairment charges of $5.6 billion and $467 million, respectively. Also includes gains (losses) from hedging activities that did not* *qualify for hedge accounting treatment under Statement of Financial Accounting Standards (FAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), including the related foreign exchange gains and losses. For the three-month periods ended March 31, 2008 and 2007, the effect was $(748) million and $(452) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.*

(b) *For the three-month periods ended March 31, 2008 and 2007, includes other-than-temporary impairment charges of $4.4 billion and $392 million, respectively.*

(c) *Includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the three-month periods ended March 31, 2008 and 2007, the effect was $(204) million and $(160) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.*

(d) *For the three-month period ended March 31, 2008, both revenues and operating income (loss) include an unrealized market valuation loss of $9.1 billion on AIGFP s super senior credit default swap portfolio.*

(e) *Includes net realized capital losses of $1.4 billion for the three-month period ended March 31, 2008, including other-than-temporary impairment charges of $1.0 billion.*

General Insurance

AIG s General Insurance operations provide property and casualty products and services throughout the world. Revenues in the General Insurance segment represent net premiums earned, net investment income and net realized capital gains (losses). The decrease in General Insurance revenues in the first three months of 2008 compared to the same period in 2007 was due to net realized capital losses for the first three months of 2008 compared to net realized capital gains in the same period of 2007 and lower net investment income as returns on partnership investments declined. The decrease in General Insurance operating income in the first three months of 2008 compared to the same period in 2007 was driven by AIG Commercial Insurance (Commercial Insurance), reflecting lower underwriting profit and net investment income, as well as net realized capital losses incurred by Commercial Insurance in 2008. Operating losses from the Mortgage Guaranty business and a decline in Foreign General Insurance net investment income in the first three months of 2008 also contributed to the decrease in General Insurance operating income.

Life Insurance & Retirement Services

AIG s Life Insurance & Retirement Services operations provide insurance, financial and investment-oriented products throughout the world. Revenues in the Life Insurance & Retirement Services operations represent premiums and other considerations, net investment income and net realized capital gains (losses). Foreign operations contributed approximately 80 percent and 78 percent of AIG s Life Insurance & Retirement Services premiums and other considerations for the first three months of 2008 and 2007, respectively.

Life Insurance & Retirement Services operating income (loss) declined in the first three months of 2008 compared to the same period in 2007 primarily due to higher net realized capital losses in 2008. In addition, the operating loss in the first three months of 2008 was negatively affected by trading account losses in the U.K. associated with certain investment-linked products and an increase in incurred policyholder benefits related to a closed block of Japan business with guaranteed benefits. These declines were partially offset by reductions in deferred policy acquisition costs (DAC) and sales inducement asset (SIA) amortization related to realized capital losses and growth in the underlying reserves which reflects increased assets under management.

Financial Services

AIG s Financial Services subsidiaries engage in diversified activities including aircraft and equipment leasing, capital markets, consumer finance and insurance premium finance. Revenues in the Financial Services segment include interest, realized and unrealized gains and losses, including the unrealized market valuation losses on AIGFP s super senior credit default swap portfolio, and lease and finance charges.

Financial Services reported an operating loss in the first three months of 2008 compared to operating income in the same period in 2007, primarily due to an unrealized market valuation loss of $9.1 billion on AIGFP s super senior credit default swap portfolio and a decline in operating income for AGF. Capital Markets net operating loss for the first three months of 2008 was $8.9 billion, reflecting the pre-tax unrealized market valuation loss on the super senior credit default swap portfolio. The net loss also includes an increase to pre-tax earnings of $2,648 million attributable to changes in AIG s credit spreads which were substantially offset by the effect of changes in counterparty credit spreads on assets measured at fair value of $2,620 million. On January 1, 2008, AIGFP elected the fair value option for almost all of its eligible financial assets and liabilities. Included in the first quarter 2008 net operating loss is the transition amount of $291 million related to the adoption of FAS 157 and FAS 159.

In the first three months of 2007, AGF s mortgage banking operations recorded a pre-tax charge of $128 million, representing the estimated cost of implementing the Supervisory Agreement entered into with the Office of Thrift Supervision (OTS).

Operating income for ILFC increased in the first three months of 2008 compared to the same period in 2007 driven to a large extent by a larger aircraft fleet, higher lease rates and higher utilization.

Asset Management

AIG s Asset Management operations include institutional and retail asset management, broker-dealer services and Spread-Based Investment businesses. Revenues in the Asset Management segment represent investment income with respect to spread-based products and management, advisory and incentive fees.

Asset Management operating income decreased in the first three months of 2008 compared to the same period in 2007, due to other-than-temporary impairment charges on fixed income investments, lower partnership income and mark to market losses on interest rate and foreign currency hedge positions not qualifying for hedge accounting related to the Spread-Based Investment business.

Capital Resources

At March 31, 2008, AIG had total consolidated shareholders equity of $79.7 billion and total consolidated borrowings of $172.2 billion. At that date, $68.3 billion of such borrowings were subsidiary borrowings not guaranteed by AIG.

In February 2007, AIG s Board of Directors increased AIG s share repurchase program by authorizing the purchase of shares with an aggregate purchase price of $8 billion. In November 2007, AIG s Board of Directors authorized the purchase of an additional $8 billion in common stock. At May 7, 2008, $9 billion was available for purchase under the aggregate authorization. A total of 34,093,783 shares were purchased during the first three months of 2008. Subsequent to March 31, 2008, an additional 3,832,276 shares were purchased, satisfying the balance of the commitments existing at December 31, 2007 that had not been satisfied at March 31, 2008. AIG does not expect to purchase additional shares under its share repurchase program for the foreseeable future.

Liquidity

AIG manages liquidity at both the subsidiary and parent company levels. At March 31, 2008, AIG s consolidated invested assets, primarily held by its subsidiaries, included $63.6 billion in cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 2008 amounted to $8.3 billion. At both the subsidiary and parent company level, liquidity management activities are intended to preserve and enhance funding stability, flexibility, and diversity through a wide range of potential operating environments and market conditions. AIG s primary sources of cash flow are dividends and other payments from its regulated and unregulated subsidiaries, as well as issuances of debt securities. Primary uses of cash flow are for debt service, subsidiary funding, shareholder dividend payments and common stock repurchases. Management believes that AIG s liquid assets, cash provided by operations and access to the capital markets will enable it to meet its anticipated cash requirements, including the funding of dividends under AIG s dividend policy.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires the application of accounting policies that often involve a significant degree of judgment. AIG considers that its accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed as critical accounting estimates, to be those relating to reserves for losses and loss expenses, future policy benefits for life and accident and health contracts, recoverability of DAC, estimated gross profits for investment-oriented products, fair value measurements of certain financial assets and liabilities, other-than-temporary impairments, the allowance for finance receivable losses and flight equipment recoverability. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG s results of operations would be directly affected.

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

Reserves for Losses and Loss Expenses
(General Insurance):

Loss trend factors: used to establish expected loss ratios for subsequent accident years based on premium rate adequacy and the projected loss ratio with respect to prior accident years.

Expected loss ratios for the latest accident year: in this case, accident year 2007 for the year-end 2007 loss reserve analysis. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are utilized for at least the three most recent accident years.

Loss development factors: used to project the reported losses for each accident year to an ultimate amount.

Reinsurance recoverable on unpaid losses: the expected recoveries from reinsurers on losses that have not yet been reported and/or settled.

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

Interest rates: which vary by geographical region, year of issuance and products.

Mortality, morbidity and surrender rates: based upon actual experience by geographical region modified to allow for variation in policy form, risk classification and distribution channel.

Deferred Policy Acquisition Costs (Life Insurance & Retirement Services):

Recoverability: based on current and future expected profitability, which is affected by interest rates, foreign exchange rates, mortality experience and policy persistency.

Deferred Policy Acquisition Costs (General Insurance):

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

Estimated Gross Profits for Investment-Oriented Products (Life Insurance & Retirement Services):

Estimated gross profits: to be realized over the estimated duration of the contracts (investment-oriented products) affect the carrying value of DAC, unearned revenue liability, SIAs and associated amortization patterns. Estimated gross profits include investment income and gains and losses on investments less required interest, actual mortality and other expenses.

Allowance for Finance Receivable Losses (Financial Services):

Historical defaults and delinquency experience: utilizing factors, such as delinquency ratio, allowance ratio, charge-off ratio and charge-off coverage.

Portfolio characteristics: portfolio composition and consideration of the recent changes to underwriting criteria and portfolio seasoning.

External factors: consideration of current economic conditions, including levels of unemployment and personal bankruptcies.

Migration analysis: empirical technique measuring historical movement of similar finance receivables through various levels of repayment, delinquency, and loss categories to existing finance receivable pools.

Flight Equipment Recoverability (Financial Services):

Expected undiscounted future net cash flows: based upon current lease rates, projected future lease rates and estimated terminal values of each aircraft based on expectations of market participants.

Other-Than-Temporary Impairments:

AIG evaluates its investments for impairment such that a security is considered a candidate for other-than-temporary impairment if it meets any of the following criteria:

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

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

- AIG may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that a security has incurred an other-than-temporary decline in value requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline, such as that experienced in current credit markets, in which AIG could not reasonably assert that the recovery period would be temporary (severity losses). For further discussion, see Portfolio Review Other-Than-Temporary Impairments.

At each balance sheet date, AIG evaluates its securities holdings with unrealized losses. When AIG does not intend to hold such securities until they have recovered their cost basis, AIG records the unrealized loss in income. If a loss is recognized from a sale subsequent to a balance sheet date pursuant to changes in circumstances, the loss is recognized in the period in which the intent to hold the securities to recovery no longer existed.

In periods subsequent to the recognition of an other-than-temporary impairment charge for fixed maturity securities, which is not credit or foreign exchange related, AIG generally accretes into income the discount or amortizes the reduced premium resulting from the reduction in cost basis over the remaining life of the security.

Fair Value Measurements of Certain Financial Assets and Liabilities:

AIG measures at fair value on a recurring basis financial instruments in its trading and available for sale securities portfolios, certain mortgage and other loans receivable, certain spot commodities, derivative assets and liabilities, securities purchased (sold) under agreements to resell (repurchase), securities lending invested collateral, non-marketable equity investments, included in other invested assets, certain policyholders contract deposits, securities and spot commodities sold but not yet purchased, certain trust deposits and deposits due to banks and other depositors, certain long-term borrowings, and certain hybrid financial instruments included in other liabilities. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fixed Maturities Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value fixed maturity instruments in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

AIG estimates the fair value of fixed maturity instruments not traded in active markets, including securities purchased (sold) under agreements to resell (repurchase) and mortgage and other loans receivable, for which AIG elected the fair value option by referring to traded securities with similar attributes, using dealer quotations and matrix pricing methodologies, or discounted cash flow analyses. This methodology considers such factors as the issuer s industry, the security s rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For fixed maturity instruments that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management s best estimate is used.

Equity Securities Traded in Active Markets Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

Direct Private Equity Securities Not Traded in Active Markets Other Invested Assets

AIG initially estimates the fair value of equity securities not traded in active markets by reference to the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets, and changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management s best estimate is used. AIG initially estimates the fair value of investments in private limited partnerships and hedge funds by reference to the transaction price. Subsequently, AIG obtains the fair value of these investments generally from net asset value information provided by the general partner or manager of the investments, the financial statements of which generally are audited annually.

Separate and Variable Account Assets

Separate and variable account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over the counter (OTC). AIG generally values exchange-traded derivatives within portfolios using models that calibrate to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying instruments.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

With the adoption of FAS 157 on January 1, 2008, AIG s own credit risk has been considered and is incorporated into the fair value measurement of all freestanding derivative liabilities.

Embedded Policy Derivatives

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG s historical experience. With respect to embedded policy derivatives in AIG s variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG s equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity indexed growth rates, volatility of the equity index, future interest rates, and determination on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. With the adoption of FAS 157, these methodologies were not changed, with the exception of incorporating an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

AIGFP s Super Senior Credit Default Swap Portfolio

AIGFP values its credit default swaps written on the most senior risk layers (super senior) of designated pools of debt securities or loans using internal valuation models, third-party prices and market indices. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices. AIGFP uses a modified version of the Binomial Expansion Technique (BET) model to value its credit default swap portfolio written on super senior tranches of CDOs, including maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term eligible 2a-7 investments under the Investment Company Act of 1940 (2a-7 Puts). The BET model uses default probabilities derived from credit spreads implied from market prices for the individual securities included in the underlying collateral pools securing the CDOs, as well as diversity scores, weighted average lives, recovery rates and discount rates. The determination of some of these inputs requires the use of judgment and estimates, particularly in the absence of market observable data. AIGFP also employs a Monte Carlo simulation to assist in quantifying the effect on the valuation of the CDOs of the unique aspects of the CDOs structure such as triggers that divert cash flows to the most senior part of the capital structure. In the determination of fair value, AIGFP also considers collateral calls and the price estimates for the super senior CDO securities provided by third parties, including counterparties to these transactions. See Note 3 to Consolidated Financial Statements for additional information about fair value measurements.

In the case of credit default swaps written on investment-grade corporate debt and CLOs, AIGFP estimates the value of its obligations by reference to the relevant market indices or third-party quotes on the underlying super senior tranches where available.

In the case of credit default swaps written to facilitate regulatory capital relief for AIGFP s European financial institution counterparties, AIGFP estimates the fair value of these derivatives by considering observable market transactions, including the early termination of these transactions by counterparties, and other market data, to the extent relevant.

Policyholders Contract Deposits

Policyholders contract deposits accounted for at fair value beginning January 1, 2008 are measured using an income approach by taking into consideration the following factors:

- Current policyholder account values and related surrender charges,

- The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors, and

- A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholders contract deposits is recorded as incurred policy losses and benefits in the consolidated statement of income (loss).

Level 3 Assets and Liabilities

Under FAS 157, assets and liabilities recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the marketplace used to measure the fair value. See Note 3 to the Consolidated Financial Statements for additional information about fair value measurements.

At March 31, 2008, AIG classified $48.5 billion and $31.7 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 5 percent and 3 percent of the total assets and liabilities, respectively, measured at fair value on a recurring basis. Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. These measurements are made under circumstances in which there is little, if any, market activity for the asset or liability. AIG s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

In making the assessment, AIG considers factors specific to the asset or liability. In certain cases, the inputs used to measure fair value of an asset or a liability may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

American International Group, Inc. and Subsidiaries

Valuation of Level 3 Assets and Liabilities

AIG values its assets and liabilities classified as Level 3 using judgment and valuation models or other pricing techniques that require a variety of inputs including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs, some of which may be unobservable. The following paragraphs describe the methods AIG uses to measure on a recurring basis the fair value of the major classes of assets and liabilities classified in Level 3.

Private equity and real estate fund investments: These assets initially are valued at the transaction price, i.e., the price paid to acquire the asset. Subsequently, they are measured based on net asset value using information provided by the general partner or manager of these investments, the accounts of which generally are audited on an annual basis.

Corporate bonds and private placement debt: These assets initially are valued at the transaction price. Subsequently, they are valued using market data for similar instruments (e.g., recent transactions, bond spreads or credit default swap spreads), comparisons to benchmark derivative indices or movements in underlying credit spreads. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates based on collateral values as key inputs.

Certain Residential Mortgage-Backed Securities (RMBS): These assets initially are valued at the transaction price. Subsequently, they may be valued by comparison to transactions in instruments with similar collateral and risk profiles, remittances received and updated cumulative loss data on underlying obligations, discounted cash flow techniques, and/or option adjusted spread analyses.

Certain Asset-Backed Securities (ABS) non-mortgage: These assets initially are valued at the transaction price. Subsequently, they may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities.

CDOs: These assets initially are valued at the transaction price. Subsequently, they are valued based on external price/spread data from independent third parties, matrix pricing, or using the BET model.

Super senior credit default swap portfolio: AIGFP writes credit protection on the super senior risk layer of diversified portfolios of investment-grade corporate debt, collateralized loan obligations (CLOs) and multi-sector CDOs. AIGFP is at risk only on the super senior portion related to a diversified portfolio referenced to loans or debt securities, which is the last tranche to suffer losses after significant subordination.

At March 31, 2008 the notional amounts and unrealized market valuation loss of the super senior credit default swap portfolio, including certain regulatory capital relief driven trades, by asset class were as follows:

	Notional Amount *(in billions)*	Unrealized Market Valuation **Loss** Three Months Ended March 31, 2008 *(in millions)*	Cumulative At March 31, **2008** *(in millions)*
Corporate loans[(a)]	$ 192	$	$
Prime residential mortgages[(a)]	143		
Corporate debt/ CLOs	57	896	1,123
Multi-sector CDOs[(b)]	77	8,037	19,281
Mezzanine tranches[(c)]	6	174	174
Total	$ 475	$ 9,107	$ 20,578

(a) Predominantly represent transactions written to facilitate regulatory capital relief.

(b) Approximately $60.6 billion in notional amount of the multi-sector CDO pools include some exposure to U.S. sub-prime mortgages.

(c) Represents credit default swaps written by AIGFP on tranches below super senior on certain regulatory capital relief trades.

The valuation of the super senior credit derivatives has become increasingly challenging given the limitation on the availability of market observable information due to the lack of trading and price transparency in the structured finance market, particularly during and since the fourth quarter of 2007. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants and the varying judgments reached by such participants when assessing volatile markets has increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

AIGFP s valuation methodologies for the super senior credit default swap portfolio have evolved in response to the deteriorating market conditions and the lack of sufficient market observable information. AIG has sought to calibrate the model to market information and to review the assumptions of the model on a regular basis.

AIGFP employs a modified version of the BET model to value its credit default swap portfolio written on the super senior securities issued by CDOs, including the embedded 2a-7 Puts. The BET model uses default probabilities derived from credit spreads implied from market prices for the individual securities included in the underlying collateral pools securing the CDOs. AIGFP obtained prices on these securities from the CDO collateral managers.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates. The determination of some of these inputs requires the use of judgment and estimates, particularly in the absence of market observable data. AIGFP also employs a Monte Carlo simulation to assist in quantifying the effect on valuation of the CDO of the unique features of the CDOs structure such as triggers that divert cash flows to the most senior level of the capital structure.

AIG selected the BET model for the following reasons:

- it is known and utilized by other institutions;
- it has been studied extensively, documented and enhanced over many years;
- it is transparent and relatively simple to apply;
- the parameters required to run the BET model are generally observable; and
- it can easily be modified to use probabilities of default and expected losses derived from the underlying collateral securities market prices instead of using rating-based historical probabilities of default.

AIG s implementation of the BET model uses a Monte Carlo simulation of the cash flows of each underlying CDO for various scenarios of defaults by the underlying collateral securities. The Monte Carlo simulation allows the model to take into account the cash flow waterfall and to capture the benefits due to cash flow diversion within each CDO.

The BET model has certain limitations. A well known limitation of the BET model is that it can understate the expected losses for super senior tranches when default correlations are high. The model uses correlations implied from diversity scores which do not capture the tendency for correlations to increase as defaults increase. Recognizing this concern, AIG tested the sensitivity of the valuations to the diversity scores. The results of the testing demonstrated that the valuations are not very sensitive to the diversity scores because the expected losses generated from the prices of the collateral pool securities are currently high, breaching the attachment point in most transactions. Once the attachment point is breached by a sufficient amount, the diversity scores, and their implied correlations, are no longer a significant driver of the valuation of a super senior tranche.

The credit default swaps written by AIGFP generally cover the failure of payment on the super senior CDO security. AIGFP does not own the securities in the CDO collateral pool. The credit spreads implied from the market prices of the securities in the CDO collateral pool incorporate the risk of default (credit risk), the market s price for liquidity risk and in distressed markets, the risk aversion costs. Spreads on credit derivatives tend to be narrower than the credit spreads implied from the market prices of the securities in the CDO collateral pool because, unlike investing in a bond, there is no need to fund the position (except when an actual credit event occurs). In times of illiquidity, the difference between spreads on cash securities and derivative instruments (the negative basis) may be even wider for high quality assets. AIGFP was unable to reliably verify this negative basis with market observable inputs due to the accelerating severe dislocation, illiquidity and lack of trading in the asset-backed securities market during the fourth quarter of 2007 and the first quarter of 2008. The valuations produced by the BET model therefore represent the valuations of the underlying super senior CDO cash securities based on AIG s assumptions about those securities, albeit with no recognition of any potential favorable effect of the basis differential on that valuation. AIGFP also considered the valuation of the super senior CDO securities provided by third parties, including counterparties to these transactions, and made adjustments as necessary.

The most significant assumption used in developing the estimate is the pricing of the securities within the CDO collateral pools. These prices are used to derive default probabilities that are used in the BET model. If the actual pricing of the securities within the collateral pools differs from the pricing used in estimating the fair value of the super senior credit default swap portfolio, there is potential for material variation in the fair value estimate. A decrease by five points (for example, from 87 cents per dollar to 82 cents per dollar) in the aggregate price of the securities would cause an additional unrealized market valuation loss of approximately $3.9 billion, while an increase in the aggregate price of the securities by five points (for example, from 90 cents per dollar to 95 cents per dollar) would reduce the unrealized market valuation loss by approximately $3.7 billion. The effect on the unrealized market valuation loss is not directly proportional to the change in the aggregate price of the securities.

The following table presents other key inputs used in the valuation of the credit derivative portfolio written on the super senior securities issued by multi-sector CDOs, and the potential increase (decrease) to the unrealized market valuation loss at March 31, 2008 calculated using the BET model for changes in these key inputs. The adjustments to the key inputs incorporated in the sensitivity analysis below are based on management s judgment of reasonably possible ranges for these inputs:

(in millions)	Increase (Decrease) To Unrealized Market Valuation Loss
Weighted average lives	
Effect of an increase of 1 year	$ 375
Effect of a decrease of 1 year	(620)
Recovery rates	
Effect of an increase of 10%	(103)
Effect of a decrease of 10%	194
Diversity scores	
Effect of an increase of 5	(40)
Effect of a decrease of 5	15
Discount curve	
Effect of an increase of 100 basis points	70

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by AIG for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

In the case of credit default swaps written on investment grade corporate debt and CLOs, AIGFP estimates the value of its obligations by reference to the relevant market indices or third-party quotes on the underlying super senior tranches where available.

The following table represents the relevant market credit indices and index CDS maturity used in the valuation of the credit default swap portfolio written on investment-grade corporate debt and the increase (decrease) to the unrealized market valuation loss at March 31, 2008 corresponding to changes in these market credit indices and maturity:

(in millions)	Increase **(Decrease)** To Unrealized Market Valuation Loss		
CDS maturity (in years)	5	7	10
CDX Index			
Effect of an increase of 10 basis points	$ 26	$ 51	$ 5
Effect of a decrease of 10 basis points	(26)	(51)	(5)
iTraxx Index			
Effect of an increase of 10 basis points	11	37	13
Effect of a decrease of 10 basis points	(11)	(37)	(13)

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the indices and maturity will not exceed, perhaps significantly, the ranges assumed by AIG for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these indices and maturity can be interpolated or extrapolated from the results set forth above.

For additional information about AIG s super senior credit default swap portfolio, see Operating Review Capital Markets Results and Risk Management Credit Derivatives.

Other derivatives. Valuation models that incorporate unobservable inputs initially are calibrated to the transaction price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates, credit spreads, volatilities, etc.). Model inputs are changed only when corroborated by market data.

Valuation Controls

AIG is actively developing and implementing a remediation plan to address the material weakness in internal control relating to the fair value valuation of the AIGFP super senior credit default swap portfolio, and oversight thereof as described in Item 9A. of the 2007 Annual Report on Form 10-K. AIG is developing new systems and processes to reduce reliance on certain manual controls that have been established as compensating controls over valuation of this portfolio and in other areas, and is strengthening the resources required to remediate this weakness. Notwithstanding this need to continue strengthening these controls, AIG has an oversight structure that includes appropriate segregation of duties with respect to the valuation of its financial instruments. Senior management, independent of the trading and investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these controls and policies to AIG s Audit Committee. AIG employs procedures for the approval of new transaction types and markets, price verification, periodic review of profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant products and markets. These procedures are performed by personnel independent of the trading and investing functions. For valuations that require inputs with little or no market observability, AIG compares the results of its valuation models to actual subsequent transactions.

Operating Review

General Insurance Operations

AIG s General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad and constitute the AIG Property Casualty Group (formerly known as Domestic General Insurance) and the Foreign General Insurance Group.

AIG Property Casualty Group is comprised of Commercial Insurance, Transatlantic, Personal Lines and Mortgage Guarantee businesses.

Commercial Insurance writes substantially all classes of business insurance, accepting such business mainly from insurance brokers. This provides Commercial Insurance the opportunity to select specialized markets and retain underwriting control. Any licensed broker is able to submit business to Commercial Insurance without the traditional agent-company contractual relationship, but such broker usually has no authority to commit Commercial Insurance to accept a risk.

Transatlantic Holdings, Inc. (Transatlantic) subsidiaries offer reinsurance capacity on both a treaty and facultative basis both in the U.S. and abroad. Transatlantic structures programs for a full range of property and casualty products with an emphasis on specialty risk.

AIG s Personal Lines operations provide automobile insurance through aigdirect.com, the newly formed operation resulting from the 2007 combination of AIG Direct and 21st Century Insurance Group (21st Century) operations, and the Agency Auto Division, as well as a broad range of coverages for high net worth individuals through the AIG Private Client Group.

The main business of the subsidiaries of UGC is the issuance of residential mortgage guaranty insurance, both domestically and internationally, that covers the first loss for credit defaults on high loan-to-value conventional first-lien mortgages for the purchase or refinance of one to four family residences. UGC subsidiaries also write second-lien and private student loan guaranty insurance.

AIG s Foreign General Insurance Group writes both commercial and consumer lines of insurance which is primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance companies. The Foreign General Insurance Group also includes business written by AIG s foreign-based insurance subsidiaries.

General Insurance Results

General Insurance operating income is comprised of statutory underwriting profit (loss), changes in DAC, net investment income and net realized capital gains and losses. Operating income, as well as net premiums written, net premiums earned, net investment income and net realized capital gains (losses) and statutory ratios were as follows:

(in millions, except ratios)	Three Months Ended March 31, **2008**	2007	Percentage Increase/ (Decrease)
Net premiums written:			
AIG Property Casualty Group			
Commercial Insurance	**$ 5,113**	$ 6,009	(15)%
Transatlantic	**1,036**	984	5
Personal Lines	**1,288**	1,229	5
Mortgage Guaranty	**304**	266	14
Foreign General Insurance	**4,339**	3,618	20
Total	**$ 12,080**	$ 12,106	%
Net premiums earned:			
AIG Property Casualty Group			
Commercial Insurance	**$ 5,417**	$ 5,981	(9)%
Transatlantic	**1,017**	965	5
Personal Lines	**1,199**	1,155	4
Mortgage Guaranty	**256**	210	22
Foreign General Insurance	**3,468**	2,908	19
Total	**$ 11,357**	$ 11,219	1%
Net investment income:			
AIG Property Casualty Group			
Commercial Insurance	**$ 743**	$ 1,033	(28)%
Transatlantic	**117**	116	1
Personal Lines	**57**	57	
Mortgage Guaranty	**44**	37	19
Foreign General Insurance	**242**	319	(24)
Reclassifications and eliminations	**2**	1	100
Total	**$ 1,205**	$ 1,563	(23)%
Net realized capital gains (losses)	**$ (273)**	$ 121	%
Operating income (loss):			
AIG Property Casualty Group			
Commercial Insurance	**$ 785**	$ 1,929	(59)%

Transatlantic	**162**	151	7
Personal Lines	**3**	106	(97)
Mortgage Guaranty	**(354)**	8	
Foreign General Insurance	**736**	909	(19)
Reclassifications and eliminations	**5**	(7)	
Total	**$ 1,337**	$ 3,096	(57)%
Statutory underwriting profit (loss)[b]:			
AIG Property Casualty Group			
Commercial Insurance	**$ 218**	$ 784	(72)%
Transatlantic	**54**	16	238
Personal Lines	**(63)**	33	
Mortgage Guaranty	**(407)**	(42)	
Foreign General Insurance	**364**	402	(9)
Total	**$ 166**	$ 1,193	(86)%
AIG Property Casualty Group:			
Loss Ratio	**78.6**	68.9	
Expense Ratio	**24.3**	21.1	
Combined Ratio	**102.9**	90.0	
Foreign General Insurance:			
Loss Ratio	**51.8**	50.6	
Expense Ratio[a]	**30.2**	28.6	
Combined ratio	**82.0**	79.2	
Consolidated:			
Loss Ratio	**70.4**	64.2	
Expense Ratio	**26.4**	23.3	
Combined Ratio	**96.8**	87.5	

(a) Includes amortization of advertising costs.

(b) Statutory underwriting profit (loss) is a measure that U.S. domiciled insurance companies are required to report to their regulatory authorities. The following table reconciles statutory underwriting profit (loss) to operating income for General Insurance:

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(in millions)	Commercial Insurance	Transatlantic	Personal Lines	Mortgage Guaranty	Foreign General Insurance	Reclassifications and Eliminations	Total
Three Months Ended March 31, 2008:							
Statutory underwriting profit (loss)	**$ 218**	**$ 54**	**$ (63)**	**$ (407)**	**$ 364**	**$**	**$ 166**
Increase (decrease) in DAC	**(3)**	**6**	**13**	**11**	**212**		**239**
Net investment income	**743**	**117**	**57**	**44**	**242**	**2**	**1,205**
Net realized capital gains (losses)	**(173)**	**(15)**	**(4)**	**(2)**	**(82)**	**3**	**(273)**
Operating income (loss)	**$ 785**	**$ 162**	**$ 3**	**$ (354)**	**$ 736**	**$ 5**	**$ 1,337**
Three Months Ended March 31, 2007:							
Statutory underwriting profit (loss)	$ 784	$ 16	$ 33	$ (42)	$ 402	$	$ 1,193
Increase in DAC	35	4	15	12	153		219
Net investment income	1,033	116	57	37	319	1	1,563
Net realized capital gains (losses)	77	15	1	1	35	(8)	121
Operating income (loss)	$ 1,929	$ 151	$ 106	$ 8	$ 909	$ (7)	$ 3,096

AIG transacts business in most major foreign currencies. The effects of changes in foreign currency exchange rates on the growth of General Insurance net premiums written were as follows:

	Three Months Ended March 31,	
	2008	2007
Growth in original currency*	**(3.3)%**	6.2%
Foreign exchange effect	**3.1**	1.4

Growth as reported in U.S. dollars	**(0.2)%**	7.6%

** Computed using a constant exchange rate throughout each period.*

General Insurance operating income decreased in the first three months of 2008 compared to the same period in 2007 due to declines in both net investment income and underwriting profit as well as net realized capital losses in the first three months of 2008. The combined ratio for the three months ended March 31, 2008 increased to 96.8, an increase of 9.3 points compared to the same period in 2007, primarily due to an increase in the loss ratio of 6.2 points. The loss ratio for accident year 2008 recorded in the first three months of 2008 was 4.1 points higher than the loss ratio recorded in the first three months of 2007 for accident year 2007. The increase in the accident year loss ratio was due to an increase in Mortgage Guaranty losses as well as declining premium rates in most casualty lines of insurance due to competitive pressures. Increases in Mortgage Guaranty losses accounted for a 2.9 point increase in the 2008 accident year loss ratio. The downward cycle in the U.S. housing market is not expected to improve until residential inventories return to a more normal level, and AIG expects that this downward cycle will continue to adversely affect Mortgage Guaranty s loss ratios for the foreseeable future. Favorable development from prior years reduced incurred losses by $127 million and $131 million in the first three months of 2008 and 2007, respectively. The favorable development in 2008 includes $339 million of favorable development related to policies whose premiums vary with the level of losses incurred (loss sensitive policies). Loss sensitive policies did not have a significant effect in 2007. The favorable development on loss sensitive policies had no effect on underwriting profit as it was entirely offset by a reduction in earned premiums. However, this reduction in earned premiums reduced the loss ratio by 0.9 points compared to the same period in 2007. Other loss development for the first three months of 2008 increased incurred losses by $212 million, accounting for 3.0 points of the increase in the loss ratio compared to the same period of 2007. Additional favorable loss development in the first three months of 2008 and 2007, of $37 million and $17 million, respectively (recognized in consolidation and related to certain asbestos settlements), reduced overall incurred losses.

General Insurance net premiums written decreased in the first three months of 2008 compared to the same period in 2007, primarily due to a reduction of $339 million in Commercial Insurance loss sensitive policies and declines in Commercial Insurance workers compensation premiums due to reductions in statutory rates and increased competition. The decline in Commercial Insurance was partially offset by growth in Foreign General Insurance from both established and new distribution channels, and the effect of changes in foreign currency exchange rates as well as growth in Mortgage Guaranty, primarily the domestic first-lien business.

General Insurance net investment income declined in the first three months of 2008 by $358 million compared to the same period in 2007. Interest and dividend income increased $109 million in the first three months of 2008 compared to the same period in 2007 as fixed maturities and equity securities increased by $8.8 billion and the average yield was substantially unchanged for both periods. Income from partnership and mutual fund investments declined $524 million in the first three months of 2008 compared to the same period in 2007, primarily due to poor performance in the equity markets in 2008. Investment expenses in the first three months of 2008 declined $50 million compared to the same period in 2007, primarily due to decreased interest expense on deposit liabilities. Net realized capital losses in the first three months of 2008 include other-than-temporary impairment charges of $155 million compared to $46 million in the same period of 2007. See also Capital Resources and Liquidity and Invested Assets herein.

Commercial Insurance Results

Commercial Insurance s operating income decreased in the first three months of 2008 compared to the same period in 2007 primarily due to declines in both net investment income and underwriting profit. The decline is also reflected in the combined ratio, which increased 10.5 points in the first three months of 2008 compared to the same period in 2007. The loss ratio for accident year 2008, including 1.4 points related to Atlanta catastrophe tornado losses, recorded in the first three months of 2008 was 3.8 points higher than the loss ratio recorded in the first three months of 2007 for accident year 2007. Prior year development reduced incurred losses by $217 million in the first three months of 2008 compared to $87 million in the first three months of 2007. The favorable development for 2008 includes $339 million of favorable development related to loss sensitive polices. The favorable development on loss sensitive policies had no effect on underwriting profit as it was entirely offset by a reduction in earned premiums. However, given the reduction in earned premiums, there was a reduction in the loss ratio of 1.6 points compared to the same period of 2007 related to loss sensitive policies. Other loss development for the first three months of 2008 increased incurred losses by $122 million, accounting for 3.6 points of the increase in the loss ratio compared to the same period of 2007.

Commercial Insurance s net premiums written declined in the first three months of 2008 compared to the same period in 2007 primarily due to declines in workers compensation premiums and the effect of the loss sensitive policies described above.

Commercial Insurance s expense ratio increased to 23.9 in the first three months of 2008 compared to 19.2 in the same period of 2007. Return premiums on loss sensitive policies reduced net premiums written, without a corresponding reduction in expenses, increasing the expense ratio by 1.4 points for the first three months of 2008 compared to the same period in 2007. The ratio of general expenses to current period net premiums written increased 1.9 points in the first three months of 2008 compared to the same period in 2007 as Commercial Insurance continued to invest in systems and process improvements to enhance operating efficiency over the long term. The ratio of net acquisition expenses to current period net premiums written increased 1.0 points in the first three months of 2008 compared to the same period in 2007 due to higher commissions to brokers and a reduction in ceding commissions resulting from increased retention of business.

Commercial Insurance s net investment income declined in the first three months of 2008 compared to the same period in 2007, as income from partnership and mutual fund investments decreased $409 million in the first three months of 2008 compared to the same period in 2007, primarily due to poor performance in the equity markets in 2008. This decrease was partially offset by an increase in interest income of $40 million in the first three months of 2008, due to growth in the bond portfolio resulting from investment of operating cash flows. Commercial Insurance recorded net realized capital losses in the first three months of 2008 compared to net realized capital gains in the same period of 2007 primarily due to other-than-temporary impairment charges of $144 million in the first three months of 2008, primarily related to equity securities, compared to $36 million in the first three months of 2007.

Transatlantic Results

Transatlantic s net premiums written increased in the first three months of 2008 compared to the same period in 2007 due to growth in domestic operations and changes in foreign exchange rates. The increase in statutory underwriting profit in the first three months of 2008 compared to the same period in 2007 reflects improved underwriting results in international operations. The 2007 international underwriting results were adversely affected by European windstorm losses. Operating income increased in the first three months of 2008 compared to the same period in 2007 primarily due to improved underwriting results, partially offset by net realized capital losses in 2008 compared to net realized capital gains in 2007.

Personal Lines Results

Personal Lines operating income decreased $103 million in the first three months of 2008 compared to the same period in 2007 due to a deterioration in underwriting performance as reflected by the combined ratio, which increased to 103.4 in the first three months of 2008 compared to 95.5 in the same period in 2007. The loss ratio increased 8.5 points, including an increase in the 2008 accident year loss ratio of 3.0 points, due primarily to increased frequency of homeowner claims in the Private Client Group and declining rates for automobile policies. Prior year development increased incurred losses by $36 million in the first three months of 2008 compared to a reduction of $29 million in the same period in 2007, accounting for 5.5 points of the increase in the loss ratio.

The expense ratio decreased 0.6 points in the first three months of 2008 compared to the same period in 2007, primarily due to expense savings following the integration of the 21st Century operations.

Net premiums written increased in the first three months of 2008 compared to the same period in 2007 primarily due to continued growth in the Private Client Group, and an increase in aigdirect.com, partially offset by a reduction from the Agency Auto business.

Mortgage Guaranty Results

Mortgage Guaranty s operating loss in the first three months of 2008 was $354 million compared to operating income of $8 million in the first three months of 2007 as the deteriorating U.S. residential housing market adversely affected losses incurred for both the domestic first- and second-lien businesses. Domestic first- and second-lien losses incurred increased 363 percent and 123 percent respectively, compared to the first three months of 2007, resulting in loss ratios of 203.6 and 442.4, respectively, in the first three months of 2008. Increases in domestic losses incurred resulted in an overall loss ratio of 235.6 in the first three months of 2008 compared to 92.2 in the first three months of 2007. Prior year development increased incurred losses by $68 million and $31 million for the first three months of 2008 and 2007, respectively, accounting for 12.0 points of the increase in the 2008 loss ratio.

Net premiums written increased in the first three months of 2008 compared to the same period in 2007 primarily due to growth in domestic first-lien premiums due to the increased use of mortgage insurance for credit enhancement as well as better persistency. UGC has taken steps to strengthen its underwriting guidelines and increase rates. It also discontinued new production for certain programs in the second-lien business beginning in the fourth quarter of 2006. However, UGC will continue to receive renewal premiums on that portfolio for the life of the loans, estimated to be three to five years, and will continue to be exposed to losses from future defaults.

The expense ratio in the first three months of 2008 was 19.8, down from 21.7 in the same period of 2007 as premium growth offset the effect of increased expenses related to UGC s international expansion and the employment of additional operational resources in the second-lien business.

UGC domestic mortgage risk in force totaled $31.5 billion as of March 31, 2008 and the 60-day delinquency ratio was 4.0 percent (based on number of policies, consistent with mortgage industry practice) compared to domestic mortgage risk in force of $25.4 billion and a delinquency ratio of 2.1 percent at March 31, 2007. Approximately 82 percent of the domestic mortgage risk is secured by first-lien, owner-occupied properties.

Foreign General Insurance Results

Foreign General Insurance operating income decreased in the first three months of 2008 compared to the same period in 2007, due primarily to decreases in net investment income and net realized capital losses in the first three months of 2008.

Net premiums written increased 20 percent (11 percent in original currency) in the first three months of 2008 compared to the same period in 2007, reflecting strong growth in commercial and consumer lines driven by new business from both established and new distribution channels, including the late 2007 acquisition of Württembergische und Badische Versicherungs AG (WüBa) in Germany. Net premiums written for commercial lines increased due to new business in the U.K. and Europe and decreases in the use of reinsurance, partially offset by declines in premium rates. Growth in personal accident business in Latin America, Asia and Europe also contributed to the increase. Net premiums written for the Lloyd s syndicate Ascot and aviation continued to decline due to rate decreases and increased market competition. Auto production declined due to increased price competition and underwriting actions taken to improve profitability.

The loss ratio in the first three months 2008 increased 1.2 points compared to the same period in 2007. The increase is due to favorable loss development on prior accident years of $17 million in the first three months of 2008 compared to $64 million in the first three months of 2007, higher severe but non-catastrophic losses and higher losses in aviation. Partially offsetting these increases was an improvement in the personal accident loss ratio, particularly in Asia.

The expense ratio in the first three months of 2008 increased 1.6 points compared to the same period in 2007. This increase reflects the cost of realigning certain legal entities through which Foreign General Insurance operates, the acquisition of WüBa and the increased significance of consumer lines of business, which have higher acquisition costs. These factors contributed 0.8 points to the expense ratio in the first three months of 2008. AIG expects the expense ratio to continue to increase in 2008 due to the cost of realigning certain legal entities through which Foreign General Insurance operates.

Net investment income decreased in the first three months of 2008 compared to the same period in 2007. Mutual fund income was $105 million lower than the first three months of 2007 reflecting weak performance in the equity markets in 2008, partially offset by higher interest income of $34 million.

Reserve for Losses and Loss Expenses

The following table presents the components of the General Insurance gross reserve for losses and loss expenses (loss reserves) by major lines of business on a statutory Annual Statement basis*:

(in millions)	**March 31, 2008**	December 31, 2007
Other liability occurrence	**$ 20,635**	$ 20,580
Workers compensation	**15,080**	15,568
Other liability claims made	**13,709**	13,878
International	**8,348**	7,036
Auto liability	**6,157**	6,068
Property	**4,431**	4,274
Reinsurance	**3,234**	3,127
Products liability	**2,417**	2,416
Medical malpractice	**2,301**	2,361
Mortgage guaranty/ credit	**1,832**	1,426
Accident and health	**1,815**	1,818
Commercial multiple peril	**1,796**	1,900
Aircraft	**1,731**	1,623
Fidelity/surety	**1,201**	1,222
Other	**2,173**	2,203
Total	**$ 86,860**	$ 85,500

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

AIG s gross reserve for losses and loss expenses represents the accumulation of estimates of ultimate losses, including estimates for incurred but not yet reported reserves (IBNR) and loss expenses. The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated by management. Any adjustments resulting therefrom are reflected in operating income currently. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

Estimates for mortgage guaranty insurance losses and loss adjustment expense reserves are based on notices of mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. Mortgage Guaranty establishes reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon past experience regarding certain loan factors such as age of the delinquency, dollar amount of the loan and type of mortgage loan. Because mortgage delinquencies and claims payments are affected primarily by macroeconomic events, such as changes in home price appreciation, interest rates and unemployment, the determination of the ultimate loss cost requires a high degree of judgment. AIG believes it has provided appropriate reserves for currently delinquent loans. Consistent with industry practice, AIG does not establish a reserve for insured loans that are not currently delinquent, but that may become delinquent in future periods.

At March 31, 2008, General Insurance net loss reserves increased $1.22 billion from the prior year-end to $70.51 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance and applicable discount for future investment income.

The following table classifies the components of the General Insurance net loss reserve by business unit:

(in millions)	**March 31, 2008**	December 31, 2007
Commercial Insurance[(a)]	**$47,751**	$47,392
Transatlantic	**7,136**	6,900
Personal Lines[(b)]	**2,409**	2,417
Mortgage Guaranty	**1,598**	1,339
Foreign General Insurance[(c)]	**11,613**	11,240
Total Net Loss Reserve	**$70,507**	$69,288

(a) At March 31, 2008 and December 31, 2007, respectively, Commercial Insurance loss reserves include approximately $2.99 billion and $3.13 billion ($3.19 billion and $3.34 billion, respectively, before discount), related to business written by Commercial Insurance but ceded to American International Reinsurance Company Limited (AIRCO) and reported in AIRCO s statutory filings. Commercial Insurance loss reserves also include approximately $624 million and $590 million related to business included in AIUO s statutory filings at March 31, 2008 and December 31, 2007, respectively.

(b) At March 31, 2008 and December 31, 2007, respectively, Personal Lines loss reserves include $971 million and $894 million related to business ceded to Commercial Insurance and reported in Commercial Insurance s statutory filings.

(c) At March 31, 2008 and December 31, 2007, respectively, Foreign General Insurance loss reserves include approximately $1.97 billion and $3.02 billion related to business reported in Commercial Insurance s statutory filings.

The Commercial Insurance net loss reserve of $47.8 billion is comprised principally of the business of AIG subsidiaries participating in the American Home Assurance Company (American Home)/ National Union Fire Insurance Company of Pittsburgh, Pa. (National Union) pool (10 companies) and the surplus lines pool (Lexington Insurance Company, AIG Excess Liability Insurance Company and Landmark Insurance Company).

Commercial Insurance cedes a quota share percentage of its other liability occurrence and products liability occurrence business to AIRCO. The quota share percentage ceded was 10 percent in the first three months of 2008 and 15 percent in 2007 and covered all business written in these years for these lines by participants in the American Home/ National Union pool. AIRCO s loss reserves relating to these quota share cessions from Commercial Insurance are recorded on a discounted basis. As of March 31, 2008, AIRCO carried a discount of approximately $200 million applicable to the $3.19 billion in undiscounted reserves it assumed from the

American Home/ National Union pool via this quota share cession. AIRCO also carries approximately $537 million in net loss reserves relating to Foreign General Insurance business. These reserves are carried on an undiscounted basis.

The companies participating in the American Home/ National Union pool have maintained a participation in the business written by AIU for decades. As of March 31, 2008, these AIU reserves carried by participants in the American Home/ National Union pool totaled approximately $1.97 billion. The remaining Foreign General Insurance reserves are carried by American International Underwriter Overseas, Ltd. (AIUO), AIRCO, AIG U.K., and other smaller AIG subsidiaries domiciled outside the United States. Statutory filings in the United States by AIG companies reflect all the business written by U.S. domiciled entities only, and therefore exclude business written by AIUO, AIRCO, and all other internationally domiciled subsidiaries. The total reserves carried at March 31, 2008 by AIUO and AIRCO were approximately $3.41 billion and $3.53 billion, respectively. AIRCO s $3.53 billion in total general insurance reserves consist of approximately $2.99 billion from business assumed from the American Home/ National Union pool and an additional $537 million relating to Foreign General Insurance business.

Discounting of Reserves

At March 31, 2008, AIG s overall General Insurance net loss reserves reflect a loss reserve discount of $2.43 billion, including tabular and non-tabular calculations. The tabular workers compensation discount is calculated using a 3.5 percent interest rate and the 1979-81 Decennial Mortality Table. The non-tabular workers compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the yield of U.S. Treasury securities ranging from one to twenty years and the company s own payout pattern, with the future expected payment for each year using the interest rate associated with the corresponding Treasury security yield for that time period. The discount is comprised of the following: $794 million tabular discount for workers compensation in Commercial Insurance; $1.44 billion non-tabular discount for workers compensation in Commercial Insurance; and $200 million non-tabular discount for other liability occurrence and products liability occurrence in AIRCO. The total undiscounted workers compensation loss reserve carried by Commercial Insurance is approximately $13.3 billion as of March 31, 2008. The other liability occurrence and products liability occurrence business in AIRCO that is assumed from Commercial Insurance is discounted based on the yield of U.S. Treasury securities ranging from one to twenty years and the Commercial Insurance payout pattern for this business. The undiscounted reserves assumed by AIRCO from Commercial Insurance totaled approximately $3.19 billion at March 31, 2008.

Quarterly Reserving Process

Management believes that the General Insurance net loss reserves are adequate to cover General Insurance net losses and loss expenses as of March 31, 2008. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG s ultimate loss reserves will not develop adversely and materially exceed AIG s loss reserves as of March 31, 2008. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG s consolidated financial condition, although it could have a material adverse effect on AIG s consolidated results of operations for an individual reporting period.

The reconciliation of net loss reserves was as follows:

	Three Months Ended March 31,	
(in millions)	**2008**	2007
Net reserve for losses and loss expenses at beginning of year	**$ 69,288**	$ 62,630
Foreign exchange effect	**70**	(38)

Losses and loss expenses incurred:		
Current year	**8,021**	7,215
Prior years, other than accretion of discount	**(164)**	(148)
Prior years, accretion of discount	**104**	116
Losses and loss expenses incurred	**7,961**	7,183
Losses and loss expenses paid	**6,812**	5,741
Net reserve for losses and loss expenses at end of period	**$ 70,507**	$ 64,034

The following tables summarize development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years (other than accretion of discount):

	Three Months Ended March 31,	
(in millions)	**2008**	2007
Prior Accident Year Development by Reporting Unit:		
Commercial Insurance	**$ (217)**	$ (87)
Personal Lines	**36**	(29)
Mortgage Guaranty	**68**	31
Foreign General Insurance	**(17)**	(64)
Subtotal	**(130)**	(149)
Transatlantic	**3**	18
Asbestos settlements*	**(37)**	(17)
Prior years, other than accretion of discount	**$ (164)**	$ (148)

**Amounts for 2007 have been conformed to the 2008 presentation.*

	Calendar Year	
(in millions)	**2008**	2007
Prior Accident Year Development by Accident Year:		
2007	**$ (35)**	
2006	**(178)**	$ (178)
2005	**(204)**	(31)
2004	**(131)**	(47)
2003	**(24)**	(9)
2002	**6**	18
2001 & prior	**402**	99
Prior years, other than accretion of discount	**$ (164)**	$ (148)

In determining the quarterly loss development from prior accident years, AIG conducts analyses to determine the change in estimated ultimate loss for each accident year for each profit center. For example, if loss emergence for a profit center is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that profit center. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the profit center s reserves for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable, than the difference between the actual and expected loss emergence. Such additional analyses were conducted for each profit center, as appropriate, in the first three months of 2008 to determine the loss development from prior accident years for the first three months of 2008. As part of its quarterly reserving process, AIG also considers notices of claims received with respect to emerging issues, such as those related to the U.S. mortgage and housing market.

2008 Net Loss Development

In the first three months of 2008, net loss development from prior accident years was favorable by approximately $164 million, including approximately $339 million of favorable development relating to loss sensitive business (which was offset by an equal amount of negative earned premium development), and excluding approximately $104 million from accretion of loss reserve discount. Excluding both the favorable development relating to loss sensitive business and accretion of loss reserve discount, net loss development from prior accident years in the first three months of 2008 was adverse by approximately $175 million. The overall favorable development of $164 million consisted of approximately $572 million of favorable development from accident years 2003 through 2007 partially offset by approximately $408 million of adverse loss development from accident years 2002 and prior. Excluding the favorable development from loss sensitive business, the overall adverse development of $175 million consisted of approximately $269 million of favorable development from accident years 2003 through 2007 offset by approximately $444 million of adverse development from accident years 2002 and prior. The adverse development from accident years 2002 and prior was primarily related to excess casualty business within Commercial Insurance for the 2000 and prior accident years. The favorable development from accident years 2003 through 2007 included approximately $300 million in favorable development from loss sensitive business written by AIG Risk Management, and approximately $160 million in favorable development from business written by Lexington Insurance Company, including Healthcare, AIG CAT Excess, Casualty and Program business. AIG Executive Liability business contributed approximately $50 million to the favorable development from accident years 2004 and 2005, relating primarily to D&O. Accident year 2007 produced overall favorable development of approximately $35 million, which included approximately $76 million of adverse development from Mortgage Guaranty and $18 million of adverse development from Personal Lines, offset by favorable development from most classes of business in Commercial Insurance and from Transatlantic.

2007 Net Loss Development

In the first three months of 2007, net loss development from prior accident years was favorable by approximately $148 million, including approximately $36 million of adverse development pertaining to the major hurricanes in 2004 and 2005; and $18 million of adverse development from the general reinsurance operations of Transatlantic; and excluding approximately $116 million from accretion of loss reserve discount. Excluding catastrophes and Transatlantic, as well as accretion of discount, net loss development in the first three months of 2007 from prior accident years was favorable by approximately $202 million. The overall favorable development of $148 million consisted of approximately $265 million of favorable development from accident years 2003 through 2006, partially offset by approximately $117 million of adverse development from accident years 2002 and prior. For the first three months of 2007, most classes of AIG s business continued to experience favorable development for accident years 2003 through 2006. The adverse development from accident years 2002 and prior reflected development from excess casualty within Commercial Insurance and from Transatlantic.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in the 2007 Annual Report on Form 10-K, AIG s reserves relating to asbestos and environmental claims reflect a comprehensive ground-up analysis. In the first three months of 2008, AIG maintained the ultimate loss estimates for asbestos and environmental claims resulting from the recently completed reserve analyses. A relatively minor amount of favorable incurred loss development pertaining to asbestos was reflected in the first three months of 2008, as presented in the table that follows. This development was primarily attributable to one large settlement.

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined appears in the following table. The vast majority of such claims arise from policies written in 1984 and prior years. The current environmental policies that AIG underwrites on a claims-made basis have been excluded from the following table.

	Three Months Ended March 31,	
	2008	2007

13,206,358

State — 5.6%	
California State, GO, 6.25%, 10/01/19 (a)	
	860
	862,494
California State, GO, Refunding, Veterans, AMT, Series B, 5.70%, 12/01/32 (b)	
	19,865
	17,730,307

California State Public Works Board, Lease Revenue Bonds (Various University Projects), Series D, 5%, 5/01/26 (a)

6,010

5,968,351

24,561,152

Transportation — 13.6%

Port of Oakland, California, Revenue Bonds, AMT, Series K (a)(f):

5.875%, 11/01/17	2,745	2,765,807
5.75%, 11/01/29		

	7,500
	6,737,475
Port of Oakland, California, Revenue Refunding Bonds, AMT, Series L, 5.375%, 11/01/27 (a)(f)	
	19,040
	16,132,973
San Diego, California, Unified Port District, Revenue Refunding Bonds, AMT, Series A, 5.25%, 9/01/19 (a)	
	5,400
	5,281,038
San Francisco, California, Bay Area Rapid Transit District, Sales Tax Revenue Refunding Bonds, Series A, 5%, 7/01/34 (a)	
	10,500

	10,076,535
San Francisco, California, City and County Airport Commission, International Airport Revenue Refunding Bonds, AMT, Second Series:	
6.75%, 5/01/19	
	4,420
	4,614,392
Issue 34E, 5.75%, 5/01/24 (e)	
	5,000
	4,808,150

Issue 34E, 5.75%, 5/01/25 (e)	3,500	3,332,875
San Francisco, California, City and County Airport Commission, International Airport, Special Facilities Lease Revenue Bonds (SFO Fuel Company LLC), AMT, Series A (e):		
6.10%, 1/01/20	1,000	1,006,040
6.125%, 1/01/27		

985

960,188

San Jose, California, Airport Revenue Bonds, Series D, 5%, 3/01/28 (a)

4,135

3,967,822

59,683,295

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield California Insured Fund, Inc. (MCA)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
California (continued)				
Utilities — Electric & Gas — 3.2%				
Glendale, California, Electric Revenue Bonds, 5%, 2/01/32 (a)	$	4,390	$	4,061,804
Los Angeles, California, Water and Power Revenue Bonds (Power System), Sub-Series A-1, 5%, 7/01/37 (b)		5,000		4,787,850
Santa Clara, California, Subordinated Electric Revenue Bonds, Series A, 5%, 7/01/28 (a)		5,500		5,275,435
				14,125,089
Utilities — Irrigation, Resource Recovery, Solid Waste & Other — 0.9%				
Sacramento, California, Municipal Utility District Financing Authority Revenue Bonds (Consumers Project), 5%, 7/01/21 (a)		4,500		4,080,330
Utilities — Water & Sewer — 19.7%				
Contra Costa, California, Water District, Water Revenue Refunding Bonds:				
Series L, 5%, 10/01/32 (e)		4,135		4,033,858
Series O, 5%, 10/01/24 (b)		1,735		1,787,171
East Bay, California, Municipal Utility District, Wastewater System Revenue Refunding Bonds, Sub-Series A (b):				
5%, 6/01/33		4,000		3,889,960
5%, 6/01/37		7,985		7,703,129
East Bay, California, Municipal Utility District, Water System Revenue Refunding Bonds, Series A, 5%, 6/01/37 (f)		6,000		5,754,060
East Bay Municipal Utility District, California, Water System Revenue Bonds, Sub-Series A, 5%, 6/01/35 (a)		15,000		14,529,450
El Centro, California, Financing Authority, Water Revenue Bonds, Series A, 5.25%, 10/01/35 (e)		1,100		949,091
Hollister, California, Joint Powers Finance Authority, Wastewater Revenue Refunding Bonds (Refining and Improvement Project), Series 1 (e):				
5%, 6/01/32		5,000		4,539,050
5%, 6/01/37		6,000		5,320,500
Madera, California, Public Financing Authority, Water and Wastewater Revenue Refunding Bonds, 5%, 3/01/36 (a)		2,010		1,814,367
Metropolitan Water District of Southern California, Waterworks Revenue Bonds, Series B-1, 5%, 10/01/33 (a)(f)		7,175		7,044,774
Napa, California, Water Revenue Bonds, 5%, 5/01/35 (b)		9,070		8,502,853
Oakland, California, Sewer Revenue Bonds, Series A, 5%, 6/15/29 (e)		4,270		4,121,618
Oxnard, California, Financing Authority, Wastewater Revenue Bonds (Redwood Trunk Sewer and Headworks Projects), Series A, 5.25%, 6/01/34 (a)(f)		10,000		9,438,100

Municipal Bonds	Par (000)	Value

California (continued)		
Utilities — Water & Sewer (concluded)		
Stockton, California, Public Financing Authority, Water Revenue Bonds (Water System Capital Improvement Projects), Series A, 5%, 10/01/31 (a)	$ 2,600	$ 2,422,967
Turlock, California, Public Finance Authority, Sewer Revenue Bonds, Series A, 5%, 9/15/33 (a)(e)	3,000	2,783,520
Vallecitos Water District and Wastewater Enterprise, California, COP, Refunding, Series A, 5%, 7/01/27 (e)	2,000	2,004,000
		86,638,468
Total Municipal Bonds — 117.3%		515,628,341

Municipal Bonds Transferred to Tender Option Bond Trusts (k)		
County/City/Special District/ School District — 5.4%		
Metropolitan Water District of Southern California, Waterworks Revenue Bonds, Series A, 5%, 7/01/37	15,000	14,709,300
Palomar Pomerado Health Care District, California, GO (Election of 2004), Series A, 5.125%, 8/01/37 (a)	9,300	9,129,066
		23,838,366
Education — 5.7%		
California State University, Systemwide Revenue Bonds, Series A, 5%, 11/01/39 (e)	4,860	4,583,417
Fremont, California, Unified School District, Alameda County, GO (Election of 2002), Series B, 5%, 8/01/30 (e)	5,997	5,865,540
Los Angeles, California, Community College District, GO (Election of 2003), Series E, 5%, 8/01/31 (e)	7,497	7,290,088
University of California Revenue Bonds, Series L, 5%, 5/15/40	7,398	7,016,876
		24,755,921
Transportation — 7.5%		
Long Beach, California, Harbor Revenue Bonds, AMT, Series A, 5.375%, 5/15/24	15,150	13,985,571
San Francisco, California, Bay Area Rapid Transit District, Sales Tax Revenue Refunding Bonds, Series A, 5%, 7/01/30 (a)	19,630	19,150,243
		33,135,814

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield California Insured Fund, Inc. (MCA)
(Percentages shown are based on Net Assets)

Municipal Bonds Transferred to Tender Option Bond Trusts (k)	Par (000)	Value
California (concluded)		
Utilities — Electric & Gas — 0.8%		
Anaheim, California, Public Financing Authority, Electric System Distribution Facilities Revenue Bonds, Series A, 5%, 10/01/31 (e)	$ 3,568	$ 3,418,448
Utilities — Water & Sewer — 12.4%		
Los Angeles, California, Department of Water and Power, Power System Revenue Refunding Bonds, Series A, Sub-Series A-2, 5%, 7/01/27 (a)	16,000	15,549,120
Los Angeles, California, Water and Power Revenue Bonds (Power System), Sub-Series A-1, 5%, 7/01/31 (e)	5,007	4,836,955
Rancho, California, Water District Financing Authority, Revenue Refunding Bonds, Series A, 5%, 8/01/34 (e)	9,277	8,975,430
San Diego County, California, Water Authority, Water Revenue Bonds, COP, Series A (e):		
5%, 5/01/30	7,350	7,189,403
5%, 5/01/31	10,000	9,711,600
San Diego County, California, Water Authority, Water Revenue Refunding Bonds, COP, Series A, 5%, 5/01/33 (e)	8,510	8,208,065
		54,470,573
Total Municipal Bonds Transferred to Tender Option Bond Trusts — 31.8%		139,619,122
Total Long-Term Investments (Cost — $701,175,204) — 149.1%		655,247,463

Short-Term Securities	Par (000)	Value
California — 5.7%		
Utilities — Water & Sewer — 2.3%		
East Bay Municipal Utility District, California, Water System Revenue Refunding Bonds, VRDN, Sub-Series B, 1.25%, 2/04/09 (e)(l)	10,000	10,000,000
Transportation — 3.4%		
Los Angeles County, California, Metropolitan Transportation Authority, Sales Tax Revenue Refunding Bonds, Proposition C, VRDN, Second Senior Series A, 6%, 2/05/09 (a)(l)	15,000	15,000,000

	Shares	

Money Market Fund — 6.8%		
CMA California Municipal Money Fund, 0.18% (m)(n)	29,933,000	29,933,000
Total Short-Term Securities (Cost — $54,933,000) — 12.5%		54,933,000
Total Investments (Cost — $756,108,204*) — 161.6%		710,180,463
Liabilities in Excess of Other Assets — (0.2)%		(724,290)
Liability for Trust Certificates, Including Interest Expense and Fees Payable — (17.6)%		(77,649,638)
Preferred Shares, at Redemption Value — (43.8)%		(192,327,876)
Net Assets Applicable to Common Shares — 100.0%		$ 439,478,659

* The cost and unrealized appreciation (depreciation) of investments as of January 31, 2009, as computed for federal income tax purposes, were as follows:

Aggregate cost	$ 678,735,234
Gross unrealized appreciation	$ 1,602,961
Gross unrealized depreciation	(47,327,555)
Net unrealized depreciation	$ (45,724,594)

(a) MBIA Insured.

(b) AMBAC Insured.

(c) Represents a zero-coupon bond. Rate shown is the effective yield at the time of purchase.

(d) Assured Guaranty Insured.

(e) FSA Insured.

(f) FGIC Insured.

(g) FNMA Collateralized.

(h) GNMA Collateralized.

(i) BHAC Insured.

(j) FHLMC Collateralized.

(k) Securities represent bonds transferred to a tender option bond trust in exchange for which the Fund acquired residual interest certificates. These securities serve as collateral in a financing transaction. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

(l) Security may have a maturity of more than one year at time of issuance, but has variable rate and demand features that qualify it as a short-term security. Rate shown is as of report date. This rate changes periodically based upon prevailing market rates.

(m) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	**Net Activity**	**Income**
CMA California Municipal Money Fund	29,726,747	$ 127,654

(n) Represents the current yield as of report date.

See Notes to Financial Statements.

- Effective August 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the fair value of investments, which are as follows:

  - Level 1 — price quotations in active markets/exchanges for identical securities

  - Level 2 — other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

  - Level 3 — unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the Fund’s own assumption used in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Fund’s policy regarding valuation of investments and other significant accounting policies, please refer to Note 1 of the Notes to Financial Statements.

The following table summarizes the inputs used as of January 31, 2009 in determining the fair valuation of the Fund’s investments:

Valuation Inputs	**Investments in Securities**
	Assets
Level 1	$ 29,933,000
Level 2	680,247,463
Level 3	—
Total	$ 710,180,463

See Notes to Financial Statements.

Schedule of Investments January 31, 2009 (Unaudited)

BlackRock MuniYield Insured Fund, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
Alabama — 0.8%				
Alabama Special Care Facilities Financing Authority of Mobile, Revenue Refunding Bonds (Ascension Health Credit), Series D, 5%, 11/15/39 (a)	$	6,810	$	5,799,328
Alaska — 0.6%				
Alaska Energy Authority, Power Revenue Refunding Bonds (Bradley Lake), Fourth Series, 6%, 7/01/18 (b)		3,495		4,215,809
Arizona — 3.1%				
Downtown Phoenix Hotel Corporation, Arizona, Revenue Bonds, Senior Series A, 5%, 7/01/36 (c)		21,355		13,302,670
Maricopa County and Phoenix, Arizona, IDA, S/F Mortgage Revenue Bonds, AMT, Series A-2, 5.80%, 7/01/40 (d)(e)(f)		5,470		5,402,063
Salt River Project, Arizona, Agriculture Improvement and Power District, Electric System Revenue Bonds, Series A, 5%, 1/01/37		5,000		4,874,900
				23,579,633
California — 14.3%				
Alameda Corridor Transportation Authority, California, Capital Appreciation Revenue Refunding Bonds, Subordinate Lien, Series A, 5.40%, 10/01/24 (g)(h)		10,000		7,973,600
Antioch, California, Public Finance Authority, Lease Revenue Refunding Bonds (Municipal Facilities Project), Series A, 5.50%, 1/01/32 (a)		5,000		5,002,450
California Statewide Communities Development Authority Revenue Bonds (b):				
(Saint Joseph Home Care), Series E, 5.25%, 7/01/47		11,800		10,395,446
(Sutter Health), Series D, 5.05%, 8/15/38		7,400		6,469,228
California State, GO, 5.50%, 4/01/30 (a)		10		9,962
California State Public Works Board, Lease Revenue Bonds (Department of Corrections), Series C, 5.25%, 6/01/28		5,500		5,108,400
California State University, Revenue Refunding Bonds, DRIVERS, Series 2646Z, 8.819%, 5/01/15 (b)(i)		3		2,273
Fairfield-Suisun, California, Unified School District, GO (Election of 2002), 5.50%, 8/01/28 (a)		5,800		5,882,360
Los Angeles, California, Municipal Improvement Corporation, Lease Revenue Bonds, Series B1, 4.75%, 8/01/37 (a)(c)		15,000		12,984,900

Mendocino-Lake Community College District, California, GO (Election of 2006), Series A, 5%, 8/01/31 (a)		1,485		1,384,376
Port of Oakland, California, Revenue Refunding Bonds, AMT, Series L, 5.375%, 11/01/27 (a)(c)		8,465		7,172,564
Redding, California, Electric System, COP, Series A, 5%, 6/01/30 (b)		1,900		1,758,944
Riverside County, California, Public Financing Authority, Tax Allocation Revenue Bonds (Redevelopment Projects), 5%, 10/01/35 (j)		10,000		7,434,900

Municipal Bonds		**Par (000)**		**Value**
California (concluded)				
Sacramento County, California, Airport System Revenue Bonds, AMT, Senior Series A, 5%, 7/01/41 (b)	$	18,000	$	16,772,940
San Jose, California, Airport Revenue Refunding Bonds, AMT, Series A, 5.50%, 3/01/32 (h)		11,965		10,189,992
San Mateo, California, Union High School District, COP (Phase One Projects), Series B, 4.758%, 12/15/43 (g)(h)		3,250		1,482,293
Stockton, California, Public Financing Authority, Lease Revenue Bonds (Parking & Capital Projects), 5.25%, 9/01/34 (a)(c)		8,310		7,361,330
				107,385,958
Colorado — 0.8%				
Colorado Health Facilities Authority, Revenue Refunding Bonds (Poudre Valley Health Care), Series C, 5.25%, 3/01/40 (b)		7,000		5,996,690
District of Columbia — 1.7%				
District of Columbia, Water and Sewer Authority, Public Utility Revenue Refunding Bonds, Senior Lien, Series A, 6%, 10/01/35 (v)		4,280		4,477,650
Metropolitan Washington Airports Authority, D.C., Airport System Revenue Bonds, AMT, Series B, 5%, 10/01/32 (h)		10,000		8,035,200
				12,512,850
Florida — 12.2%				
Broward County, Florida, School Board, COP, Series A, 5.25%, 7/01/33 (b)		15,000		14,171,850
Miami-Dade County, Florida, Aviation Revenue Refunding Bonds, DRIVERS, AMT, Series 2586Z, 7.992%, 10/01/15 (i)(j)(k)		37		22,269
Miami-Dade County, Florida, Aviation Revenue Refunding Bonds (Miami International Airport), AMT:				
5.375%, 10/01/25 (a)(c)		10,750		9,331,645
5.375%, 10/01/27 (a)(c)		1,000		845,810
Series A, 5%, 10/01/35 (j)(k)		10,000		7,920,100
Series A, 5.50%, 10/01/41 (b)		15,000		12,618,750

Miami-Dade County, Florida, GO (Building Better Communities Program), Series B, 6.375%, 7/01/28	6,000	6,556,860
Miami-Dade County, Florida, School Board, COP, Refunding, Series B, 5.25%, 5/01/31 (k)	4,125	3,932,156
Miami-Dade County, Florida, Water and Sewer Revenue Refunding Bonds, Series C, 6%, 10/01/23 (l)	20,095	22,266,265
Orlando, Florida, Senior Tourist Development Tax Revenue Bonds (6th Cent Contract Payments), Series A, 5.25%, 11/01/38 (k)	15,000	13,996,200
		91,661,905

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield Insured Fund, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
Georgia — 2.0%				
Atlanta, Georgia, Airport General Revenue Refunding Bonds, Series B, 5.25%, 1/01/33 (b)	$	12,500	$	12,482,500
Main Street Natural Gas, Inc., Georgia, Gas Project Revenue Bonds, Series A, 6.25%, 7/15/33 (m)(n)		13,170		2,600,943
				15,083,443
Hawaii — 0.3%				
Hawaii State, GO, Series CX, 5.50%, 2/01/21 (b)		2,000		2,159,280
Illinois — 16.8%				
Chicago, Illinois, GO, Refunding, Series A, 5.25%, 1/01/24 (k)		11,000		11,558,910
Chicago, Illinois, O'Hare International Airport, General Airport Revenue Bonds, Third Lien, AMT, Series B-2 (a):				
5.25%, 1/01/27		16,685		13,952,498
6%, 1/01/27		26,230		23,946,941
Chicago, Illinois, O'Hare International Airport Revenue Refunding Bonds, Third Lien, AMT, Series C-2, 5.25%, 1/01/30 (b)		16,400		13,956,236
Illinois Health Facilities Authority Revenue Bonds (Delnor Hospital) (b):				
Series B, 5.25%, 5/15/32		6,150		5,610,583
Series D, 5.25%, 5/15/32		10,000		9,122,900
Illinois Municipal Electric Agency, Power Supply Revenue Bonds, Series A (a)(c):				
5%, 2/01/35		25,000		22,641,750
5.25%, 2/01/35		15,000		14,090,400
Northern Illinois Municipal Power Agency, Power Project Revenue Refunding Bonds (Prairie State Project), Series A, 5%, 1/01/37 (a)		11,900		10,253,754
Regional Transportation Authority, Illinois, Revenue Bonds, Series C, 7.75%, 6/01/20 (a)(c)		1,000		1,293,250
				126,427,222
Indiana — 0.9%				

Indiana Health Facilities Financing Authority, Hospital Revenue Bonds (Deaconess Hospital Obligated Group), Series A, 5.375%, 3/01/34 (h)		2,250		1,774,080
Indianapolis, Indiana, Gas Utility Revenue Refunding Bonds, Second Lien, Series B, 5.25%, 8/15/27 (k)		5,000		5,029,700
				6,803,780
Kentucky — 1.9%				
Louisville and Jefferson Counties, Kentucky, Metropolitan Sewer District, Sewer and Drain System Revenue Bonds, Series A, 5.25%, 5/15/37 (a)(c)		15,155		14,550,315
Louisiana — 4.9%				
Louisiana Local Government Environmental Facilities and Community Development Authority, Revenue Bonds (Capital Projects and Equipment Acquisition Program), Series A, 6.30%, 7/01/30 (h)		3,750		3,121,275

Municipal Bonds		**Par (000)**		**Value**
Louisiana (concluded)				
Louisiana Public Facilities Authority, Mortgage Revenue Refunding Bonds (Baton Rouge General Medical Center Project), 5.25%, 7/01/33 (a)(o)	$	15,000	$	12,703,350
Louisiana State Gas and Fuels Tax Revenue Bonds, Series A, 5%, 5/01/36 (b)		10,000		9,555,300
New Orleans, Louisiana, Aviation Board Revenue Bonds, AMT, Series A, 5.25%, 1/01/32 (b)		14,030		11,649,109
				37,029,034
Massachusetts — 6.0%				
Boston, Massachusetts, Housing Authority, Capital Program Revenue Bonds (b):				
5%, 4/01/23		1,570		1,623,929
5%, 4/01/28		520		512,398
Massachusetts State, HFA, Housing Development Revenue Refunding Bonds, Series B, 5.40%, 12/01/28 (a)		2,500		2,215,975
Massachusetts State, HFA, M/F Housing Revenue Bonds, Series B, 7%, 12/01/38		3,440		3,679,218
Massachusetts State, HFA, Rental Housing Mortgage Revenue Bonds, AMT, Series A, 5.15%, 7/01/26 (b)		11,910		12,384,613
Massachusetts State, HFA, S/F Housing Revenue Bonds, AMT, Series 128, 4.875%, 12/01/38 (b)		12,860		10,378,020
Massachusetts State Port Authority, Special Facilities Revenue Refunding Bonds (BOSFUEL Project), AMT, 5%, 7/01/38 (a)(c)		19,755		14,565,559
				45,359,712

Michigan — 5.9%		
Detroit, Michigan, Water Supply System, Revenue Refunding Bonds, Senior Lien, Series D, 5%, 7/01/23 (b)	9,085	8,627,752
Michigan Higher Education Student Loan Authority, Student Loan Revenue Bonds, AMT, Series XVII-Q, 5%, 3/01/31 (h)	4,325	2,962,711
Michigan State Building Authority, Revenue Refunding Bonds (Facilities Program), Series I, 6.25%, 10/15/38	3,125	3,266,156
Michigan State, HDA, Rental Housing Revenue Bonds, AMT, Series B, 4.95%, 4/01/44 (b)	10,000	8,015,600
Michigan State Revenue Bonds, GAN, 5.25%, 9/15/26 (b)	6,650	6,669,219
Michigan State Strategic Fund, Limited Obligation Revenue Refunding Bonds (Detroit Edison Company Pollution Control Project), AMT (j):		
Series A, 5.50%, 6/01/30	8,000	6,505,520
Series C, 5.65%, 9/01/29	5,000	4,178,900
Wayne County, Michigan, Airport Authority, Revenue Refunding Bonds, AMT, 5.375%, 12/01/32 (k)	5,000	4,253,000
		44,478,858

Minnesota — 0.9%		
Minneapolis, Minnesota, Health Care System, Revenue Refunding Bonds (Fairview Health Services), Series B, 6.50%, 11/15/38 (k)	6,600	6,971,052

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield Insured Fund, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds		**Par (000)**		**Value**
Missouri — 0.4%				
Missouri State Health and Educational Facilities Authority, Health Facilities Revenue Bonds (Saint Luke's Health System), VRDN, Series A, 5.50%, 11/15/35 (s)	$	3,270	$	3,016,379
Missouri State Housing Development Commission, S/F Mortgage Revenue Bonds (Homeownership Loan Program), AMT, Series C-1, 7.15%, 3/01/32 (e)(f)		95		101,269
				3,117,648
Nevada — 5.1%				
Clark County, Nevada, Airport System Subordinate Lien Revenue Bonds, Series A-2, 5%, 7/01/30 (a)(c)		20,000		17,960,600
Clark County, Nevada, IDR (Southwest Gas Corporation Project), AMT, Series A, 5.25%, 7/01/34 (h)		12,675		8,392,751
Las Vegas, Nevada, Convention and Visitors Authority Revenue Bonds, 5%, 7/01/37 (h)		11,950		10,763,484
Reno, Nevada, Capital Improvement Revenue Bonds, 5.50%, 6/01/19 (c)		1,165		1,173,330
				38,290,165
New Jersey — 1.6%				
New Jersey EDA, Cigarette Tax Revenue Bonds:				
5.75%, 6/15/29		3,060		2,277,221
5.75%, 6/15/34		13,960		10,055,248
				12,332,469
New Mexico — 0.3%				
New Mexico Educational Assistance Foundation, Student Loan Revenue Refunding Bonds (Student Loan Program), AMT, First Sub-Series A-2, 6.65%, 11/01/25		1,605		1,604,984
New Mexico Mortgage Finance Authority, S/F Mortgage Revenue Bonds, AMT, Series C-2, 6.95%, 9/01/31 (e)(f)		315		331,245

		1,936,229
New York — 4.4%		
New York City, New York, GO:		
Series A-1, 5.25%, 8/15/24	6,650	6,754,073
Series J, 5.25%, 5/15/24	10,000	10,101,200
Series J, 5.25%, 5/15/25	550	552,552
Series M, 5%, 4/01/30 (k)	5,000	4,865,950
New York State Dormitory Authority, Non-State Supported Debt Revenue Bonds (Presbyterian Hospital of New York), 5%, 8/15/36 (b)(o)	9,005	8,122,600
New York State Dormitory Authority, State Supported Debt Revenue Bonds (Mental Health Services Facilities), Series B, 5%, 2/15/28 (b)	2,700	2,625,615
		33,021,990

Municipal Bonds	Par (000)	Value
Ohio — 1.7%		
Lorain County, Ohio, Hospital Revenue Refunding Bonds (Catholic Healthcare Partners), Series C-2, 5%, 4/01/33 (b)	$ 14,200	$ 12,647,656
Oklahoma — 0.5%		
Tulsa County, Oklahoma, Home Finance Authority, S/F Mortgage Revenue Refunding Bonds, AMT, Series C, 5.25%, 12/01/38 (f)	4,748	3,918,278
Pennsylvania — 4.1%		
Pennsylvania HFA, S/F Mortgage Revenue Bonds, AMT, Series 70A, 5.80%, 4/01/27	4,740	4,412,561
Pennsylvania State Turnpike Commission, Turnpike Revenue Bonds:		
Series A, 5.50%, 12/01/31 (h)	15,600	15,831,816
Series A1, 5%, 6/01/38 (k)	5,000	4,828,100
Pennsylvania State Turnpike Commission, Turnpike Revenue Refunding Bonds, Sub-Series C, 6.25%, 6/01/38 (k)	5,695	6,154,245
		31,226,722
Rhode Island — 0.3%		
	3,000	2,453,820

Rhode Island State Economic Development Corporation, Airport Revenue Bonds, AMT, Series A, 5.25%, 7/01/38 (k)		
South Carolina — 1.9%		
Charleston Educational Excellence Financing Corporation, South Carolina, Revenue Bonds (Charleston County School District) (k):		
5.25%, 12/01/28	3,895	3,791,744
5.25%, 12/01/29	3,215	3,088,843
5.25%, 12/01/30	1,160	1,102,104
Kershaw County, South Carolina, Public Schools Foundation, Installment Power Revenue Refunding Bonds (o):		
5%, 12/01/30	2,775	2,543,593
5%, 12/01/31	3,690	3,353,361
South Carolina Housing Finance and Development Authority, Mortgage Revenue Refunding Bonds, AMT, Series A-2, 6.35%, 7/01/19 (b)	645	651,418
		14,531,063
Tennessee — 0.2%		
Tennessee HDA, Revenue Refunding Bonds (Homeownership Program), AMT, Series A, 5.35%, 1/01/26 (b)	1,845	1,767,676
Texas — 21.6%		
Canyon, Texas, Regional Water Authority, Contract Revenue Bonds (Wells Ranch Project), 5%, 8/01/32 (h)	8,185	7,561,549
Dallas, Texas, Independent School District, GO, 6.375%, 2/15/34	10,000	10,948,200

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield Insured Fund, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
Texas (concluded)				
Dallas-Fort Worth, Texas, International Airport, Joint Revenue Bonds, AMT, Series A, 5%, 11/01/35 (b)	$	1,000	$	791,760
Dallas-Fort Worth, Texas, International Airport Revenue Refunding and Improvement Bonds, AMT, Series A, 5.625%, 11/01/26 (a)(c)		15,000		13,925,550
Harris County, Texas, Hospital District, Senior Lien Revenue Refunding Bonds, Series A, 5.25%, 2/15/37 (a)		10,000		8,913,700
Harris County-Houston Sports Authority, Texas, Revenue Refunding Bonds, Senior Lien, Series G (a):				
5.75%, 11/15/19		1,665		1,671,893
5.75%, 11/15/20		3,500		3,464,545
5.25%, 11/15/30		10,000		7,879,500
Houston, Texas, Combined Utility System, First Lien Revenue Refunding Bonds, Series A, 5%, 11/15/36 (b)		10,695		10,335,862
Judson, Texas, Independent School District, School Building, GO, 5%, 2/01/37 (k)		10,000		9,621,200
Matagorda County, Texas, Navigation District Number 1, PCR, Refunding (Central Power and Light Company Project), AMT, 5.20%, 5/01/30 (a)		6,250		4,514,688
North Texas Tollway Authority, System Revenue Refunding Bonds, First Tier:				
Series A, 6%, 1/01/25		6,250		6,357,500
Series A, 5.125%, 1/01/28 (a)		22,000		20,259,140
Series B, 5.75%, 1/01/40 (a)		10,000		9,422,700
Texas State Department of Housing and Community Affairs, S/F Mortgage Revenue Bonds, AMT, Series A, 5.45%, 9/01/23 (a)(e)(f)		4,670		4,641,933
Texas State Turnpike Authority, Central Texas Turnpike System Revenue Bonds, First Tier, Series A (h):				
5%, 8/15/42		10,000		8,053,500
5.50%, 8/15/39		10,000		8,803,600
Texas State University, System Financing Revenue Refunding Bonds:				
5.25%, 3/15/24		5,000		5,268,650
5.25%, 3/15/25		9,000		9,396,000
5.25%, 3/15/26		10,000		10,364,700
				162,196,170
Vermont — 0.4%				
Vermont HFA, Revenue Refunding Bonds, AMT, Series C, 5.50%, 11/01/38 (b)		3,000		2,682,570
Vermont HFA, S/F Housing Revenue Bonds, AMT, Series 12B, 6.30%, 11/01/19 (b)		375		381,326
				3,063,896

Virginia — 0.3%				
Halifax County, Virginia, IDA, Exempt Facility Revenue Refunding Bonds (Old Dominion Electric Cooperative Project), AMT, 5.625%, 6/01/28 (h)		2,500		2,225,650

Municipal Bonds		Par (000)		Value
Washington — 7.8%				
Chelan County, Washington, Public Utility District Number 001, Consolidated Revenue Bonds (Chelan Hydro System), AMT, Series A, 5.45%, 7/01/37 (h)	$	3,030	$	2,479,267
Chelan County, Washington, Public Utility District Number 001, Consolidated Revenue Refunding Bonds (Chelan Hydro System), AMT, Series C, 5.65%, 7/01/32 (a)		6,000		5,241,120
King County, Washington, Public Hospital District Number 001, GO, Refunding, Series A, 5%, 12/01/37 (k)		13,995		13,457,032
Port of Seattle, Washington, Revenue Bonds, DRIVERS, AMT, Series 2553, 8.967%, 1/01/12 (a)(i)		3		1,781
Radford Court Properties, Washington, Student Housing Revenue Bonds, 5.75%, 6/01/32 (a)		10,000		9,923,000
Seattle, Washington, Housing Authority Revenue Bonds (High Rise Rehabilitation Program — Phase 3), AMT, 5.15%, 11/01/27 (b)		6,255		5,670,533
Skagit County, Washington, Public Hospital District, GO, Series A (a):				
5.25%, 12/01/25		4,945		4,999,098
5.25%, 12/01/26		5,450		5,479,485
Washington State Health Care Facilities Authority Revenue Bonds (Providence Health System), Series A, 5.25%, 10/01/21 (a)		6,150		6,215,375
Washington State Health Care Facilities Authority, Revenue Refunding Bonds (Catholic Health Initiatives), Series D, 6.375%, 10/01/36		5,500		5,521,010
				58,987,701

West Virginia — 0.2%				
Harrison County, West Virginia, County Commission for Solid Waste Disposal Revenue Bonds (Monongahela Power), AMT, Series C, 6.75%, 8/01/24 (h)		1,325		1,290,060

Wisconsin — 0.4%				
Wisconsin State Health and Educational Facilities Authority Revenue Bonds (SynergyHealth Inc.), 6%, 11/15/32		3,395		3,163,325

Puerto Rico — 1.5%				

Puerto Rico Public Buildings Authority, Government Facilities Revenue Refunding Bonds, Series M-3 (a)(q):		
6%, 7/01/26	5,240	5,005,615
6%, 7/01/27	4,235	3,991,911
6%, 7/01/28	2,750	2,573,505
		11,571,031
Total Municipal Bonds — 125.8%		947,756,418

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield Insured Fund, Inc. (MYI)

(Percentages shown are based on Net Assets)

Municipal Bonds Transferred to Tender Option Bond Trusts (r)	**Par (000)**	**Value**
California — 10.9%		
Alameda County, California, Joint Powers Authority, Lease Revenue Refunding Bonds, 5%, 12/01/34 (b)	$ 6,990	$ 6,679,225
California State University, Systemwide Revenue Refunding Bonds, Series A, 5%, 11/01/16 (h)	18,435	17,595,839
Las Virgenes, California, Unified School District, GO, Series A, 5%, 8/1/31 (b)	10,000	9,710,553
Orange County, California, Sanitation District, COP, Series B, 5%, 2/01/37 (b)	10,780	10,325,946
Riverside, California, Electric Revenue Bonds, Series D, 5%, 10/01/38 (b)	20,000	18,963,200
San Diego County, California, Water Authority, Water Revenue Refunding Bonds, COP, Series A, 5%, 5/01/33 (b)	9,370	9,037,552
San Francisco, California, Bay Area Rapid Transit District, Sales Tax Revenue Bonds, 5%, 7/01/36 (b)	10,000	9,701,849
		82,014,164
Connecticut — 0.7%		
Connecticut State Health and Educational Facilities Authority Revenue Bonds (Yale University), Series T-1, 4.70%, 7/01/29	5,010	5,016,713
Florida — 1.5%		
Miami-Dade County, Florida, Aviation Revenue Refunding Bonds (Miami International Airport), AMT, 5%, 10/01/40 (j)(k)	15,000	11,705,071
Georgia — 1.3%		
Metropolitan Atlanta Rapid Transit Authority, Georgia, Sales Tax Revenue Refunding Bonds, Third Indenture, Series B, 5%, 7/01/37 (b)	10,000	9,820,808
Illinois — 2.1%		
Illinois Finance Authority, Revenue Bonds (University of Chicago), Series B, 6.25, 7/01/38	10,000	10,742,800
	4,799	5,032,384

Metropolitan Pier and Exposition Authority, Illinois, Dedicated State Tax Revenue Refunding Bonds (McCormick Place Expansion Project), Series B, 5.75%, 6/15/23 (a)				
				15,775,184
New Jersey — 1.5%				
Garden State Preservation Trust of New Jersey, Open Space and Farmland Preservation Revenue Bonds, Series A, 5.75%, 11/01/28 (b)		10,000		11,326,900

Municipal Bonds Transferred to Tender Option Bond Trusts (r)		Par (000)		Value
New York — 4.5%				
New York City, New York, City Municipal Water Finance Authority, Water and Sewer System, Revenue Refunding Bonds, Series DD, 5%, 6/15/37	$	17,567	$	16,649,253
Port Authority of New York and New Jersey, Consolidated Revenue Bonds, AMT, 137th Series, 5.125%, 7/15/30 (b)		19,500		17,241,120
				33,890,373
Ohio — 0.6%				
Montgomery County, Ohio, Revenue Bonds (Catholic Health Initiatives), Series C-1, 5%, 10/01/41 (b)		4,990		4,234,664
Texas — 1.7%				
Friendswood, Texas, Independent School District, GO, 5%, 2/15/37		12,955		12,705,647
Virginia — 0.5%				
University of Virginia, Revenue Refunding Bonds, 5%, 6/01/40		3,950		3,958,493
Washington — 7.9%				
Central Puget Sound Regional Transportation Authority, Washington, Sales and Use Tax Revenue Bonds, Series A, 5%, 11/01/34 (b)		17,000		16,566,160
Houston, Texas, Independent School District, GO, 5%, 2/15/33		10,000		9,916,800

King County, Washington, Sewer Revenue Bonds, 5%, 1/01/37 (b)	15,785	15,299,295
Port of Seattle, Washington, Revenue Refunding Bonds, AMT, Series B, 5.20%, 7/01/29 (a)	20,565	17,606,313
		59,388,568
Total Municipal Bonds Transferred to Tender Option Bond Trusts — 33.2%		249,836,585
Total Long-Term Investments (Cost — $1,316,958,572) — 159.0%		1,197,593,003

Short-Term Securities		
California — 0.5%		
Los Angeles County, California, Metropolitan Transportation Authority, Sales Tax Revenue Refunding Bonds, Proposition C, VRDN, Second Senior Series A, 6%, 2/05/09 (a)(s)	4,000	4,000,000

See Notes to Financial Statements.

Schedule of Investments (concluded)

BlackRock MuniYield Insured Fund, Inc. (MYI)
(Percentages shown are based on Net Assets)

Short-Term Securities	Par (000)	Value
Pennsylvania — 1.4%		
Philadelphia, Pennsylvania, GO, Refunding, VRDN, Series B, 3.75%, 2/05/09 (b)(s)	$ 10,000	$ 10,000,000
	Shares	
Money Market Fund — 7.5%		
Merrill Lynch Institutional Tax-Exempt Fund, 0.60% (t)(u)	56,743,907	56,743,907
Total Short-Term Securities (Cost — $70,743,907) — 9.4%		70,743,907
Total Investments (Cost — $1,387,702,479*) — 168.4%		1,268,336,910
Other Assets Less Liabilities — 0.6%		4,593,234
Liability for Trust Certificates, Including Interest Expense and Fees Payable — (18.9)%		(142,645,295)
Preferred Shares, at Redemption Value — (50.1)%		(377,256,535)
Net Assets Applicable to Common Shares — 100.0%		$ 753,028,314

* The cost and unrealized appreciation (depreciation) of investments as of January 31, 2009, as computed for federal income tax purposes, were as follows:

Aggregate cost	$ 1,253,642,151
Gross unrealized appreciation	$ 14,667,095
Gross unrealized depreciation	(141,883,016)

Net unrealized depreciation	$	(127,215,921)

(a) MBIA Insured.

(b) FSA Insured.

(c) FGIC Insured.

(d) FHLMC Collateralized.

(e) FNMA Collateralized.

(f) GNMA Collateralized.

(g) Represents a step-up bond that pays an initial coupon rate for the first period and then a higher coupon rate for the following periods. Rate shown reflects the effective yield as of report date.

(h) AMBAC Insured.

(i) Variable rate security. Rate shown is as of report date.

(j) XL Capital Insured.

(k) Assured Guaranty Insured.

(l) BHAC Insured.

(m) Non-income producing security.

(n) Issuer filed for bankruptcy and/or is in default of interest payments.

(o) FHA Insured.

(p) CIFG Insured.

(q) Commonwealth Guaranteed.

(r) Securities represent bonds transferred to a tender option bond trust in exchange for which the Fund acquired residual interest certificates. These securities serve as collateral in a financing transaction. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

(s) Security may have a maturity of more than one year at time of issuance, but has variable rate and demand features that qualify it as a short-term security. Rate shown is as of report date. This rate changes periodically based upon prevailing market rates.

(t) Investments in companies considered to be an affiliate of the Fund for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	Net Activity	Income
Merrill Lynch Institutional Tax-Exempt Fund	30,589,501	$ 393,051

(u) Represents the current yield as of report date.

(v) When issued security.

- Effective August 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the fair value of investments, which are as follows:

  - Level 1 — price quotations in active markets/exchanges for identical securities

  - Level 2 — other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

  - Level 3 — unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the Fund’s own assumption used in determining the fair value of investments)

  The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Fund’s policy regarding valuation of investments and other significant accounting policies, please refer to Note 1 of the Notes to Financial Statements.

  The following table summarizes the inputs used as of January 31, 2009 in determining the fair valuation of the Fund’s investments:

Valuation Inputs	**Investments in Securities**
	Assets
Level 1	$ 56,743,907
Level 2	1,211,593,003
Level 3	—
Total	$ 1,268,336,910

See Notes to Financial Statements.

Schedule of Investments January 31, 2009 (Unaudited)

BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)

(Percentages shown are based on Net Assets)

Municipal Bonds		**Par (000)**		**Value**
Michigan — 142.4%				
County/City/Special District/School District — 34.6%				
Adrian, Michigan, City School District, GO, 5%, 5/01/14 (a)(e)	$	2,400	$	2,794,224
Anchor Bay, Michigan, School District, School Building and Site, GO, Series II, 5.75%, 5/01/10 (a)(c)		3,165		3,363,857
Bullock Creek, Michigan, School District, GO, 5.50%, 5/01/10 (a)(d)		2,150		2,279,237
Detroit, Michigan, City School District, GO:				
(School Building and Site Improvement), Series A, 5%, 5/01/13 (a)(c)		2,000		2,289,080
(School Building and Site Improvement), Series A, 5.375%, 5/01/13 (a)(c)		1,480		1,716,711
(School Building and Site Improvement), Series B, 5%, 5/01/28 (c)		1,900		1,779,312
Series A, 5.50%, 5/01/12 (a)(e)		1,700		1,924,315
East Grand Rapids, Michigan, Public School District, GO, 6%, 5/01/09 (a)(e)		6,300		6,388,326
Eaton Rapids, Michigan, Public Schools, School Building and Site, GO, 5.25%, 5/01/23 (e)		2,000		2,077,300
Gibraltar, Michigan, School District, GO (School Building and Site) (c):				
5%, 5/01/14 (a)		3,065		3,568,457
5%, 5/01/28		585		585,222
Grand Blanc, Michigan, Community Schools, GO (c)(d):				
5.625%, 5/01/17		1,000		1,086,990
5.625%, 5/01/18		1,000		1,068,810
5.625%, 5/01/19		1,100		1,175,691
Harper Woods, Michigan, City School District, School Building and Site, GO, Refunding (c):				
5%, 5/01/14 (a)		215		250,316
5%, 5/01/34		10		9,692
Hartland, Michigan, Consolidated School District, GO, 6%, 5/01/10 (a)(c)		4,500		4,798,485
Haslett, Michigan, Public School District, School Building and Site, GO,, 5.625%, 11/01/11 (a)(d)		1,275		1,428,370
Jackson, Michigan, Public Schools, GO, 5.375%, 5/01/10 (a)(c)		3,975		4,207,736
Lakewood, Michigan, Public Schools, GO, DRIVERS, Series 2624Z, 9.547%, 5/01/15 (e)(f)		2		2,188
Ludington, Michigan, Area School District, GO, 5.25%, 5/01/23 (d)		1,440		1,510,790
New Lothrop, Michigan, Area Public Schools, School Building and Site, GO, 5%, 5/01/35 (e)		1,200		1,170,780
Reed, Michigan, City Public Schools, School Building and Site, GO, 5%, 5/01/14 (a)(e)		1,000		1,164,260
Southfield, Michigan, Public Schools, School Building and Site, GO, Series A, 5%, 5/01/14 (a)(e)		1,000		1,162,620
Sparta, Michigan, Area Schools, School Building and Site, GO, 5%, 5/01/14 (a)(c)		1,000		1,164,260
Thornapple Kellogg School District, Michigan, GO, Refunding, 5%, 5/01/32 (d)		1,500		1,471,575
Zeeland, Michigan, Public Schools, School Building and Site, GO, 5%, 5/01/29 (d)		1,230		1,212,952
				51,651,556

Municipal Bonds		Par (000)		Value
Michigan (continued)				
Education — 6.2%				
Michigan Higher Education Facilities Authority, Limited Obligation Revenue Bonds (Hillsdale College Project), 5%, 3/01/35	$	1,125	$	925,189
Michigan Higher Education Facilities Authority, Limited Obligation Revenue Refunding Bonds:				
(College for Creative Studies), 5.85%, 6/01/12 (a)		550		625,438
(College for Creative Studies), 5.90%, 6/01/12 (a)		1,000		1,138,770
(Hope College), Series A, 5.90%, 4/01/32		1,000		817,780
Michigan Higher Education Student Loan Authority, Student Loan Revenue Bonds, AMT, Series XVII-Q, 5%, 3/01/31 (b)		500		342,510
Michigan State Building Authority Revenue Bonds (Facilities Program), Series II, 5.10%, 10/15/09 (b)(h)		1,185		1,177,001
Saginaw Valley State University, Michigan, General Revenue Refunding Bonds, 5%, 7/01/24 (c)(d)		1,450		1,426,989
South Lyon, Michigan, Community Schools, GO, Series A, 5.75%, 5/01/10 (a)(d)		2,650		2,817,533
				9,271,210
Hospitals/Health Care — 25.3%				
Dickinson County, Michigan, Healthcare System, Hospital Revenue Refunding Bonds, 5.80%, 11/01/24 (g)		2,170		1,744,723
Flint, Michigan, Hospital Building Authority, Revenue Refunding Bonds (Hurley Medical Center), Series A (g):				
5.375%, 7/01/20		385		282,451
6%, 7/01/20		775		605,097
Kent, Michigan, Hospital Finance Authority Revenue Bonds (Spectrum Health), Series A, 5.50%, 7/15/11 (a)(d)		3,000		3,331,380
Michigan State Hospital Finance Authority, Hospital Revenue Bonds (Mid-Michigan Obligation Group), Series A, 5.50%, 4/15/18 (b)		1,000		1,008,290
Michigan State Hospital Finance Authority, Hospital Revenue Refunding Bonds:				
(Crittenton Hospital), Series A, 5.625%, 3/01/27		1,300		1,096,966
(Oakwood Obligated Group), Series A, 5%, 7/15/25		3,110		2,541,865
(Oakwood Obligated Group), Series A, 5%, 7/15/37		3,340		2,378,481
(Sparrow Obligated Group), 5%, 11/15/31		1,595		1,174,877
Michigan State Hospital Finance Authority Revenue Bonds:				
(McLaren Health Care Corporation), Series C, 5%, 8/01/35		1,585		1,128,932
(Mercy Health Services), Series R, 5.375%, 8/15/26 (b)(h)		2,000		2,005,960
(Trinity Health Credit Group), Series A, 6.125%, 12/01/23		940		988,466
(Trinity Health Credit Group), Series A, 6.25%, 12/01/28		570		580,836
(Trinity Health Credit Group), Series A, 6.50%, 12/01/33		1,400		1,433,740

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
Michigan (continued)				
Hospitals/Health Care (concluded)				
Michigan State Hospital Finance Authority, Revenue Refunding Bonds:				
(Ascension Health Credit), Series A, 6.25%, 11/15/09 (a)(d)	$	3,760	$	3,967,101
(McLaren Health Care Corporation), 5.75%, 5/15/38		1,500		1,202,160
(Trinity Health Credit Group), Series A, 6%, 12/01/20		1,400		1,446,410
(Trinity Health Credit Group), Series C, 5.375%, 12/01/23		1,000		1,003,530
(Trinity Health Credit Group), Series A, 6%, 12/01/27 (b)		5,500		5,542,130
(Trinity Health Credit Group), Series C, 5.375%, 12/01/30		1,950		1,804,803
(Trinity Health Credit Group), Series D, 5%, 8/15/34		1,650		1,412,746
Royal Oak, Michigan, Hospital Finance Authority, Hospital Revenue Refunding Bonds (William Beaumont Hospital), 8.25%, 9/01/39		1,000		1,021,760
				37,702,704
Housing — 2.3%				
Michigan State, HDA, Limited Obligation M/F Housing Revenue Bonds (Deaconess Towers Apartments), AMT, 5.25%, 2/20/48 (i)		1,000		842,180
Michigan State, HDA, Rental Housing Revenue Bonds, AMT:				
Series A, 5.30%, 10/01/37 (d)		25		21,700
Series B, 4.85%, 10/01/37 (e)		1,500		1,203,900
Series D, 5.125%, 4/01/31 (e)		1,500		1,308,270
				3,376,050
IDA/PCR/Resource Recovery — 17.8%				
Delta County, Michigan, Economic Development Corporation, Environmental Improvement Revenue Refunding Bonds (Mead Westvaco-Escanaba), Series A, 6.25%, 4/15/12 (a)		2,420		2,770,900
Dickinson County, Michigan, Economic Development Corporation, Environmental Improvement Revenue Refunding Bonds (International Paper Company Project), Series A, 5.75%, 6/01/16		2,500		2,101,025
Michigan State, COP, Refunding (New Center Development Inc.), 5.75%, 9/01/11 (d)(h)		5,045		5,622,249
Michigan State Strategic Fund, Limited Obligation Revenue Refunding Bonds (Detroit Edison Company Pollution Control Project), AMT, Series A, 5.55%, 9/01/29 (d)		9,500		7,838,640
Monroe County, Michigan, Economic Development Corporation, Limited Obligation Revenue Refunding Bonds (Detroit Edison Co. Project), Series AA, 6.95%, 9/01/22 (c)(d)		6,500		7,568,925
Pontiac, Michigan, Tax Increment Finance Authority, Revenue Refunding Bonds (Development Area Number 3), 5.375%, 6/01/12 (a)(g)		640		724,013
				26,625,752

Municipal Bonds	Par (000)	Value
Michigan (continued)		
Lease Obligations — 9.4%		
Grand Rapids, Michigan, Building Authority Revenue Bonds, Series A, 5.50%, 10/01/12 (a)(b)	$ 665	$ 763,207
Michigan State Building Authority Revenue Bonds (Facilities Program), Series II, 5.20%, 10/15/10 (b)(h)	1,675	1,631,266
Michigan State Building Authority, Revenue Refunding Bonds (Facilities Program):		
Series I, 5.50%, 10/15/10 (e)	7,000	7,449,960
Series I, 6.25%, 10/15/38	2,350	2,456,149
Series II, 5%, 10/15/29 (d)	2,000	1,812,860
		14,113,442
Special Tax — 0.7%		
Wayne Charter County, Michigan, Detroit Metropolitan Airport, GO, Airport Hotel, Series A, 5%, 12/01/30 (d)	1,180	1,108,303
State — 2.2%		
Michigan Higher Education Student Loan Authority, Student Loan Revenue Bonds, AMT, Series XVII-B, 5.40%, 6/01/18 (b)	3,000	2,691,810
Oak Park, Michigan, Street Improvement, GO, 5%, 5/01/30 (d)	600	564,054
		3,255,864
Transportation — 16.2%		
Wayne Charter County, Michigan, Airport Revenue Bonds (Detroit Metropolitan Wayne County), AMT, Series A, 5.375%, 12/01/15 (d)	6,500	6,553,495
Wayne County, Michigan, Airport Authority Revenue Bonds (Detroit Metropolitan Wayne County Airport), AMT (d):		
5.25%, 12/01/25	4,475	3,923,770
5.25%, 12/01/26	3,700	3,215,485
5%, 12/01/34	5,200	4,026,100
Wayne County, Michigan, Airport Authority, Revenue Refunding Bonds, AMT (j):		
5.75%, 12/01/26	3,060	2,880,929
5.375%, 12/01/32	4,300	3,657,580
		24,257,359

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
Michigan (concluded)				
Utilities — Electric & Gas — 10.4%				
Michigan State Strategic Fund, Limited Obligation Revenue Refunding Bonds (Detroit Edison Company Pollution Control Project), Series AA, 6.95%, 5/01/11 (c)(d)	$	2,000	$	2,157,920
Saint Clair County, Michigan, Economic Revenue Refunding Bonds (Detroit Edison Co. Project), Series AA, 6.40%, 8/01/24 (b)		13,000		13,293,020
				15,450,940
Utilities — Water & Sewer — 17.3%				
Detroit, Michigan, Water Supply System Revenue Bonds:				
Second Lien, Series B, 5%, 7/01/13 (a)(d)		1,780		2,031,496
Second Lien, Series B, 5%, 7/01/34 (d)		2,620		2,128,619
Senior Lien, Series A, 5.75%, 7/01/11 (a)(c)		1,000		1,113,040
Senior Lien, Series A, 5%, 7/01/13 (a)(d)		1,250		1,426,612
Senior Lien, Series A, 5%, 7/01/25 (e)		3,460		3,155,555
Senior Lien, Series A, 5%, 7/01/34 (d)		4,600		3,737,270
Detroit, Michigan, Water Supply System, Revenue Refunding Bonds, Second Lien, Series C, 5%, 7/01/29 (e)		6,475		5,561,572
Grand Rapids, Michigan, Sanitation Sewer System Revenue Refunding and Improvement Bonds, Series A, 5.50%, 1/01/22 (c)(d)		1,500		1,641,060
Wyoming, Michigan, Sewage Disposal System Revenue Bonds, 5%, 6/01/30 (d)		5,300		4,981,841
				25,777,065
Total Municipal Bonds in Michigan				212,590,245
Puerto Rico — 6.9%				
Lease Obligations — 2.6%				
Puerto Rico Public Buildings Authority, Government Facilities Revenue Refunding Bonds, Series M-3, 6%, 7/01/27 (d)		4,200		3,958,920
Special Tax — 1.5%				
Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue Refunding Bonds, Series A, 5.05%, 8/01/46 (d)(k)		30,000		2,205,300
State — 0.8%				

Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue Refunding Bonds, Series A, 5.01%, 8/01/43 (d)(k)		12,500		1,145,500

Municipal Bonds		**Par (000)**		**Value**
Puerto Rico (concluded)				
Transportation — 2.0%				
Puerto Rico Commonwealth Highway and Transportation Authority, Highway Revenue Refunding Bonds, Series CC, 5.50%, 7/01/31 (j)	$	3,000	$	3,026,880
Total Municipal Bonds in Puerto Rico				10,336,600
Total Municipal Bonds — 149.3%				222,926,845

Municipal Bonds Transferred to Tender Option Bond Trusts (l)		
California — 11.3%		
County/City/Special District/ School District — 6.2%		
Lakewood, Michigan, Public Schools, School Building and Site, GO, 5%, 5/01/37 (e)	4,150	4,035,580
Portage, Michigan, Public Schools, School Building and Site, GO, 5%, 5/01/31 (e)	2,850	2,808,390
Saginaw Valley State University, Michigan, Revenue Refunding Bonds, 5%, 7/01/31 (e)	2,500	2,402,175
		9,246,145
Education — 5.1%		
Wayne State University, Michigan, University Revenue Refunding Bonds, 5%, 11/15/35 (e)	7,790	7,598,522
Total Municipal Bonds Transferred to Tender Option Bond Trusts — 11.3%		16,844,667
Total Long-Term Investments (Cost — $250,749,866) — 160.6%		239,771,512

Short-Term Securities	**Shares**	
Money Market Fund — 2.3%		
CMA Michigan Municipal Money Fund, 0.26% (m)(n)	3,413,904	3,413,904

Total Short-Term Securities (Cost — $3,413,904) — 2.3%		3,413,904
Total Investments (Cost — $254,163,770*) — 162.9%		243,185,416
Other Assets Less Liabilities — 1.7%		2,574,610
Liability for Trust Certificates, Including Interest Expense and Fees Payable — (6.1)%		(9,075,873)
Preferred Shares, at Redemption Value — (58.5)%		(87,359,948)
Net Assets Applicable to Common Shares — 100.0%	$	149,324,205

See Notes to Financial Statements.

Schedule of Investments (concluded) **BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)**

* The cost and unrealized appreciation (depreciation) of investments as of January 31, 2009, as computed for federal income tax purposes, were as follows:

Aggregate cost	$	245,177,173
Gross unrealized appreciation	$	8,113,712
Gross unrealized depreciation		(19,135,469)
Net unrealized depreciation	$	(11,021,757)

(a) U.S. government securities, held in escrow, are used to pay interest on this security, as well as to retire the bond in full at the date indicated, typically at a premium to par.

(b) AMBAC Insured.

(c) FGIC Insured.

(d) MBIA Insured.

(e) FSA Insured.

(f) Variable rate security. Rate shown is as of report date.

(g) ACA Insured.

(h) Security is collateralized by Municipal or U.S. Treasury Obligations.

(i) GNMA Collateralized.

(j) Assured Guaranty Insured.

(k) Represents a zero-coupon bond. Rate shown reflects the current yield as of report date.

(l) Securities represent bonds transferred to a tender option bond trust in exchange for which the Fund acquired residual interest certificates. These securities serve as collateral in a financing transaction. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

(m) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	Net Activity	Income

CMA Michigan Municipal Money Fund	$	(567,373)	$	33,262

(n) Represents the current yield as of report date.

- Effective August 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the fair value of investments, which are as follows:
  - Level 1 — price quotations in active markets/exchanges for identical securities
  - Level 2 — other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)
  - Level 3 — unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the Fund's own assumption used in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Fund's policy regarding valuation of investments and other significant accounting policies, please refer to Note 1 of the Notes to Financial Statements.

The following table summarizes the inputs used as of January 31, 2009 in determining the fair valuation of the Fund's investments:

Valuation Inputs	**Investments in Securities**
	Assets
Level 1	$ 3,413,904
Level 2	239,771,512
Level 3	—
Total	$ 243,185,416

See Notes to Financial Statements.

Schedule of Investments January 31, 2009 (Unaudited)

BlackRock MuniYield New York Insured Fund, Inc. (MYN)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
New York — 127.1%		
County/City/Special District/School District — 31.2%		
Buffalo, New York, School, GO, Series D (d)(e):		
5.50%, 12/15/14	$ 1,250	$ 1,343,425
5.50%, 12/15/16	1,500	1,594,245
Erie County, New York, IDA, School Facility Revenue Bonds (City of Buffalo Project), 5.75%, 5/01/20 (a)	1,900	1,977,387
Hudson Yards Infrastructure Corporation, New York, Revenue Bonds, Series A:		
4.50%, 2/15/47 (d)	16,275	11,963,590
5%, 2/15/47 (e)	12,150	9,245,056
Huntington, New York, GO, Refunding (b):		
5.50%, 4/15/11	485	527,462
5.50%, 4/15/12	460	515,674
5.50%, 4/15/13	455	520,279
5.50%, 4/15/14	450	523,382
5.50%, 4/15/15	450	531,792
Ilion, New York, Central School District, GO, Series B, 5.50%, 6/15/10 (e)(h)	1,675	1,803,288
New York City, New York, City IDA, PILOT Revenue Bonds (Queens Baseball Stadium Project), 6.375%, 1/01/39 (g)	1,000	1,014,240
New York City, New York, City Transit Authority, Metropolitan Transportation Authority, Triborough, COP, Series A, 5.625%, 1/01/12 (b)	1,020	1,060,555
New York City, New York, City Transitional Finance Authority, Building Aid Revenue Bonds:		
Series S-1, 5.50%, 7/15/38 (g)	6,000	5,939,340
Series S-2, 4.25%, 1/15/34 (d)(e)	5,980	4,774,731
Series S-2, 5%, 1/15/37 (a)(e)	5,000	4,754,450
New York City, New York, City Transitional Finance Authority, Building Aid Revenue Refunding Bonds, Series S-1, 4.50%, 1/15/38	2,000	1,676,460
New York City, New York, City Transitional Finance Authority, Future Tax Secured Revenue Bonds:		
Series C, 5%, 2/01/33 (e)	16,195	15,475,942
Series E, 5.25%, 2/01/22 (d)	2,500	2,596,250
New York City, New York, City Transitional Finance Authority, Future Tax Secured, Revenue Refunding Bonds:		
Series A, 5%, 11/15/26 (e)	1,000	1,004,380
Series D, 5.25%, 2/01/21 (d)	3,000	3,145,680
New York City, New York, GO, Refunding, Series B, 7%, 2/01/18 (b)	70	70,326
New York City, New York, GO, Series B, 5.75%, 8/01/13 (d)	1,280	1,367,309
New York Convention Center Development Corporation, New York, Revenue Bonds (Hotel Unit Fee Secured) (b):		
5%, 11/15/30	1,500	1,349,070
5%, 11/15/35	33,750	30,098,250
5%, 11/15/44	13,470	11,638,484

Municipal Bonds	Par (000)	Value
New York (continued)		
County/City/Special District/School District (concluded)		
New York State Dormitory Authority, Non-State Supported Debt, Lease Revenue Bonds (Municipal Health Facilities Improvement Program), Sub-Series 2-5, 5%, 1/15/32	$ 500	$ 467,610
New York State Dormitory Authority, Non-State Supported Debt, Revenue Refunding Bonds (School District Financing Program), Series B, 5%, 4/01/36 (a)	6,000	5,700,540
New York State Dormitory Authority, State Supported Debt Revenue Bonds (Mental Health Services Facilities) (a):		
AMT, Series C, 5.40%, 2/15/33	6,460	5,497,395
Series A, 5%, 2/15/33	5,400	5,014,980
North Hempstead, New York, GO, Refunding, Series B (d)(e):		
6.40%, 4/01/13	1,745	2,035,385
6.40%, 4/01/17	555	684,903
Rochester, New York, Housing Authority, Mortgage Revenue Bonds (Andrews Terrace Apartments Project), AMT, 4.70%, 12/20/38 (l)	1,500	1,180,290
Syracuse, New York, IDA, PILOT Revenue Bonds (Carousel Center Project), AMT, Series A, 5%, 1/01/36 (m)	11,500	8,595,905
		145,688,055
Education — 4.9%		
Madison County, New York, IDA, Civic Facility Revenue Bonds (Colgate University Project), Series A (b):		
5%, 7/01/30	5,410	5,163,412
5%, 7/01/35	4,250	3,966,780
New York City, New York, City IDA, Civic Facility Revenue Refunding Bonds (Nightingale-Bamford School), 5.25%, 1/15/18 (b)	1,275	1,361,649
New York City, New York, IDA, Civic Facility Revenue Refunding Bonds (Polytechnic University), 5.25%, 11/01/37 (c)	2,480	1,750,186
New York City, New York, Trust for Cultural Resources Revenue Refunding Bonds (American Museum of Natural History), Series A (d):		
5%, 7/01/36	4,250	4,048,890
5%, 7/01/44	1,500	1,398,960
New York State Dormitory Authority, Non-State Supported Debt, Revenue Refunding Bonds (Mount Sinai School of Medicine of New York University), 5%, 7/01/35 (d)	2,100	1,900,437
New York State Dormitory Authority, Revenue Refunding Bonds (City University System), Series C, 7.50%, 7/01/10 (e)	1,740	1,824,025
Rensselaer County, New York, IDA, Civic Facility Revenue Bonds (Rensselaer Polytechnic Institute), Series B, 5.50%, 8/01/22 (b)	1,255	1,281,305
		22,695,644

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield New York Insured Fund, Inc. (MYN)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
New York (continued)				
Hospitals/Health Care — 7.4%				
Nassau Health Care Corporation, New York, Health System Revenue Bonds, 5.75%, 8/01/09 (a)(i)	$	10,830	$	11,317,025
New York City, New York, City IDA, Parking Facility Revenue Bonds (Royal Charter Properties Inc. — The New York and Pennsylvania Hospital Leasehold Project), 5.75%, 12/15/29 (a)		7,970		8,090,985
New York State Dormitory Authority, Mortgage Revenue Bonds (Montefiore Medical Center), 5%, 8/01/33 (d)(e)(f)		1,500		1,286,805
New York State Dormitory Authority, Non-State Supported Debt Revenue Bonds (Presbyterian Hospital of New York), 5%, 8/15/36 (a)(f)		5,000		4,510,050
New York State Dormitory Authority Revenue Bonds:				
(Eger Health Care and Rehabilitation Center), 6.10%, 8/01/37 (f)		2,905		2,924,957
(New York State Rehabilitation Association), Series A, 5.25%, 7/01/19 (j)		1,180		1,221,276
(New York State Rehabilitation Association), Series A, 5.125%, 7/01/23 (j)		1,000		1,022,150
Series B, 6.50%, 2/15/11 (d)(h)		1,000		1,111,410
New York State Dormitory Authority, State Supported Debt Revenue Bonds (Mental Health Facilities), Series B, 5.25%, 2/15/14 (i)		1,570		1,851,752
Oneida County, New York, IDA, Civic Facilities Revenue Bonds (Mohawk Valley), Series A, 5.20%, 2/01/13 (a)		1,365		1,390,471
				34,726,881
Housing — 3.9%				
Monroe County, New York, IDA, Revenue Bonds (Southview Towers Project), AMT:				
6.125%, 2/01/20		1,295		1,317,883
6.25%, 2/01/31		1,125		1,091,036
New York City, New York, City Housing Development Corporation, M/F Housing Revenue Bonds, AMT:				
Series C, 5%, 11/01/26		1,500		1,363,305
Series C, 5.05%, 11/01/36		2,000		1,612,300
Series H-1, 4.70%, 11/01/40		1,340		1,008,873
New York State Dormitory Authority Revenue Bonds, (Upstate Community Colleges), Series A, 6%, 7/01/10 (a)(i)		1,780		1,932,225
New York State, HFA, M/F Housing Revenue Bonds (Saint Philips Housing), AMT, Series A, 4.65%, 11/15/38 (k)		3,750		3,188,400
New York State Mortgage Agency, Homeowner Mortgage Revenue Bonds, AMT, Series 143, 4.90%, 10/01/37		1,000		804,040
New York State Mortgage Agency, Homeowner Mortgage Revenue Refunding Bonds, AMT:				
Series 133, 4.95%, 10/01/21		1,540		1,517,116
Series 143, 4.85%, 10/01/27 (d)		2,485		2,168,983
Yonkers, New York, IDA, Revenue Bonds (Monastery Manor associates LP Project), AMT, 5.25%, 4/01/37		2,445		2,014,215

		18,018,376

Municipal Bonds	Par (000)	Value
New York (continued)		
IDA/PCR/Resource Recovery — 15.7%		
New York City, New York, City IDA, IDR (Japan Airlines Company), AMT, 6%, 11/01/15 (a)	$ 5,900	$ 5,909,381
New York City, New York, City IDA, PILOT Revenue Bonds:		
(Queens Baseball Stadium Project), 5%, 1/01/36 (b)	11,800	9,228,190
(Queens Baseball Stadium Project), 5%, 1/01/39 (b)	5,250	4,053,420
(Queens Baseball Stadium Project), 5%, 1/01/46 (b)	9,900	7,437,672
(Yankee Stadium Project), 5%, 3/01/36 (d)	4,650	3,634,254
(Yankee Stadium Project), 5%, 3/01/46 (e)	13,250	9,557,887
New York City, New York, City IDA, Special Facility Revenue Refunding Bonds (Terminal One Group Association Project), AMT, 5.50%, 1/01/24	1,500	1,276,335
New York State Urban Development Corporation, Personal Income Tax Revenue Bonds Series C-1, 5%, 3/15/13 (d)(i)	3,000	3,450,630
Suffolk County, New York, IDA, IDR (Keyspan-Port Jefferson), AMT, 5.25%, 6/01/27	4,625	3,670,585
Suffolk County, New York, IDA, Solid Waste Disposal Facility, Revenue Refunding Bonds (Ogden Martin System Huntington Project), AMT (b):		
6%, 10/01/10	8,530	8,834,180
6.15%, 10/01/11	9,170	9,646,106
6.25%, 10/01/12	6,470	6,860,917
		73,559,557
State — 10.5%		
New York City, New York, Sales Tax Asset Receivable Corporation Revenue Bonds, Series A, 5%, 10/15/32 (b)	11,200	10,955,616
New York State Dormitory Authority, Lease Revenue Bonds (State University Dormitory Facilities), 5%, 7/01/37 (b)	2,800	2,634,212
New York State Dormitory Authority, Non-State Supported Debt Revenue Bonds (School District Financing Program) (a):		
Series A, 5%, 10/01/35	550	522,781
Series C, 5%, 10/01/37	4,050	3,837,375
New York State Dormitory Authority Revenue Bonds (School Districts Financing Program), Series E, 5.75%, 10/01/30 (d)	6,900	6,974,244
New York State Dormitory Authority, Revenue Refunding Bonds (School District Financing Program), Series I, 5.75%, 10/01/18 (d)	1,370	1,514,590
New York State Dormitory Authority, State Personal Income Tax Revenue Bonds (Education), Series B, 5.75%, 3/15/36	7,850	8,173,498
New York State Thruway Authority, Highway and Bridge Trust Fund, Second Generation Revenue Bonds, Series B, 5%, 4/01/27	1,500	1,484,010

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield New York Insured Fund, Inc. (MYN)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
New York (continued)				
State (concluded)				
New York State Thruway Authority, Second General Highway and Bridge Trust Fund Revenue Bonds, Series A, 5%, 4/01/26 (b)	$	4,380	$	4,379,693
New York State Urban Development Corporation, Personal Income Tax Revenue Bonds (State Facilities), Series A-1, 5%, 3/15/29 (d)(e)		5,000		4,924,900
New York State Urban Development Corporation, Revenue Refunding Bonds (Correctional Capital Facilities), Series A, 6.50%, 1/01/11 (a)		3,190		3,463,989
				48,864,908
Tobacco — 1.9%				
Tobacco Settlement Financing Corporation of New York Revenue Bonds:				
Series A-1, 5.25%, 6/01/20 (b)		5,000		5,086,800
Series A-1, 5.25%, 6/01/22 (b)		2,000		2,016,800
Series C-1, 5.50%, 6/01/22		1,900		1,934,257
				9,037,857
Transportation — 34.0%				
Metropolitan Transportation Authority, New York, Dedicated Tax Fund Revenue Bonds, Series A, 5%, 11/15/35 (d)		5,000		4,521,750
Metropolitan Transportation Authority, New York, Dedicated Tax Fund, Revenue Refunding Bonds, Series A:				
5%, 11/15/30 (d)		6,600		6,199,314
5%, 11/15/32 (a)		1,015		936,764
Metropolitan Transportation Authority, New York, Revenue Bonds, Series C, 6.50%, 11/15/28		3,200		3,443,200
Metropolitan Transportation Authority, New York, Revenue Refunding Bonds:				
Series A, 5.125%, 11/15/22 (d)(e)		1,390		1,418,815
Series A, 5.125%, 11/15/31 (g)		6,875		6,490,619
Series A, 5.25%, 11/15/31 (d)(e)		2,500		2,409,700
Series A, 5.75%, 11/15/32 (c)		29,300		29,544,948
Series B, 5%, 11/15/28 (d)		1,500		1,438,035
Metropolitan Transportation Authority, New York, Transit Facilities Revenue Refunding Bonds, Series C, 5.125%, 7/01/12 (a)(i)		1,640		1,854,414
Metropolitan Transportation Authority, New York, Transportation Revenue Refunding Bonds, Series F (d):				
5.25%, 11/15/12 (i)		6,235		7,158,154
5%, 11/15/31		5,000		4,658,600
New York State Thruway Authority, General Revenue Bonds, Series F, 5%, 1/01/30 (b)		6,000		5,636,700
New York State Thruway Authority, General Revenue Refunding Bonds (a):				
Series G, 4.75%, 1/01/29		7,250		6,865,170

Municipal Bonds		Par (000)		Value
Series G, 4.75%, 1/01/30		9,000		8,389,080
Series H, 5%, 1/01/37 (b)		10,000		9,412,400
New York (continued)				
Transportation (concluded)				
Niagara, New York, Frontier Authority, Airport Revenue Bonds (Buffalo Niagara International Airport), Series B, 5.50%, 4/01/19 (d)	$	2,705	$	2,734,836
Port Authority of New York and New Jersey, Consolidated Revenue Bonds, AMT, 141st Series, 4.50%, 9/01/35 (j)		1,000		748,430
Port Authority of New York and New Jersey, Special Obligation Revenue Bonds (JFK International Air Terminal LLC), AMT, Series 6 (d):				
6.25%, 12/01/10		14,750		14,952,960
6.25%, 12/01/11		7,175		7,241,440
6.25%, 12/01/13		4,425		4,345,704
6.25%, 12/01/14		7,380		7,147,751
5.75%, 12/01/22		10,160		8,157,464
5.75%, 12/01/25		3,500		2,676,870
Triborough Bridge and Tunnel Authority, New York, General Purpose Revenue Refunding Bonds, Series Y, 6%, 1/01/12 (d)(h)		1,790		1,943,403
Triborough Bridge and Tunnel Authority, New York, Subordinate Revenue Bonds:				
5%, 11/15/28 (b)		2,465		2,464,827
Series A, 5.25%, 11/15/30 (d)		6,000		6,014,640
				158,805,988
Utilities — Electric & Gas — 7.2%				
Long Island Power Authority, New York, Electric System Revenue Bonds, Series A (b):				
5%, 9/01/29		7,000		6,466,110
5%, 9/01/34		7,750		6,937,645
Long Island Power Authority, New York, Electric System Revenue Refunding Bonds (g):				
Series A, 6%, 5/01/33		1,500		1,556,835
Series A, 5.75%, 4/01/39		1,015		1,050,464
Series B, 5%, 12/01/35 (a)		4,000		3,801,480
New York State Energy Research and Development Authority, Gas Facilities Revenue Refunding Bonds (Brooklyn Union Gas Company/Keyspan), AMT, Series A, 4.70%, 2/01/24 (e)		16,250		13,829,075
				33,641,609
Utilities — Water & Sewer — 8.9%				
Buffalo, New York, Sewer Authority, Revenue Refunding Bonds, Series F, 6%, 7/01/13 (d)(e)		4,300		4,608,783
New York City, New York, City Municipal Water Finance Authority, Water and Sewer System Revenue Bonds, Series A:				
5.75%, 6/15/11 (d)(i)		24,650		27,428,548
4.25%, 6/15/39 (a)		1,050		851,676
5.75%, 6/15/40		1,600		1,680,400

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield New York Insured Fund, Inc. (MYN)
(Percentages shown are based on Net Assets)

Municipal Bonds		Par (000)		Value
New York (concluded)				
Utilities — Water & Sewer (concluded)				
New York City, New York, City Municipal Water Finance Authority, Water and Sewer System, Revenue Refunding Bonds:				
Series A, 5.125%, 6/15/34 (d)	$	1,250	$	1,216,188
Series A, 5%, 6/15/35 (d)		3,500		3,337,215
Series C, 5%, 6/15/35 (d)		975		929,653
Series F, 5%, 6/15/29 (a)		500		494,305
Niagara Falls, New York, GO (Water Treatment Plant), AMT, 7.25%, 11/01/10 (d)(h)		1,000		1,108,860
				41,655,628
Utilities — Irrigation, Resource Recovery, Solid Waste & Others — 0.7%				
Dutchess County, New York, Resource Recovery Agency Revenue Bonds (Solid Waste System-Forward), Series A, 5.40%, 1/01/13 (d)		1,700		1,787,907
North Country, New York, Development Authority, Solid Waste Management System, Revenue Refunding Bonds, 6%, 5/15/15 (a)		1,260		1,408,491
				3,196,398
Utility — 0.8%				
New York State Environmental Facilities Corporation, Special Obligation Revenue Refunding Bonds (Riverbank State Park), 6.25%, 4/01/12 (b)		3,500		3,749,515
Total New York Municipal Bonds — 127.1%				593,640,416
Guam — 0.8%				
Transportation — 0.8%				
A.B. Won Guam International Airport Authority, General Revenue Refunding Bonds, AMT, Series C (d):				
5.25%, 10/01/21		2,240		2,062,301
5.25%, 10/01/22		2,050		1,844,918
Total Guam Municipal Bonds — 0.8%				3,907,219
Puerto Rico — 11.8%				

County/City/Special District/School District — 1.8%				
Puerto Rico Commonwealth, GO, Refunding, Sub-Series C-7 (d):				
6%, 7/01/27		2,000		1,885,200
6%, 7/01/28		4,775		4,468,540
Puerto Rico Municipal Finance Agency, GO, Series A,5%, 8/01/30 (a)		2,000		1,889,240
				8,242,980
Housing — 0.8%				
Puerto Rico Housing Financing Authority, Capital Funding Program, Subordinate Revenue Refunding Bonds, 5.125%, 12/01/27		4,000		3,926,280

Municipal Bonds		**Par (000)**		**Value**
Puerto Rico (concluded)				
State — 3.0%				
Puerto Rico Commonwealth Infrastructure Financing Authority, Special Tax and Capital Appreciation Revenue Bonds, Series A (n):				
4.62%, 7/01/31 (e)	$	22,030	$	4,090,530
4.67%, 7/01/35 (b)		3,900		530,127
5.05%, 7/01/43 (b)		8,000		599,040
Puerto Rico Commonwealth, Public Improvement, GO, Refunding, Series A, 5.50%, 7/01/20 (d)		2,000		1,943,800
Puerto Rico Convention Center District Authority, Hotel Occupancy Tax Revenue Bonds, Series A, 5%, 7/01/31 (b)		4,000		3,252,240
Puerto Rico Public Buildings Authority, Government Facilities Revenue Refunding Bonds, Series M-3, 6%, 7/01/28 (d)(o)		2,850		2,667,087
Puerto Rico Public Finance Corporation, Commonwealth Appropriation Revenue Bonds, Series E, 5.50%, 2/01/12 (i)		700		776,615
				13,859,439
Transportation — 4.3%				
Puerto Rico Commonwealth Highway and Transportation Authority, Highway Revenue Refunding Bonds, Series CC (a):				
5.50%, 7/01/31		5,000		5,044,800
5.25%, 7/01/33		1,000		970,500
5.25%, 7/01/34		4,000		3,863,760
5.25%, 7/01/36		3,750		3,612,750
Puerto Rico Commonwealth Highway and Transportation Authority, Transportation Revenue Bonds, Series G (e):				
5.25%, 7/01/13 (i)		655		764,536
5.25%, 7/01/19		2,265		2,114,695
5.25%, 7/01/21		345		316,883
Puerto Rico Commonwealth Highway and Transportation Authority, Transportation Revenue Refunding Bonds, Series D, 5.75%, 7/01/12 (i)		3,000		3,393,360
				20,081,284

Utilities — Water & Sewer — 1.9%		
Puerto Rico Commonwealth Aqueduct and Sewer Authority, Senior Lien Revenue Bonds, Series A, 5.125%, 7/01/47 (g)	10,980	9,098,797
Total Puerto Rico Municipal Bonds — 11.8%		55,208,780
Total Municipal Bonds — 139.7%		652,756,415

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniYield New York Insured Fund, Inc. (MYN)
(Percentages shown are based on Net Assets)

Municipal Bonds Transferred to Tender Option Bond Trusts (p)		Par (000)		Value
County/City/Special District/School District — 7.6%				
Metropolitan Transportation Authority, New York, Dedicated Tax Fund Revenue Bonds, Series A, 5%, 11/15/31 (d)	$	3,901	$	3,634,796
New York City, New York, GO, Series J, 5%, 5/15/23		6,750		6,789,690
New York State Dormitory Authority, Non-State Supported Debt Revenue Bonds (New York University), Series A, 5%, 07/01/38		6,498		6,153,388
Triborough Bridge and Tunnel Authority, New York, Revenue Refunding Bonds, 5%, 11/15/32 (d)		19,678		18,985,808
				35,563,682
Education — 0.9%				
Erie County, New York, IDA, School Facility Revenue Bonds (City of Buffalo Project), 5.75%, 5/01/24 (a)		4,238		4,352,536
Special Tax — 6.3%				
New York City, New York, Sales Tax Asset Receivable Corporation Revenue Bonds, Series A (b):				
5.25%, 10/15/27		13,000		13,215,474
5%, 10/15/32		16,000		16,152,246
				29,367,720
Transportation — 3.8%				
Metropolitan Transportation Authority, New York, Revenue Refunding Bonds, Series A, 5%, 11/15/30 (a)		8,460		8,039,284
Port Authority of New York and New Jersey, Consolidated Revenue Bonds, AMT, 137th Series, 5.125%, 7/15/30 (a)		2,500		2,210,400
Triborough Bridge and Tunnel Authority, New York, Revenue Refunding Bonds, 5.25%, 11/15/23 (d)		7,000		7,277,620
				17,527,304
Total Municipal Bonds Transferred to Tender Option Bond Trusts — 18.6%				86,811,242
Total Long-Term Investments (Cost — $795,463,899) — 158.3%				739,567,657

Short-Term Securities	Shares

Money Market Fund — 6.2%		
CMA New York Municipal Money Fund, 0.11% (q)(r)	28,697,315	28,697,315
Total Short-Term Securities (Cost — $28,697,315) — 6.2%		28,697,315
Total Investments (Cost — $824,161,214*) — 164.5%		768,264,972
Other Assets Less Liabilities — 1.9%		8,725,634
Liability for Trust Certificates, Including Interest Expense and Fees Payable — (10.8)%		(50,393,876)
Preferred Shares, at Redemption Value — (55.6)%		(259,530,603)
Net Assets Applicable to Common Shares — 100.0%		$ 467,066,127

* The cost and unrealized appreciation (depreciation) of investments as of January 31, 2009, as computed for federal income tax purposes, were as follows:

Aggregate cost	$ 773,363,314
Gross unrealized appreciation	$ 9,366,190
Gross unrealized depreciation	(64,564,060)
Net unrealized depreciation	$ (55,197,870)

(a) FSA Insured.

(b) AMBAC Insured.

(c) ACA Insured.

(d) MBIA Insured.

(e) FGIC Insured.

(f) FHA Insured.

(g) Assured Guaranty Insured.

(h) Security is collateralized by Municipal or U.S. Treasury Obligations.

(i) U.S. government securities, held in escrow, are used to pay interest on this security, as well as to retire the bond in full at the date indicated, typically at a premium to par.

(j) CIFG Insured.

(k) FNMA Collateralized.

(l) GNMA Collateralized.

(m) XL Capital Insured.

(n) Represents a zero-coupon bond. Rate shown reflects the current yield as of report date.

(o) Commonwealth Guaranteed.

(p) Securities represent bonds transferred to a tender option bond trust in exchange for which the Trust acquired residual interest certificates. These securities serve as collateral in a financing transaction. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

(q) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	**Net Activity**	**Income**
CMA New York Municipal Money Fund	14,726,148	$ 127,707

(r) Represents the current yield as of report date.

See Notes to Financial Statements.

- Effective August 1, 2008, the Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements. Various inputs are used in determining the fair value of investments, which are as follows:

  - Level 1 — price quotations in active markets/exchanges for identical securities
  - Level 2 — other observable inputs (including, but not limited to: quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)
  - Level 3 — unobservable inputs based on the best information available in the circumstance, to the extent observable inputs are not available (including the Fund's own assumption used in determining the fair value of investments)

  The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For information about the Fund's policy regarding valuation of investments and other significant accounting policies, please refer to Note 1 of the Notes to Financial Statements.

The following table summarizes the inputs used as of January 31, 2009 in determining the fair valuation of the Fund's investments:

Valuation Inputs	**Investments in Securities**
	Assets
Level 1	$ 28,697,315
Level 2	739,567,657
Level 3	—
Total	$ 768,264,972

See Notes to Financial Statements.

Statements of Assets and Liabilities

January 31, 2009 (Unaudited)	BlackRock MuniHoldings Insured Fund II, Inc. (MUE)	BlackRock MuniYield California Insured Fund, Inc. (MCA)	BlackRock MuniYield Insured Fund, Inc. (MYI)	BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)	BlackRock MuniYield New York Insured Fund, Inc. (MYN)
Assets					
Investments at value — unaffiliated[1]	$ 421,411,922	$ 680,247,463	$ 1,211,593,003	$ 239,771,512	$ 739,567,657
Investments at value — affiliated[2]	26,102,900	29,933,000	56,743,907	3,413,904	28,697,315
Cash	—	96,424	98,917	62,565	15,315
Investments sold receivable	21,354,775	—	6,139,060	—	4,230,644
Interest receivable	5,835,285	10,968,244	15,886,425	3,286,304	10,028,236
Dividends receivable — affiliated	—	591	777	—	280
Other assets	—	29,231	46,588	788	32,634
Prepaid expenses	17,771	27,661	54,307	9,539	30,291
Total assets	474,722,653	721,302,614	1,290,562,984	246,544,612	782,602,372
Liabilities					
Bank overdraft	7,963,125	—	—	—	—
Income dividends payable — Common Shares	1,117,621	1,838,324	3,768,975	651,765	2,070,913
Investments purchased payable	10,795,512	9,544,621	13,034,589	—	3,012,285
Investment advisory fees payable	172,565	301,488	540,100	105,680	325,864
Interest expense and fees payable	461,561	479,815	734,615	45,873	294,348
Officer's and Directors' fees payable	557	25,302	48,101	248	27,545
Payable to other affiliates	2,340	3,808	25,870	1,344	3,828
Other accrued expenses payable	90,867	132,898	214,279	25,549	171,331
Other liabilities	—	—	926	—	—
Total accrued liabilities	20,604,148	12,326,256	18,367,455	830,459	5,906,114
Other Liabilities					
Trust certificates[3]	50,863,242	77,169,823	141,910,680	9,030,000	50,099,528
Total Liabilities	71,467,390	89,496,079	160,278,135	9,860,459	56,005,642

Preferred Shares at Redemption Value					
$25,000 per share liquidation preferences, plus unpaid dividends[4]	145,312,325	192,327,876	377,256,535	87,359,948	259,530,603
Net Assets Applicable to Common Shareholders	$ 257,942,938	$ 439,478,659	$ 753,028,314	$ 149,324,205	$ 467,066,127

See Notes to Financial Statements.

Statements of Assets and Liabilities (concluded)

January 31, 2009 (Unaudited)	BlackRock MuniHoldings Insured Fund II, Inc. (MUE)	BlackRock MuniYield California Insured Fund, Inc. (MCA)	BlackRock MuniYield Insured Fund, Inc. (MYI)	BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)	BlackRock MuniYield New York Insured Fund, Inc. (MYN)
Net Assets Consist of					
Common Shares, par value $0.10 per share[5]	$ 2,235,243	$ 3,436,120	$ 6,730,313	$ 1,206,972	$ 3,944,596
Paid-in capital in excess of par	296,180,166	494,224,666	943,024,418	162,821,380	549,677,325
Undistributed net investment income	2,230,547	1,392,995	2,891,434	930,629	(140,540)
Accumulated net realized losses	(14,148,050)	(13,647,381)	(80,252,282)	(4,656,422)	(30,519,012)
Net unrealized appreciation/depreciation	(28,554,968)	(45,927,741)	(119,365,569)	(10,978,354)	(55,896,242)
Net Assets Applicable to Common Shareholders	$ 257,942,938	$ 439,478,659	$ 753,028,314	$ 149,324,205	$ 467,066,127
Net asset value per Common Share	$ 11.54	$ 12.79	$ 11.19	$ 12.37	$ 11.84
[1] Investments at cost — unaffiliated	$ 449,966,890	$ 726,175,204	$ 1,330,958,572	$ 250,749,866	$ 795,463,899
[2] Investments at cost — affiliated	$ 26,102,900	$ 29,933,000	$ 56,743,907	$ 3,413,904	$ 28,697,315
[3] Represents short-term floating rate certificates issued by tender option bond trusts.					
[4] Preferred Shares outstanding:					
Par value $0.05 per share	—	—	—	1,941	10,379
Par value $0.10 per share	5,812	7,692	15,087	1,553	—
[5] Common Shares outstanding	22,352,426	34,361,200	67,303,125	12,069,721	39,445,962

See Notes to Financial Statements.

Statements of Operations

Six Months Ended January 31, 2009 (Unaudited)	BlackRock MuniHoldings Insured Fund II, Inc. (MUE)	BlackRock MuniYield California Insured Fund, Inc. (MCA)	BlackRock MuniYield Insured Fund, Inc. (MYI)	BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)	BlackRock MuniYield New York Insured Fund, Inc. (MYN)
Investment Income					
Interest	$ 11,443,218	$ 18,297,630	$ 33,324,224	$ 6,536,275	$ 20,569,046
Income — affiliated	111,253	129,009	395,568	33,262	129,184
Total income	11,554,471	18,426,639	33,719,792	6,569,537	20,698,230
Expenses					
Investment advisory	1,299,560	1,872,014	3,378,896	637,076	2,033,962
Commission for Preferred Shares	160,710	199,844	424,646	95,080	289,971
Accounting services	61,946	118,688	171,419	35,208	113,945
Professional	58,014	60,288	92,739	44,712	76,495
Transfer agent	29,945	43,802	79,120	24,446	50,776
Officer and Directors	18,898	25,665	50,235	10,693	30,113
Printing	15,809	24,288	44,864	9,486	30,409
Custodian	14,082	18,718	33,684	8,666	21,718
Registration	5,064	6,062	12,886	5,020	7,586
Miscellaneous	46,317	53,518	70,409	38,379	53,197
Total expenses excluding interest expense and fees	1,710,345	2,422,887	4,358,898	908,766	2,708,172
Interest expense and fees[1]	892,376	1,401,918	2,582,052	207,625	1,048,608
Total expenses	2,602,721	3,824,805	6,940,950	1,116,391	3,756,780
Less fees waived by advisor	(329,510)	(49,331)	(53,510)	(11,327)	(52,696)
Less fees paid indirectly	—	—	(338)	—	—
Total expenses after waiver and fees paid indirectly	2,273,211	3,775,474	6,887,102	1,105,064	3,704,084
Net investment income	9,281,260	14,651,165	26,832,690	5,464,473	16,994,146
Realized and Unrealized Gain (Loss)					

Net realized gain (loss) from:					
Investments	(9,104,483)	(3,489,160)	(33,580,607)	495,394	(2,160,076)
Futures and forward interest rate swaps	—	—	(3,603,000)	—	77,657
	(9,104,483)	(3,489,160)	(37,183,607)	495,394	(2,082,419)
Net change in unrealized appreciation/depreciation on:					
Investments	(20,185,654)	(33,615,182)	(74,925,257)	(11,076,374)	(49,970,534)
Futures and forward interest rate swaps	—	—	1,951,000	—	—
	(20,185,654)	(33,615,182)	(72,974,257)	(11,076,374)	(49,970,534)
Total realized and unrealized loss	(29,290,137)	(37,104,342)	(110,157,864)	(10,580,980)	(52,052,953)
Dividends to Preferred Shareholders From					
Net investment income	(2,275,573)	(3,272,982)	(6,479,584)	(1,408,108)	(4,070,709)
Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Operations	$ (22,284,450)	$ (25,726,159)	$ (89,804,758)	$ (6,524,615)	$ (39,129,516)

[1] Related to tender option bond trusts.

See Notes to Financial Statements.

Statements of Changes in Net Assets

BlackRock MuniHoldings Insured Fund II, Inc. (MUE)

Increase (Decrease) in Net Assets:	**Six Months Ended January 31, 2009 (Unaudited)**	**Period October 1, 2007 to July 31, 2008**	**Year Ended September 30, 2007**
Operations			
Net investment income	$ 9,281,260	$ 17,333,246	$ 21,591,345
Net realized gain (loss)	(9,104,483)	(975,689)	1,453,420
Net change in unrealized appreciation/depreciation	(20,185,654)	(19,379,156)	(11,297,856)
Dividends to Preferred Shareholders from net investment income	(2,275,573)	(5,637,611)	(7,380,240)
Net increase (decrease) in net assets applicable to Common Shareholders resulting from operations	(22,284,450)	(8,659,210)	4,366,669
Dividends to Common Shareholders From			
Net investment income	(6,705,728)	(11,176,213)	(13,813,799)
Net Assets Applicable to Common Shareholders			
Total decrease in net assets applicable to Common Shares	(28,990,178)	(19,835,423)	(9,447,130)
Beginning of period	286,933,116	306,768,539	316,215,669
End of period	$ 257,942,938	$ 286,933,116	$ 306,768,539
End of period undistributed net investment income	$ 2,230,547	$ 1,930,588	$ 1,649,057

See Notes to Financial Statements.

Statements of Changes in Net Assets

BlackRock MuniYield California Insured Fund, Inc. (MCA)

Increase (Decrease) in Net Assets:	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007
Operations			
Net investment income	$ 14,651,165	$ 23,394,239	$ 31,671,735
Net realized gain (loss)	(3,489,160)	4,506,638	(691,224)
Net change in unrealized appreciation/depreciation	(33,615,182)	(30,619,927)	(14,047,467)
Dividends to Preferred Shareholders from net investment income	(3,272,982)	(6,754,719)	(9,517,264)
Net increase (decrease) in net assets applicable to Common Shareholders resulting from operations	(25,726,159)	(9,473,769)	7,415,780
Dividends to Common Shareholders From			
Net investment income	(11,029,945)	(17,146,239)	(23,228,171)
Net Assets Applicable to Common Shareholders			
Total decrease in net assets applicable to Common Shares	(36,756,104)	(26,620,008)	(15,812,391)
Beginning of period	476,234,763	502,854,771	518,667,162
End of period	$ 439,478,659	$ 476,234,763	$ 502,854,771
End of period undistributed net investment income	$ 1,392,995	$ 1,044,757	$ 1,243,580

See Notes to Financial Statements.

Statements of Changes in Net Assets

BlackRock MuniYield Insured Fund, Inc. (MYI)

Increase (Decrease) in Net Assets:	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007
Operations			
Net investment income	$ 26,832,690	$ 46,868,985	$ 69,741,370
Net realized loss	(37,183,607)	(25,129,148)	(3,882,395)
Net change in unrealized appreciation/depreciation	(72,974,257)	(88,495,600)	(48,971,838)
Dividends to Preferred Shareholders from net investment income	(6,479,584)	(14,617,148)	(20,832,026)
Net decrease in net assets applicable to Common Shareholders resulting from operations	(89,804,758)	(81,372,911)	(3,944,889)
Dividends to Common Shareholders From			
Net investment income	(22,613,850)	(33,920,775)	(45,362,306)
Net Assets Applicable to Common Shareholders			
Total decrease in net assets applicable to Common Shares	(112,418,608)	(115,293,686)	(49,307,195)
Beginning of period	865,446,922	980,740,608	1,030,047,803
End of period	$ 753,028,314	$ 865,446,922	$ 980,740,608
End of period undistributed net investment income	$ 2,891,434	$ 5,152,178	$ 9,065,982

See Notes to Financial Statements.

Statements of Changes in Net Assets

BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)

Increase (Decrease) in Net Assets:	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007
Operations			
Net investment income	$ 5,464,473	$ 8,435,072	$ 11,701,221
Net realized gain (loss)	495,394	(569,851)	1,293,712
Net change in unrealized appreciation/depreciation	(11,076,374)	(10,107,046)	(6,941,533)
Dividends to Preferred Shareholders from net investment income	(1,408,108)	(2,523,285)	(3,550,430)
Net increase (decrease) in net assets applicable to Common Shareholders resulting from operations	(6,524,615)	(4,765,110)	2,502,970
Dividends to Common Shareholders From			
Net investment income	(3,910,589)	(6,034,861)	(8,159,131)
Net Assets Applicable to Common Shareholders			
Total decrease in net assets applicable to Common Shares	(10,435,204)	(10,799,971)	(5,656,161)
Beginning of period	159,759,409	170,559,380	176,215,541
End of period	$ 149,324,205	$ 159,759,409	$ 170,559,380
End of period undistributed net investment income	$ 930,629	$ 784,853	$ 906,118

See Notes to Financial Statements.

Statements of Changes in Net Assets

BlackRock MuniYield New York Insured Fund, Inc. (MYN)

Increase (Decrease) in Net Assets:	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007
Operations			
Net investment income	$ 16,994,146	$ 26,222,090	$ 33,227,508
Net realized gain (loss)	(2,082,419)	(2,008,655)	1,647,832
Net change in unrealized appreciation/depreciation	(49,970,534)	(28,658,722)	(16,660,442)
Dividends to Preferred Shareholders from net investment income	(4,070,709)	(7,500,350)	(10,460,763)
Net increase (decrease) in net assets applicable to Common Shareholders resulting from operations	(39,129,516)	(11,945,637)	7,754,135
Dividends to Common Shareholders From			
Net investment income	(12,716,342)	(19,052,400)	(25,797,659)
Net Assets Applicable to Common Shareholders			
Total decrease in net assets applicable to Common Shares	(51,845,858)	(30,998,037)	(18,043,524)
Beginning of period	518,911,985	549,910,022	567,953,546
End of period	$ 467,066,127	$ 518,911,985	$ 549,910,022
End of period distributions in excess of net investment income	$ (140,540)	$ (347,635)	$ (51,182)

See Notes to Financial Statements.

Statements of Cash Flows

Six Months Ended January 31, 2009 (Unaudited)	BlackRock MuniYield California Insured Fund, Inc. (MCA)	BlackRock MuniYield Insured Fund, Inc. (MYI)
Cash Provided by Operating Activities		
Net decrease in net assets resulting from operations excluding dividends to Preferred Shareholders	$ (22,453,177)	$ (83,325,174)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:		
Decrease in receivables	827,140	317,464
Decrease in prepaid expenses and other assets	(10,927)	(12,170)
Increase in other liabilities	479	(379,314)
Increase (decrease) in other liabilities	37,104,342	106,554,864
Amortization of premium and discount on investments	807,509	4,599,433
Proceeds from sales of long-term securities	114,822,653	365,941,044
Purchases of long-term securities	(31,589,559)	(203,638,761)
Net purchases of short-term investments	(32,726,747)	(20,214,501)
Cash provided by operating activities	66,781,713	169,842,885
Cash Used for Financing Activities		
Cash receipts from trust certificates	33,544,140	60,872,278
Cash payments from trust certificates	(85,904,681)	(206,592,706)
Cash dividends paid to Common Shareholders	(11,029,945)	(22,613,850)
Cash dividends paid to Preferred Shareholders	(3,398,721)	(6,662,933)
Cash used for financing activities	(66,789,207)	(174,997,211)
Cash		
Net decrease in cash	(7,494)	(5,154,326)
Cash at beginning of period	103,918	5,253,243
Cash at end of period	$ 96,424	$ 98,917

Cash Flow Information		
Cash paid for interest	$ 1,325,354	$ 2,764,881

See Notes to Financial Statements.

Financial Highlights

BlackRock MuniHoldings Insured Fund II, Inc. (MUE)

	Six Months Ended January 31, 2009 (Unaudited)	Period October 1, 2007 to July 31, 2008	Year Ended September 30,				
			2007	2006	2005	2004	2003
Per Share Operating Performance							
Net asset value, beginning of period	$ 12.84	$ 13.72	$ 14.15	$ 14.23	$ 14.41	$ 14.37	$ 14.48
Net investment income[1]	0.42	0.78	0.97	0.93	0.97	1.00	1.02
Net realized and unrealized gain (loss)	(1.32)	(0.91)	(0.45)	0.03	(0.09)	(0.00)[2]	(0.17)
Dividends to Preferred Shareholders from net investment income	(0.10)	(0.25)	(0.33)	(0.29)	(0.18)	(0.09)	(0.10)
Net increase (decrease) from investment operations	(1.00)	(0.38)	0.19	0.67	0.70	0.91	0.75
Dividends to Common Shareholders from net investment income	(0.30)	(0.50)	(0.62)	(0.75)	(0.88)	(0.87)	(0.86)
Net asset value, end of period	$ 11.54	$ 12.84	$ 13.72	$ 14.15	$ 14.23	$ 14.41	$ 14.37
Market price, end of period	$ 10.23	$ 11.30	$ 12.39	$ 12.96	$ 13.90	$ 13.25	$ 13.13
Total Investment Return[3]							
Based on net asset value	(7.33)%[4]	(2.41)%[4]	1.73%	5.19%	5.35%	7.12%	5.95%
Based on market price	(6.66)%[4]	(4.89)%[4]	0.31%	(1.37)%	11.92%	7.80%	3.45%
Ratios Based on Average Net Assets Applicable to Common Shareholders							
Total expenses after waiver and fees paid indirectly and excluding interest expense and fees[5,6]	1.06%[7]	1.15%[7]	1.17%	1.16%	1.15%	1.12%	1.14%
Total expenses after waiver and fees paid indirectly[5]	1.74%[7]	1.45%[7]	1.54%	1.57%	1.32%	1.17%	1.21%

Total expenses[5]	1.99%[7]	1.55%[7]	1.61%	1.64%	1.38%	1.27%	1.30%
Net investment income[5]	7.11%[7]	6.74%[7]	6.94%	6.70%	6.72%	6.93%	7.19%
Dividends to Preferred Shareholders	1.74%[7]	2.19%[7]	2.37%	2.10%	1.27%	0.63%	0.69%
Net investment income to Common Shareholders	5.37%[7]	4.55%[7]	4.57%	4.60%	5.45%	6.30%	6.50%

Supplemental Data

Net assets applicable to Common Shareholders, end of period (000)	$ 257,943	$ 286,933	$ 306,769	$ 316,216	$ 318,044	$ 322,072	$ 321,270
Preferred Shares outstanding at liquidation preference, end of period (000)	$ 145,300	$ 145,300	$ 204,500	$ 204,500	$ 204,500	$ 204,500	$ 204,500
Portfolio turnover	14%	43%	43%	35%	46%	45%	50%
Asset coverage per Preferred Share, end of period[8]	$ 69,383	$ 74,376	$ 62,514	$ 63,667	$ 63,881	$ 64,375	$ 64,279

1 Based on average shares outstanding.

2 Amount is less than $(0.01) per share.

3 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

4 Aggregate total investment return.

5 Do not reflect the effect of dividends to Preferred Shareholders.

6 Interest expense and fees relate to tender option bond trusts. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

7 Annualized.

8 Prior period amounts have been recalculated to conform with current period presentation.

See Notes to Financial Statements.

Financial Highlights (continued)

BlackRock MuniYield California Insured Fund, Inc. (MCA)

	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31,				
			2007	2006	2005	2004	2003
Per Share Operating Performance							
Net asset value, beginning of period	$ 13.86	$ 14.63	$ 15.09	$ 14.82	$ 15.23	$ 15.10	$ 15.26
Net investment income[1]	0.43	0.68	0.92	0.96	0.95	0.94	0.95
Net realized and unrealized gain (loss)	(1.08)	(0.75)	(0.42)	0.35	(0.33)	0.13	(0.18)
Dividends to Preferred Shareholders from net investment income	(0.10)	(0.20)	(0.28)	(0.24)	(0.13)	(0.06)	(0.06)
Net increase (decrease) from investment operations	(0.75)	(0.27)	0.22	1.07	0.49	1.01	0.71
Dividends to Common Shareholders from net investment income	(0.32)	(0.50)	(0.68)	(0.80)	(0.88)	(0.88)	(0.87)
Capital changes with respect to issuance of Preferred Shares	—	—	—	(0.00)[2]	(0.02)	—	—
Net asset value, end of period	$ 12.79	$ 13.86	$ 14.63	$ 15.09	$ 14.82	$ 15.23	$ 15.10
Market price, end of period	$ 10.74	$ 12.33	$ 13.16	$ 14.64	$ 14.16	$ 13.73	$ 13.82
Total Investment Return[3]							
Based on net asset value	(4.81)%[4]	(1.54)%[4]	1.76%	7.57%	3.55%	7.54%	5.29%
Based on market price	(10.15)%[4]	(2.63)%[4]	(5.65)%	9.22%	9.75%	5.93%	7.50%
Ratios to Average Net Assets Applicable to Common Shareholders							
Total expenses after waiver and excluding interest expense and fees[5,6]	1.08%[7]	1.04%[7]	1.03%	1.03%	0.96%	0.95%	0.94%
Total expenses after waiver[5]	1.72%[7]	1.36%[7]	1.53%	1.59%	1.27%	1.08%	1.08%

Total expenses[5]	1.74%[7]	1.38%[7]	1.53%	1.60%	1.27%	1.08%	1.08%
Net investment income[5]	6.66%[7]	6.15%[7]	6.22%	6.46%	6.29%	6.29%	6.20%
Dividends to Preferred Shareholders	1.49%[7]	1.78%[7]	1.87%	1.62%	0.84%	0.43%	0.37%
Net investment income to Common Shareholders	5.17%[7]	4.37%[7]	4.35%	4.84%	5.45%	5.86%	5.83%
Supplemental Data							
Net assets applicable to Common Shareholders, end of period (000)	$ 439,479	$ 476,235	$ 502,855	$ 518,667	$ 509,066	$ 523,206	$ 518,786
Preferred Shares outstanding at liquidation preference, end of period (000)	$ 192,300	$ 192,300	$ 275,000	$ 275,000	$ 275,000	$ 230,000	$ 230,000
Portfolio turnover	6%	25%	25%	27%	39%	63%	47%
Asset coverage per Preferred Share, end of period[8]	$ 82,138	$ 86,933	$ 70,733	$ 72,170	$ 71,280	$ 81,875	$ 81,393

1 Based on average shares outstanding.

2 Amount is less than $(0.01) per share.

3 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

4 Aggregate total investment return.

5 Do not reflect the effect of dividends to Preferred Shareholders.

6 Interest expense and fees relate to tender option bond trusts. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

7 Annualized.

8 Prior period amounts have been recalculated to conform with current period presentation.

See Notes to Financial Statements.

Financial Highlights (continued)

BlackRock MuniYield Insured Fund, Inc. (MYI)

	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007	2006	2005	2004	2003
Per Share Operating Performance							
Net asset value, beginning of period	$ 12.86	$ 14.57	$ 15.30	$ 15.27	$ 15.59	$ 15.36	$ 15.15
Net investment income[1]	0.40	0.70	1.04	0.98	1.04	1.04	1.08
Net realized and unrealized gain (loss)	(1.63)	(1.69)	(0.79)	0.46	(0.22)	0.25	0.16
Dividends and distributions to Preferred Shareholders from:							
Net investment income	(0.10)	(0.22)	(0.31)	(0.25)	(0.16)	(0.07)	(0.08)
Net realized gain	—	—	—	(0.04)	(0.02)	—	—
Net increase (decrease) from investment operations	(1.33)	(1.21)	(0.06)	1.15	0.64	1.22	1.16
Less dividends and distributions to Common Shareholders from:							
Net investment income	(0.34)	(0.50)	(0.67)	(0.78)	(0.95)	(0.97)	(0.95)
Net realized gain	—	—	—	(0.34)	(0.01)	—	—
Total dividends and distributions to Common Shareholders	(0.34)	(0.50)	(0.67)	(1.12)	(0.96)	(0.97)	(0.95)
Capital changes with respect to issuance of Preferred Shares	—	—	—	—	(0.00)[2]	(0.02)	—
Net asset value, end of period	$ 11.19	$ 12.86	$ 14.57	$ 15.30	$ 15.27	$ 15.59	$ 15.36
Market price, end of period	$ 10.46	$ 12.22	$ 13.04	$ 14.36	$ 14.70	$ 14.57	$ 14.51

Total Investment Return[3]							
Based on net asset value	(10.04)%[4]	(8.22)%[4]	(0.06)%	8.09%	4.54%	8.52%	8.18%
Based on market price	(11.51)%[4]	(2.55)%[4]	(4.70)%	5.38%	7.69%	7.36%	8.19%

Ratios to Average Net Assets Applicable to Common Shareholders

Total expenses after waiver and fees paid indirectly and excluding interest expense and fees[5,6]	1.13%[7]	1.06%[7]	1.03%	1.02%	1.01%	0.95%	0.94%
Total expenses after waiver and fees paid indirectly[5]	1.80%[7]	1.63%[7]	1.71%	1.67%	1.60%	1.19%	1.18%
Total expenses[5]	1.82%[7]	1.64%[7]	1.71%	1.67%	1.60%	1.19%	1.18%
Net investment income[5]	7.03%[7]	6.51%[7]	6.94%	6.52%	6.62%	6.77%	6.99%
Dividends to Preferred Shareholders	1.70%[7]	2.03%[7]	2.06%	1.67%	1.05%	0.51%	0.49%
Net investment income to Common Shareholders	5.33%[7]	4.48%[7]	4.88%	4.85%	5.57%	6.26%	6.50%
Supplemental Data							
Net assets applicable to Common Shareholders, end of period (000)	$ 753,028	$ 865,447	$ 980,741	$ 1,030,048	$ 1,028,022	$ 1,049,423	$ 953,662
Preferred Shares outstanding at liquidation preference, end of period (000)	$ 377,175	$ 377,175	$ 570,000	$ 570,000	$ 570,000	$ 570,000	$ 440,000
Portfolio turnover	14%	70%	117%	95%	105%	122%	95%
Asset coverage per Preferred Share, end of period[8]	$ 74,918	$ 82,381	$ 68,039	$ 70,198	$ 70,099	$ 71,032	$ 79,188

1 Based on average shares outstanding.

2 Amount is less than $(0.01) per share.

3 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

4 Aggregate total investment return.

5 Do not reflect the effect of dividends to Preferred Shareholders.

6 Interest expense and fees relate to tender option bond trusts. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

7 Annualized.

8 Prior period amounts have been recalculated to conform with current period presentation.

See Notes to Financial Statements.

Financial Highlights (continued)

BlackRock MuniYield Michigan Insured Fund II, Inc. (MYM)

	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007	2006	2005	2004	2003
Per Share Operating Performance							
Net asset value, beginning of period	$ 13.24	$ 14.13	$ 14.60	$ 14.54	$ 15.21	$ 15.21	$ 14.91
Net investment income[1]	0.45	0.70	0.97	0.97	0.99	1.00	1.02
Net realized and unrealized gain (loss)	(0.88)	(0.88)	(0.47)	0.13	(0.58)	(0.00)[2]	0.24
Dividends to Preferred Shareholders from net investment income	(0.12)	(0.21)	(0.29)	(0.26)	(0.15)	(0.07)	(0.07)
Net increase (decrease) from investment operations	(0.55)	(0.39)	0.21	0.84	0.26	0.93	1.19
Dividends to Common Shareholders from net investment income	(0.32)	(0.50)	(0.68)	(0.78)	(0.91)	(0.93)	(0.89)
Capital changes with respect to issuance of Preferred Shares	—	—	—	0.00[3]	(0.02)	—	—
Net asset value, end of period	$ 12.37	$ 13.24	$ 14.13	$ 14.60	$ 14.54	$ 15.21	$ 15.21
Market price, end of period	$ 10.12	$ 11.63	$ 12.61	$ 13.97	$ 14.41	$ 14.54	$ 13.75
Total Investment Return[4]							
Based on net asset value	(3.46)%[5]	(2.48)%[5]	1.78%	6.09%	1.73%	6.78%	8.82%
Based on market price	(10.09)%[5]	(4.01)%[5]	(5.07)%	2.42%	5.47%	12.91%	9.06%
Ratios Based on Average Net Assets Applicable to Common Shareholders							
Total expenses after waiver and excluding interest expense and fees[6,7]	1.19%[8]	1.14%[8]	1.14%	1.13%	1.07%	1.05%	1.01%
Total expenses after waiver[6]	1.47%[8]	1.45%[8]	1.68%	1.64%	1.46%	1.26%	1.20%

Total expenses[6]	1.48%[8]	1.48%[8]	1.69%	1.65%	1.47%	1.28%	1.22%
Net investment income[6]	7.26%[8]	6.61%[8]	6.77%	6.72%	6.57%	6.61%	6.73%
Dividends to Preferred Shareholders	1.87%[8]	1.98%[8]	2.05%	1.78%	0.97%	0.47%	0.47%
Net investment income to Common Shareholders	5.39%[8]	4.63%[8]	4.72%	4.94%	5.60%	6.14%	6.26%
Supplemental Data							
Net assets applicable to Common Shareholders, end of period (000)	$ 149,324	$ 159,759	$ 170,559	$ 176,216	$ 175,264	$ 183,224	$ 183,237
Preferred Shares outstanding at liquidation preference, end of period (000)	$ 87,350	$ 87,350	$ 99,000	$ 99,000	$ 99,000	$ 89,000	$ 89,000
Portfolio turnover	5%	20%	10%	14%	19%	35%	27%
Asset coverage per Preferred Share, end of period[9]	$ 67,740	$ 70,730	$ 68,076	$ 69,507	$ 69,269	$ 76,471	$ 76,474

1 Based on average shares outstanding.

2 Amount is less than $(0.01) per share.

3 Amount is less than $0.01 per share.

4 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

5 Aggregate total investment return.

6 Do not reflect the effect of dividends to Preferred Shareholders.

7 Interest expense and fees relate to tender option bond trusts. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

8 Annualized.

9 Prior period amounts have been recalculated to conform with current period presentation.

See Notes to Financial Statements.

Financial Highlights (concluded)

BlackRock MuniYield New York Insured Fund, Inc. (MYN)

	Six Months Ended January 31, 2009 (Unaudited)	Period November 1, 2007 to July 31, 2008	Year Ended October 31, 2007	2006	2005	2004	2003
Per Share Operating Performance							
Net asset value, beginning of period	$ 13.16	$ 13.94	$ 14.40	$ 14.26	$ 14.81	$ 14.81	$ 14.83
Net investment income[1]	0.43	0.66	0.84	0.92	0.94	0.91	0.97
Net realized and unrealized gain (loss)	(1.33)	(0.77)	(0.38)	0.23	(0.50)	(0.01)	(0.09)
Dividends to Preferred Shareholders from net investment income	(0.10)	(0.19)	(0.27)	(0.24)	(0.13)	(0.06)	(0.07)
Net increase (decrease) from investment operations	(1.00)	(0.30)	0.19	0.91	0.31	0.84	0.81
Dividends to Common Shareholders from net investment income	(0.32)	(0.48)	(0.65)	(0.77)	(0.84)	(0.84)	(0.83)
Capital change resulting from issuance of Preferred Shares	—	—	—	(0.00)[2]	(0.02)	—	—
Net asset value, end of period	$ 11.84	$ 13.16	$ 13.94	$ 14.40	$ 14.26	$ 14.81	$ 14.81
Market price, end of period	$ 10.00	$ 11.80	$ 12.80	$ 14.10	$ 13.17	$ 13.20	$ 13.25
Total Investment Return[3]							
Based on net asset value	(7.06)%[4]	(1.86)%[4]	1.66%	6.71%	2.53%	6.53%	6.19%
Based on market price	(12.46)%[4]	(4.16)%[4]	(4.67)%	13.13%	6.24%	6.13%	5.45%
Ratios Based on Average Net Assets Applicable to Common Shareholders							
Total expenses after waiver and excluding interest expense and fees[5,6]	1.12%[7]	1.04%[7]	1.04%	1.03%	0.96%	0.94%	0.94%
Total expenses after waiver[5]	1.56%[7]	1.46%[7]	1.63%	1.56%	1.31%	1.13%	1.15%

Total expenses[5]	1.58%[7]	1.48%[7]	1.64%	1.56%	1.31%	1.13%	1.16%
Net investment income[5]	7.15%[7]	6.36%[7]	5.96%	6.50%	6.37%	6.23%	6.49%
Dividends to Preferred Shareholders	1.71%[7]	1.82%[7]	1.88%	1.68%	0.87%	0.42%	0.50%
Net investment income to Common Shareholders	5.44%[7]	4.54%[7]	4.08%	4.82%	5.50%	5.81%	5.99%
Supplemental Data							
Net assets applicable to Common Shareholders, end of period (000)	$ 467,066	$ 518,912	$ 549,910	$ 567,954	$ 562,474	$ 584,248	$ 584,025
Preferred Shares outstanding at liquidation preference, end of period (000)	$ 259,475	$ 259,475	$ 304,000	$ 304,000	$ 304,000	$ 259,000	$ 259,000
Portfolio turnover	10%	17%	25%	43%	35%	18%	45%
Asset coverage per Preferred Share, end of period[8]	$ 70,006	$ 75,011	$ 70,242	$ 71,725	$ 71,259	$ 81,397	$ 81,375

1 Based on average shares outstanding.

2 Amount is less than $(0.01) per share.

3 Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

4 Aggregate total investment return.

5 Do not reflect the effect of dividends to Preferred Shareholders.

6 Interest expense and fees relate to tender option bond trusts. See Note 1 of the Notes to Financial Statements for details of municipal bonds transferred to tender option bond trusts.

7 Annualized.

8 Prior period amounts have been recalculated to conform with current period presentation.

See Notes to Financial Statements.

Notes to Financial Statements (Unaudited)
1. Significant Accounting Policies:

BlackRock MuniHoldings Insured Fund II, Inc. (“MuniHoldings Insured II”), BlackRock MuniYield California Insured Fund, Inc. (“MuniYield California Insured”), BlackRock MuniYield Insured Fund, Inc. (“MuniYield Insured”), BlackRock MuniYield Michigan Insured Fund II, Inc. (“MuniYield Michigan Insured II”) and BlackRock MuniYield New York Insured Fund, Inc. (“MuniYield New York Insured”) (the “Funds” or individually as the “Fund”), are registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as non-diversified, closed-end management investment companies. The Funds are organized as Maryland corporations. The Funds’ financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Funds determine, and make available for publication, the net asset values of their Common Shares on a daily basis.

The following is a summary of significant accounting policies followed by the Funds:

Valuation of Investments: Municipal investments (including commitments to purchase such investments on a “when-issued” basis) are valued on the basis of prices provided by dealers or pricing services selected under the supervision of each Fund’s Board of Directors (the “Board”). In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrixes, market transactions in comparable investments and information with respect to various relationships between investments. Financial futures contracts traded on exchanges are valued at their last sale price. Swap agreements are valued utilizing quotes received daily by each Fund’s pricing service or through brokers, which are derived using daily swap curves and trades of underlying securities. Investments in open-end investment companies are valued at net asset value each business day. Short-term securities with maturities less than 60 days are valued at amortized cost, which approximate fair value.

In the event that application of these methods of valuation results in a price for an investment which is deemed not to be representative of the market value of such investment, the investment will be valued by a method approved by the Board as reflecting fair value (“Fair Value Assets”). When determining the price for Fair Value Assets, the investment advisor and/or the sub-advisor seeks to determine the price that the Funds might reasonably expect to receive from the current sale of that asset in an arm’s-length transaction. Fair value determinations shall be based upon all available factors that the investment advisor and/or the sub-advisor deems relevant. The pricing of all Fair Value Assets is subsequently reported to the Board or a committee thereof.

Derivative Financial Instruments: The Funds may engage in various portfolio investment strategies both to increase the return of the Funds and to hedge, or protect, their exposure to interest rate movements and movements in the securities markets. Losses may arise if the value of the contract decreases due to an unfavorable change in the price of the underlying security or if the counterparty does not perform under the contract.

- Financial futures contracts — Each Fund may purchase or sell financial futures contracts and options on such futures contracts for investment purposes or to manage their interest rate risk. Futures are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Pursuant to the contract, the Fund agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as margin variation and are recognized by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The use of futures transactions involves the risk of an imperfect correlation in the movements in the price of futures contracts, interest rates and the underlying assets, and the possible inability of counterparties to meet the terms of their contracts.

- Forward interest rate swaps — Each Fund may enter into forward interest rate swaps for investment purposes. In a forward interest rate swap, a Fund and the counterparty agree to make periodic net payments on a specified notional contract amount, commencing on a specified future effective date, unless terminated earlier. These periodic payments received or made by the Funds are recorded in the accompanying Statements of Operations as realized gains or losses, respectively. Swaps are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). When the swap is terminated, the Funds will record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and the Funds’ basis in the contract, if any. Swap transactions involve, to varying degrees, elements of credit and market risk in excess of the amounts recognized on the Statements of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements, and that there may be unfavorable changes in interest rates and/or market values associated with these transactions. The Funds generally intend to close each forward interest rate swap before the effective date specified in the agreement and therefore avoid entering into the interest rate swap underlying each forward interest rate swap.

Forward Commitments and When-Issued Delayed Delivery Securities: The Funds may purchase securities on a when-issued basis and may purchase or sell securities on a forward commitment basis. Settlement of such transactions normally occurs within a month or more after the purchase or sale commitment is made. The Funds may purchase securities under

Notes to Financial Statements (continued)

such conditions only with the intention of actually acquiring them, but may enter into a separate agreement to sell the securities before the settlement date. Since the value of securities purchased may fluctuate prior to settlement, the Funds may be required to pay more at settlement than the security is worth. In addition, the purchaser is not entitled to any of the interest earned prior to settlement. When purchasing a security on a delayed-delivery basis, the Funds assume the rights and risks of ownership of the security, including the risk of price and yield fluctuations.

Municipal Bonds Transferred to Tender Option Bond Trusts: The Funds leverage their assets through the use of tender option bond trusts ("TOBs"). A TOB is established by a third party sponsor forming a special purpose entity, into which one or more funds, or an agent on behalf of the funds, transfers municipal bonds. Other funds managed by the investment advisor may also contribute municipal bonds to a TOB into which each Fund has contributed securities. A TOB typically issues two classes of beneficial interests: short-term floating rate certificates, which are sold to third party investors, and residual certificates ("TOB Residuals"), which are generally issued to the participating funds that made the transfer. The TOB Residuals held by a Fund include the right of the Fund (1) to cause the holders of a proportional share of the floating rate certificates to tender their certificates at par, and (2) to transfer, within seven days, a corresponding share of the municipal bonds from the TOB to the Fund.

The TOB may also be terminated without the consent of the Fund upon the occurrence of certain events as defined in the TOB agreements. Such termination events may include the bankruptcy or default of the municipal security, a substantial downgrade in credit quality of the municipal security, the inability of the TOB to obtain quarterly or annual renewal of the liquidity support agreement, a substantial decline in market value of the municipal security or the inability to remarket the short-term floating rate certificates to third party investors.

The cash received by the TOB from the sale of the short-term floating rate certificates, less transaction expenses, is paid to the Fund, which typically invest the cash in additional municipal bonds. Each Fund's transfer of the municipal bonds to a TOB is accounted for as a secured borrowing, therefore the municipal bonds deposited into a TOB are presented in the Funds' Schedules of Investments and the proceeds from the issuance of the short-term floating rate certificates are shown on the Statements of Assets and Liabilities as trust certificates.

Interest income from the underlying securities is recorded by the Funds on an accrual basis. Interest expense incurred on the secured borrowing and other expenses related to remarketing, administration and trustee services to a TOB are reported as expenses of the Funds. The floating rate certificates have interest rates that generally reset weekly and their holders have the option to tender certificates to the TOB for redemption at par at each reset date. As of January 31, 2009, the aggregate value of the underlying municipal bonds transferred to TOBs, the related liability for trust certificates and the range of interest rates were as follows:

	Liability for Trust Certificates	Range of Rates	Underlying Municipal Bonds Transferred to TOBs
MuniHoldings Insured II	$ 50,863,242	1.826% – 3.390%	$ 90,557,754
MuniYield California Insured	$ 77,169,823	1.904% – 2.933%	$ 139,619,122
MuniYield Insured	$ 141,910,680	0.54% – 3.027%	$ 249,836,585
MuniYield Michigan Insured II	$ 9,030,000	2.242% – 2.630%	$ 16,844,667
MuniYield New York Insured	$ 50,099,528	1.363% – 3.279%	$ 86,811,242

Financial transactions executed through TOBs generally will underperform the market for fixed rate municipal bonds when interest rates rise, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Should short-term interest rates rise, each Fund's investment in TOBs may adversely affect each Fund's investment income and distributions to shareholders. Also, fluctuations in the market value of municipal bonds deposited into the TOB may adversely affect each Fund's net asset values per share.

Zero-Coupon Bonds: The Funds may invest in zero-coupon bonds, which are normally issued at a significant discount from face value and do not provide for periodic interest payments. Zero-coupon bonds may experience greater volatility in market value than similar maturity debt obligations which provide for regular interest payments.

Segregation: In cases in which the 1940 Act and the interpretive positions of the Securities and Exchange Commission ("SEC") require that the Funds segregate assets in connection with certain investments (e.g., swaps and financial futures contracts), the Funds will, consistent with certain interpretive letters issued by the SEC, designate on their books and records cash or other liquid securities having a market value at least equal to the amount that would otherwise be required to be physically segregated. Furthermore, based on requirements and agreements with certain exchanges and third party broker-dealers, the Funds may also be required to deliver or deposit securities as collateral for certain investments (e.g., financial futures contracts and swaps).

Investment Transactions and Investment Income: Investment transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income is recorded on the ex-dividend dates. Interest income is recognized on the accrual basis. The Funds amortize all premiums and discounts on debt securities.

Notes to Financial Statements (continued)

Dividends and Distributions: Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates. Dividends and distributions to preferred shareholders are accrued and determined as described in Note 5.

Income Taxes: It is each Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

The Funds file US federal and various state and local tax returns. No income tax returns are currently under examination. The statute of limitations on MuniHoldings Insured II's US federal tax returns remains open for the three years ended September 30, 2007 and the period ended August 31, 2008. The statute of limitations on MuniYield California Insured, MuniYield Insured, MuniYield Michigan Insured II and MuniYield New York Insured's US federal tax returns remain open for the three years ended October 31, 2007 and the period ended August 31, 2008. The statutes of limitations on each Fund's state and local tax returns may remain open for an additional year depending upon the jurisdiction.

Recent Accounting Pronouncement: In March 2008, Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("FAS 161"), was issued and is effective for fiscal years beginning after November 15, 2008. FAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The impact on the Funds' financial statement disclosures, if any, is currently being assessed.

Deferred Compensation and Blackrock Closed-End Share Equivalent Investment Plan: Under the deferred compensation plan approved by each Fund's Board, non-interested Directors ("Independent Directors") may defer a portion of their annual complex-wide compensation. Deferred amounts earn an approximate return as though equivalent dollar amounts have been invested in common shares of other BlackRock Closed-End Funds selected by the Independent Directors. This has approximately the same economic effect for the Independent Directors as if the Independent Directors had invested the deferred amounts directly in other certain BlackRock Closed-End Funds.

The deferred compensation plan is not funded and obligations thereunder represent general unsecured claims against the general assets of the Funds. The Funds may, however elect to invest in common shares of other certain BlackRock Closed-End Funds selected by the Independent Directors in order to match their deferred compensation obligations.

Dividends and distributions from the BlackRock Closed-End Fund investments under the plan are included in income — affiliated on the Statements of Operations.

Bank Overdraft: MuniHoldings Insured II recorded a bank overdraft which resulted from estimates of available cash.

Other: Expenses directly related to each Fund are charged to that Fund. Other operating expenses shared by several funds are pro rated among those funds on the basis of relative net assets or other appropriate methods.

2. Investment Advisory Agreement and Other Transactions with Affiliates:

Each Fund has entered into an Investment Advisory Agreement with BlackRock Advisors, LLC (the "Advisor"), an indirect, wholly owned subsidiary of BlackRock, Inc., to provide investment advisory and administration services. As of January 31, 2009, The PNC Financial Services Group, Inc. ("PNC") and Bank of America Corporation ("BAC") are the largest stockholders of BlackRock, Inc. ("BlackRock"). BAC became a stockholder of BlackRock following its acquisition of Merrill Lynch & Co., Inc. ("Merrill Lynch") on January 1, 2009. Prior to that date, both PNC and Merrill Lynch were considered affiliates of the Funds under the 1940 Act. Subsequent to the acquisition, PNC remains an affiliate, but due to the restructuring of Merrill Lynch's ownership interest of BlackRock, BAC is not deemed to be an affiliate under the 1940 Act.

The Advisor is responsible for the management of each Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of each Fund. For such services, each Fund pays the Advisor a monthly fee at an annual rate of 0.55% for MuniHoldings Insured II, and 0.50% for MuniYield California Insured, MuniYield Insured, MuniYield Michigan Insured II, and MuniYield New York Insured, of each Fund's average daily net assets. Average daily net assets is the average daily value of the Fund's total assets minus the sum of its accrued liabilities.

The Advisor has voluntarily agreed to waive its advisory fee on the proceeds of Preferred Shares and TOBs that exceeds 35% of the average daily net assets of MuniHoldings Insured II, which is included in fees waived by advisor on the Statements of Operations. For the six months ended January 31, 2009, the Advisor waived its fees in the amount of $14,537.

The Advisor has agreed to waive its advisory fee by the amount of investment advisory fees each Fund pays to the Advisor indirectly through its investment in affiliated money market funds, which are included in fees

Notes to Financial Statements (continued)

waived by advisor on the Statements of Operations. For the six months ended January 31, 2009, the amounts waived were as follows:

	Fees Waived by Advisor
MuniHoldings Insured II	$ 314,973
MuniYield California Insured	$ 49,331
MuniYield Insured	$ 53,510
MuniYield Michigan Insured II	$ 11,327
MuniYield New York Insured	$ 52,696

The Advisor has entered into separate sub-advisory agreements with BlackRock Investment Management, LLC ("BIM"), an affiliate of the Advisor, with respect to each Fund, under which the Advisor pays BIM for services it provides, a monthly fee that is a percentage of the investment advisory fee paid by each Fund to the Advisor.

For the six months ended January 31, 2009, each Fund reimbursed the Advisor for certain accounting services, which are included in accounting services in the Statements of Operations. The reimbursements were as follows:

	Accounting Services
MuniHoldings Insured II	$ 4,057
MuniYield California Insured	$ 6,167
MuniYield Insured	$ 10,848
MuniYield Michigan Insured II	$ 2,341
MuniYield New York Insured	$ 6,887

Pursuant to the terms of the custody agreement, custodian fees may be reduced by amounts calculated on uninvested cash balances, which are shown on the Statements of Operations as fees paid indirectly.

Certain officers and/or directors of the Funds are officers and/or directors of BlackRock, Inc. or its affiliates. The Funds reimburse the Advisor for the compensation paid to the Funds' Chief Compliance Officer.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the six months ended January 31, 2009 were as follows:

	Total Purchases	Total Sales
MuniHoldings Insured II	$ 59,649,307	$ 103,537,476
MuniYield California Insured	$ 41,134,145	$ 124,916,173
MuniYield Insured Fund	$ 179,053,280	$ 338,893,320
MuniYield Michigan Insured II	$ 12,049,288	$ 31,147,425

MuniYield New York Insured	$ 76,886,575	$ 151,129,944

4. Concentration, Market and Credit Risk:

The Funds invest a substantial amount of its assets in issuers located in a single state or limited number of states. Please see the Schedules of Investments for concentrations in specific states.

Many municipalities insure repayment of their bonds, which reduces the risk of loss due to issuer default. The market value of these bonds may fluctuate for other reasons, including market perception of the value of such insurance, and there is no guarantee that the issuer will meet its obligation.

In the normal course of business, the Funds invest in securities and enter into transactions where risks exist due to fluctuations in the market (market risk) or failure of the issuer of a security to meet all its obligations (credit risk). The value of securities held by the Funds may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Funds; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to credit risk, the Funds may be exposed to counterparty risk, or the risk that an entity with which the Funds has unsettled or open transactions may default. Financial assets, which potentially expose the Funds to credit and counterparty risks, consist principally of investments and cash due from counterparties. The extent of the Funds' exposure to credit and counterparty risks with respect to these financial assets is approximated by their value recorded in the Funds' Statements of Assets and Liabilities.

5. Capital Share Transactions:

Each Fund is authorized to issue 200,000,000 shares, including Preferred Shares all of which were initially classified as Common Shares, with a par value of $0.10 per share. Each Board is authorized, however, to reclassify any unissued shares of common shares without approval of Common Shareholders.

Common Shares

Shares issued and outstanding during the six months ended January 31, 2009, the period November 1, 2007 (October 1, 2007 for MuniHoldings Insured II) to July 31, 2008 and the year ended October 31, 2007 (September 30, 2007 for MuniHoldings Insured II) remained constant for the Funds.

Preferred Shares

The Preferred Shares are redeemable at the option of each Fund, in whole or in part, on any dividend payment date at their liquidation preference plus any accumulated or unpaid dividends whether or not declared. The Preferred Shares are also subject to mandatory redemption at their liquidation preference per share plus any accumulated or unpaid dividends, whether or not declared, if certain requirements relating to the composition of the assets and liabilities of each Fund, as set forth in each Fund's Articles Supplementary, are not satisfied.

The holders of Preferred Shares have voting rights equal to the holders of Common Shares (one vote per share) and will vote together with holders of Common Shares (one vote per share) as a single class. However, the holders of Preferred Shares, voting as a separate class, are also entitled

Notes to Financial Statements (continued)

to elect two Directors for a Fund. In addition, the 1940 Act requires that along with approval by shareholders that might otherwise be required, the approval of the holders of a majority of any outstanding Preferred Shares, voting separately as a class, would be required to (a) adopt any plan of reorganization that would adversely affect the Preferred Shares, (b) change a Fund's sub-classification as a closed-end investment company or change its fundamental investment restrictions or (c) change its business so as to cease to be an investment company.

The Funds had the following series of Preferred Shares outstanding and effective yields at January 31, 2009:

	Series	Shares	Yield	Reset Frequency
MuniHoldings Insured II	A	1,492[1]	0.716%	7
	B	1,492[1]	0.746%	7
	C	2,828[1]	0.731%	7
MuniYield California Insured	A	1,259[1]	0.594%	28
	B	1,259[1]	0.655%	7
	C	1,119[1]	0.731%	7
	D	1,398[1]	0.655%	28
	E	1,398[1]	0.716%	7
	F	1,259[2]	1.778%	7
MuniYield Insured	A	1,456[1]	0.868%	28
	B	1,456[1]	0.640%	28
	C	1,456[1]	0.655%	28
	D	1,456[1]	0.746%	28
	E	2,647[1]	0.746%	7
	F	1,588[1]	0.594%	28
	G	1,588[1]	0.655%	7
	H	1,720[2]	1.715%	7
	I	1,720[2]	1.695%	7
MuniYield Michigan Insured II	A	1,941[1]	0.655%	7
	B	1,200[1]	0.731%	7
	C	353[2]	1.778%	7
MuniYield New York Insured	A	1,451[1]	1.142%	28
	B	1,451[1]	0.655%	7
	C	2,390[1]	0.655%	7
	D	1,673[1]	0.731%	7
	E	1,878[1]	0.746%	28
	F	1,536[2]	1.751%	7

1 The maximum applicable rate on this series of Preferred Stock is the higher of 110% of the AA commercial paper rate or 110% of 90% of the Kenny S&P 30-day High Grade Index rate divided by 1.00 minus the marginal tax rate.

[2] The maximum applicable rate on this series of Preferred Stock is the higher of 110% plus or times (i) the Telerate/BBA LIBOR or (ii) 90% of the Kenny S&P 30-day High Grade Index rate divided by 1.00 minus the marginal tax rate.

Dividends on seven-day Preferred Shares are cumulative at a rate, which is reset every seven days based on the results of an auction. Dividends on 28-day Preferred Shares are cumulative at a rate which is reset every 28 days based on the results of an auction. If the Preferred Shares fail to clear the auction on an auction date, the Fund is required to pay the maximum applicable rate on the Preferred Shares to holders of such shares for successive dividend periods until such time as the stock is successfully auctioned. The maximum applicable rate on the Preferred Shares is footnoted as applicable on the above chart. The low, high and average dividend rates on the Preferred Shares for each Fund for the six months ended January 31, 2009 were as follows:

	Series	Low	High	Average
MuniHoldings Insured II	A	0.594%	12.261%	3.049%
	B	0.640%	12.565%	3.064%
	C	0.594%	11.347%	3.044%
MuniYield California Insured	A	0.594%	11.728%	3.521%
	B	0.594%	11.728%	3.116%
	C	0.594%	11.347%	3.044%
	D	0.655%	8.682%	3.010%
	E	0.594%	12.261%	3.049%
	F	1.682%	12.523%	3.862%
MuniYield Insured	A	0.868%	5.757%	2.956%
	B	0.640%	12.565%	3.742%
	C	0.655%	8.651%	3.016%
	D	0.746%	7.494%	2.631%
	E	0.640%	12.565%	3.160%
	F	0.594%	10.205%	3.341%
	G	0.594%	10.205%	3.086%
	H	1.640%	12.246%	3.848%
	I	0.655%	11.762%	3.786%
MuniYield Michigan Insured II	A	0.594%	10.205%	3.086%
	B	0.594%	11.347%	3.044%
	C	1.682%	12.523%	3.862%
MuniYield New York Insured	A	1.097%	7.158%	2.823%
	B	0.594%	10.205%	3.086%
	C	0.594%	11.728%	3.103%
	D	0.594%	11.347%	3.044%
	E	0.746%	7.494%	2.631%
	F	1.640%	12.246%	3.848%

For the six months ended January 31, 2009, the Preferred Shares of each Fund failed to clear any of their auctions. As a result, the Preferred Shares dividend rates were reset to the maximum applicable rate, which ranged from 0.594% to 12.565%. A failed auction is not an event of default for the Funds but it has a negative impact on the liquidity of the Preferred Shares. A failed auction occurs when there are more sellers of a fund's auction rate preferred shares than buyers. It is impossible to predict how long this imbalance will last. A successful auction for each Fund's Preferred Shares may not occur for some time, if ever, and even if liquidity does resume, Preferred Shareholders may not have the ability to sell the Preferred Shares at their liquidation preference.

The Funds may not declare dividends or make other distributions on Common Shares or purchase any such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding Preferred Shares is less than 200%.

Prior to December 1, 2008, the Funds paid commissions to certain broker-dealers at the end of each auction at an annual rate of 0.25%, calculated on the aggregate principal amount. In December 2008, commissions paid to broker-dealers on Preferred Shares that experience a failed auction were reduced to 0.15% on the aggregate principal amount. The

Notes to Financial Statements (continued)

Funds will continue to pay commissions of 0.25% on the aggregate principal amount of all shares that successfully clear their auctions. Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a wholly owned subsidiary of Merrill Lynch, earned commissions for the period August 1, 2008 through December 31, 2008 as follows.

	Commissions
MuniHoldings Insured II	$ 176,638
MuniYield California Insured	$ 201,675
MuniYield Insured	$ 370,576
MuniYield Michigan Insured II	$ 109,435
MuniYield New York Insured	$ 353,527

Subsequent to that date, neither MLPF&S or Merrill Lynch are considered affiliates of the Funds.

On June 4, 2008, MuniHoldings Insured II and MuniYield Insured and on May 19, 2008 MuniYield California Insured, MuniYield Michigan Insured II and MuniYield New York Insured announced the following redemptions of Preferred Shares at a price of $25,000 per share plus any accrued and unpaid dividends through the redemption date:

MuniHoldings Insured II

	Redemption Date	Shares Redeemed	Aggregate Principal
Series A	6/27/08	608	$ 15,200,000
Series B	6/26/08	608	$ 15,200,000
Series C	6/25/08	1,152	$ 28,800,000

MuniYield California Insured

	Redemption Date	Shares Redeemed	Aggregate Principal
Series A	7/07/08	541	$ 13,525,000
Series B	6/30/08	541	$ 13,525,000
Series C	6/25/08	481	$ 12,025,000
Series D	7/11/08	602	$ 15,050,000
Series E	6/27/08	602	$ 15,050,000
Series F	6/26/08	541	$ 13,525,000

MuniYield Insured

	Redemption Date	Shares Redeemed	Aggregate Principal
Series A	6/26/08	744	$ 18,600,000
Series B	7/03/08	744	$ 18,600,000
Series C	7/10/08	744	$ 18,600,000
Series D	7/17/08	744	$ 18,600,000
Series E	6/26/08	1,353	$ 33,825,000
Series F	7/08/08	812	$ 20,300,000
Series G	6/24/08	812	$ 20,300,000
Series H	6/27/08	880	$ 22,000,000
Series I	6/23/08	880	$ 22,000,000

MuniYield Michigan Insured II

	Redemption Date	Shares Redeemed	Aggregate Principal
Series A	6/17/08	259	$ 6,475,000
Series B	6/25/08	160	$ 4,000,000
Series C	6/26/08	47	$ 1,175,000

MuniYield New York Insured

	Redemption Date	Shares Redeemed	Aggregate Principal
Series A	6/24/08	249	$ 6,225,000
Series B	6/17/08	249	$ 6,225,000
Series C	6/23/08	410	$ 10,250,000
Series D	6/25/08	287	$ 7,175,000
Series E	7/17/08	322	$ 8,050,000
Series F	6/27/08	264	$ 6,600,000

The Funds financed the Preferred Share redemptions with cash received from TOBs.

Shares issued and outstanding during the six months ended January 31, 2009 and the year ended October 31, 2007 (September 30, 2007 for MuniHoldings Insured II) remained constant.

6. Income Tax Information:

As of July 31, 2008, the Funds had capital loss carryforwards available to offset future realized capital gains through the indicated expiration dates:

Expires July 31,	MuniHoldings Insured II	MuniYield California Insured	MuniYield Insured	MuniYield Michigan Insured II	MuniYield New York Insured
2010	—	—	—	$ 1,050,253	$ 3,007,157
2011	—	$ 4,417,434	—	—	—
2012	$ 306,103	2,675,948	—	1,288,851	16,583,200
2014	—	—	$ 1,489,118	—	3,107,506
2015	—	1,362,395	5,979,955	—	—
2016	—	—	27,543,068	823,067	2,330,288
Total	$ 306,103	$ 8,455,777	$ 35,012,141	$ 3,162,171	$ 25,028,151

Notes to Financial Statements (concluded)

7. Restatement Information:

Subsequent to the initial issuance of MuniYield Insured's October 31, 2006 financial statements and MuniHoldings Insured II's September 30, 2006 financial statements, the Funds determined that the criteria for sale accounting in FAS 140 had not been met for certain transfers of municipal bonds and that these transfers should have been accounted for as secured borrowings rather than as sales. As a result, certain financial highlights for each of the three years in the period ended October 31, 2005 with respect to MuniYield Insured, and for each of the three years in the period ended September 30, 2005 with respect to MuniHoldings Insured II, have been restated to give effect to recording the transfers of the municipal bonds as secured borrowings, including recording interest on the bonds as interest income and interest on the secured borrowings as interest expense.

Financial Highlights for MuniYield Insured
For the Years Ended October 31, 2005, 2004 and 2003

	2005		2004		2003	
	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated
Total expenses, net of waiver[1]	1.01%	1.60%	0.95%	1.19%	0.94%	1.18%
Total expenses[1]	1.01%	1.60%	0.95%	1.19%	0.95%	1.18%
Portfolio turnover	123.85%	105%	144.40%	122%	114.05%	95%

1 Do not reflect the effect of dividends to Preferred Shareholders.

Financial Highlights for MuniHoldings Insured II
For the Years Ended September 30, 2005, 2004 and 2003

	2005		2004		2003	
	Previously Reported	Restated	Previously Reported	Restated	Previously Reported	Restated
Total expenses, net of waiver and reimbursement[1]	1.15%	1.32%	1.12%	1.17%	1.14%	1.21%
Total expenses[1]	1.21%	1.38%	1.21%	1.27%	1.23%	1.30%
Portfolio turnover	58.19%	46%	45.89%	45%	52%	50%

1 Do not reflect the effect of dividends to Preferred Shareholders.

8. Subsequent Events:

Each Fund paid a net investment income dividend to Common Shareholders on March 2, 2009 to shareholders of record on February 13, 2009.The amount of the net investment income dividend per share was as follows:

	Distribution Per Share
MuniHoldings Insured II	$ 0.050000
MuniYield California Insured	$ 0.053500
MuniYield Insured	$ 0.056000
MuniYield Michigan Insured II	$ 0.054000
MuniYield New York Insured	$ 0.052500

The dividends declared on Preferred Shares for the period February 1, 2009 to February 28, 2009 for the Funds were as follows:

	MuniHoldings Insured II	MuniYield California Insured	MuniYield Insured	MuniYield Michigan Insured II	MuniYield New York Insured
Series A	$ 21,899	$ 15,876	$ 18,558	$ 24,777	$ 20,346
Series B	$ 21,951	$ 17,918	$ 18,960	$ 24,948	$ 20,495
Series C	$ 39,972	$ 15,816	$ 20,624	$ 20,642	$ 34,014
Series D	—	$ 20,039	$ 21,625	$ 29,783	$ 23,647
Series E	—	$ 20,520	$ 38,944	—	$ 27,893
Series F	—	$ 43,389	$ 20,024	—	$ 52,935
Series G	—	—	$ 22,430	—	—
Series H	—	—	$ 59,276	—	—
Series I	—	—	$ 58,569	—	—

Officers and Directors

Richard E. Cavanagh, Chairman of the Board and Director
Karen P. Robards, Vice Chair of the Board,
Chair of the Audit Committee and Director
G. Nicholas Beckwith, III, Director
Richard S. Davis, Director
Kent Dixon, Director
Frank J. Fabozzi, Director
Kathleen F. Feldstein, Director
James T. Flynn, Director
Henry Gabbay, Director
Jerrold B. Harris, Director
R. Glenn Hubbard, Director
W. Carl Kester, Director
Donald C. Burke, Fund President and Chief Executive Officer
Anne F. Ackerley, Vice President
Neal J. Andrews, Chief Financial Officer
Jay M. Fife, Treasurer
Brian P. Kindelan, Chief Compliance Officer of the Funds
Howard B. Surloff, Secretary

Effective January 1, 2009, Robert S. Salomon, Jr. retired as Director of the Funds. The Board wishes Mr. Salomon well in his retirement.

BlackRock MuniHoldings Insured Fund II, Inc.,
BlackRock MuniYield California Insured Fund, Inc. and
BlackRock MuniYield Insured Fund, Inc.:

Custodian
State Street Bank and
Trust Company
Boston, MA 02101

Transfer Agent
Common Stock
Computershare Trust
Company, N.A.
Providence, RI 02490

Auction Agent
Preferred Shares
BNY Mellon Shareowner Services
Jersey City, NJ 07310

BlackRock MuniYield Michigan Insured Fund II, Inc. and
BlackRock MuniYield New York Insured Fund, Inc.:

Custodian
The Bank of New York Mellon
New York, NY 10286

Transfer Agent & Auction Agent
Common and Preferred Shares
BNY Mellon Shareowner Services
Jersey City, NJ 07310

For All Funds:

Accounting Agent
State Street Bank and
Trust Company
Princeton, NJ 08540

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
Princeton, NJ 08540

Legal Counsel
Skadden, Arps, Slate,
Meagher & Flom LLP
New York, NY 10036

Additional Information

Section 19 Notices

The amounts and sources of distributions reported are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon each Fund's investment experience during the year and may be subject to changes based on the tax regulations. Each Fund will send you a Form 1099-DIV each calendar year that will tell you how to report these distributions for federal income tax purposes.

	Total Fiscal Year-to-Date Cumulative Distributions by Character				Percentage of Fiscal Year-to-Date Cumulative Distributions by Character			
	Net Investment Income	**Net Realized Capital Gains**	**Return of Capital**	**Total Per Common Share**	**Net Investment Income**	**Net Realized Capital Gains**	**Return of Capital**	**Total Per Common Share**
BlackRock MuniYield New York Insured Fund, Inc.	$0.302	—	$0.018	$0.320	94%	—	6%	100%

Additional Information (continued)

Proxy Results

The Annual Meeting of Shareholders was held on September 12, 2008 for shareholders of record on July 14, 2008 to elect director nominees of each Fund:

Approved the Directors as follows:

	G. Nicholas Beckwith, III		Kent Dixon		R. Glenn Hubbard	
	Votes For	Votes Withheld	Votes For	Votes Withheld	Votes For	Votes Withheld
BlackRock MuniHoldings Insured Fund II, Inc.	19,399,814	1,770,064	19,395,147	1,774,731	19,388,443	1,781,435
BlackRock MuniYield California Insured Fund, Inc.	30,387,789	788,028	30,373,785	802,032	30,462,091	713,726
BlackRock MuniYield Insured Fund, Inc.	62,264,689	2,158,268	62,261,398	2,161,559	62,260,558	2,162,399
BlackRock MuniYield Michigan Insured Fund II, Inc.	10,966,906	574,369	10,960,187	581,088	10,962,463	578,812
BlackRock MuniYield New York Insured Fund, Inc.	34,928,672	1,562,530	34,920,239	1,570,963	34,917,212	1,573,990

	W. Carl Kester		Robert S. Salomon, Jr.		Richard S. Davis	
	Votes For	Votes Withheld	Votes For	Votes Withheld	Votes For	Votes Withheld
BlackRock MuniHoldings Insured Fund II, Inc.	4,456[1]	102[1]	19,394,947	1,774,931	19,395,147	1,774,731
BlackRock MuniYield California Insured Fund, Inc.	5,912[1]	307[1]	30,395,706	780,111	30,444,222	731,595
BlackRock MuniYield Insured Fund, Inc.	12,904[1]	805[1]	62,257,608	2,165,349	62,285,325	2,137,632
BlackRock MuniYield Michigan Insured Fund II, Inc.	2,837[1]	558[1]	10,965,117	576,158	10,975,379	565,896
BlackRock MuniYield New York Insured Fund, Inc.	8,170[1]	2,077[1]	34,911,937	1,579,265	34,933,464	1,557,738

	Frank J. Fabozzi		James T. Flynn		Karen P. Robards	
	Votes For	Votes Withheld	Votes For	Votes Withheld	Votes For	Votes Withheld
BlackRock MuniHoldings Insured Fund II, Inc.	4,456[1]	102[1]	19,394,947	1,774,931	19,395,147	1,774,731
BlackRock MuniYield California Insured Fund, Inc.	5,912[1]	307[1]	30,456,523	719,294	30,397,588	778,229
BlackRock MuniYield Insured Fund, Inc.	12,904[1]	805[1]	62,274,712	2,148,245	62,271,813	2,151,144
BlackRock MuniYield Michigan Insured Fund II, Inc.	2,837[1]	558[1]	10,972,636	568,639	10,974,697	566,578
BlackRock MuniYield New York Insured Fund, Inc.	8,170[1]	2,077[1]	34,923,564	1,567,638	34,930,074	1,561,128

	Richard E. Cavanagh		Kathleen F. Feldstein		Henry Gabbay	

	Votes For	Votes Withheld	Votes For	Votes Withheld	Votes For	Votes Withheld
BlackRock MuniHoldings Insured Fund II, Inc.	19,400,147	1,769,731	19,395,810	1,774,068	19,395,147	1,774,731
BlackRock MuniYield California Insured Fund, Inc.	30,456,814	719,003	30,395,488	780,329	30,443,791	732,026
BlackRock MuniYield Insured Fund, Inc.	62,261,746	2,161,211	62,243,677	2,179,280	62,291,979	2,130,978
BlackRock MuniYield Michigan Insured Fund II, Inc.	10,972,837	568,438	10,968,912	572,363	10,970,197	571,078
BlackRock MuniYield New York Insured Fund, Inc.	34,932,779	1,558,423	34,908,370	1,582,832	34,932,392	1,558,810

	Jerrold B. Harris	
	Votes For	Votes Withheld
BlackRock MuniHoldings Insured Fund II, Inc.	19,398,943	1,770,935
BlackRock MuniYield California Insured Fund, Inc.	30,402,575	773,242
BlackRock MuniYield Insured Fund, Inc.	62,248,633	2,174,324
BlackRock MuniYield Michigan Insured Fund II, Inc.	10,970,647	570,628
BlackRock MuniYield New York Insured Fund, Inc.	34,917,191	1,574,011

[1] Voted on by holders of Preferred Shares only.

Dividend Policy

The Funds' dividend policy is to distribute all or a portion of their net investment income to their shareholders on a monthly basis. In order to provide shareholders with a more stable level of dividend distributions, the Funds may at times pay out less than the entire amount of net investment income earned in any particular month and may at times in any particular month pay out such accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by the Funds for any particular month may be more or less than the amount of net investment income earned by the Funds during such month. The Funds' current accumulated but undistributed net investment income, if any, is disclosed in the Statements of Assets and Liabilities, which comprises part of the financial information included in this report.

Additional Information (concluded)

General Information

The Funds will mail only one copy of shareholder documents, including annual and semi-annual reports and proxy statements, to shareholders with multiple accounts at the same address. This practice is commonly called “householding” and it is intended to reduce expenses and eliminate duplicate mailings of shareholder documents. Mailings of your shareholder documents may be householded indefinitely unless you instruct us otherwise. If you do not want the mailing of these documents to be combined with those for other members of your household, please contact the Funds at (800) 441-7762.

Quarterly performance, semi-annual and annual reports and other information regarding the Funds may be found on BlackRock’s website, which can be accessed at http://www.blackrock.com. This reference to BlackRock’s website is intended to allow investors public access to information regarding the Funds and does not, and is not intended to, incorporate BlackRock’s website into this report.

Availability of Quarterly Schedule of Investments

The Funds file their complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Funds’ Forms N-Q are available on the Securities and Exchange Commissions’ (the “SEC”) website at http://www.sec.gov and may also be reviewed and copied at the SEC’s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The Funds’ Forms N-Q may also be obtained upon request and without charge by calling (800) 441-7762.

Electronic Delivery

Electronic copies of most financial reports are available on the Funds’ websites or shareholders can sign up for e-mail notifications of quarterly statements, annual and semi-annual reports by enrolling in the Funds’ electronic delivery program.

Shareholders Who Hold Accounts with Investment Advisors, Banks or Brokerages:

Please contact your financial advisor to enroll. Please note that not all investment advisors, banks or brokerages may offer this service.

Board Approvals

On September 12, 2008, the Board of Directors of the Funds voted unanimously to change certain investment guidelines of the Funds. Under normal market conditions, the Funds are required to invest at least 80% of their total assets in municipal bonds either (i) insured under an insurance policy purchased by the Funds or (ii) insured under an insurance policy obtained by the issuer of the municipal bond or any other party. Historically, the Funds have had an additional non-fundamental investment policy limiting its purchase of insured municipal bonds to those bonds insured by insurance providers with claims-paying abilities rated AAA or Aaa at the time of investment.

Following the onset of the credit and liquidity crises currently troubling the financial markets, the applicable rating agencies lowered the claims-paying ability rating of most of the municipal bond insurance providers below the highest rating category. As a result, the Advisor recommended, and the Board approved, an amended policy with respect to the purchase of insured municipal bonds that such bonds must be insured by insurance providers or other entities with claims-paying abilities rated at least investment grade. This investment grade restriction is measured at the time of investment, and the Funds will not be required to dispose of municipal bonds they hold in the event of subsequent downgrades. The approved changes do not alter the Funds’ investment objectives.

The Advisor and the Board believe the amended policy will allow the Advisor to better manage the Funds' portfolios in the best interest of the Funds' shareholders and to better meet the Funds' investment objectives.

Effective September 13, 2008, following approval by the Funds' Board and the applicable rating agencies, the Board amended the terms of the Funds' Articles Supplementary in order to allow the Funds to enter into TOB transactions, the proceeds of which were used to redeem a portion of the Funds' Preferred Shares. Accordingly, the definition of Inverse Floaters was amended to incorporate the Funds' permissible ratio of floating rate instruments into inverse floating rate instruments. Additionally, conforming changes and certain formula modifications concerning inverse floaters were made to the definitions of Moody's Discount Factor and S&P Discount Factor, as applicable, to integrate the Funds' investments in TOBs into applicable calculations.

This report is transmitted to shareholders only. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. The Funds have leveraged their Common Shares, which creates risks for Common Shareholders, including the likelihood of greater volatility of net asset value and market price of the Common Shares and the risk that fluctuations in the short-term dividend rates of the Preferred Shares, currently set at the maximum reset rate as a result of failed auctions, may affect the yield to Common Shareholders. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Funds use to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free (800) 441-7762; (2) at www.blackrock.com; and (3) on the Securities and Exchange Commission's website at http://www.sec.gov. Information about how the Funds voted proxies relating to securities held in the Funds' portfolios during the most recent 12-month period ended June 30 is available upon request and without charge (1) at www.blackrock.com or by calling (800) 441-7762 and (2) on the Securities and Exchange Commission's website at http://www.sec.gov.

BlackRock MuniHoldings Insured Fund II, Inc.
BlackRock MuniYield California Insured Fund, Inc.
BlackRock MuniYield Insured Fund, Inc.
BlackRock MuniYield Michigan Insured Fund II, Inc.
BlackRock MuniYield New York Insured Fund, Inc.
100 Bellevue Parkway
Wilmington, DE 19809

#MHMYINS5—SAR-1/09

Item 2 – Code of Ethics – Not Applicable to this semi-annual report

Item 3 – Audit Committee Financial Expert – Not Applicable to this semi-annual report

Item 4 – Principal Accountant Fees and Services – Not Applicable to this semi-annual report

Item 5 – Audit Committee of Listed Registrants – Not Applicable to this semi-annual report

Item 6 – Investments

(a) The registrant’s Schedule of Investments is included as part of the Report to Stockholders filed under Item 1 of this form.

(b) Not Applicable due to no such divestments during the semi-annual period covered since the previous Form N-CSR filing.

Item 7 – Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies – Not Applicable to this semi-annual report

Item 8 – Portfolio Managers of Closed-End Management Investment Companies – Not Applicable to this semi-annual report

Item 9 – Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers – Not Applicable

Item 10 – Submission of Matters to a Vote of Security Holders – The registrant’s Nominating and Governance Committee will consider nominees to the board of directors recommended by shareholders when a vacancy becomes available. Shareholders who wish to recommend a nominee should send nominations that include biographical information and set forth the qualifications of the proposed nominee to the registrant’s Secretary. There have been no material changes to these procedures.

Item 11 – Controls and Procedures

11(a) – The registrant’s principal executive and principal financial officers or persons performing similar functions have concluded that the registrant’s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the “1940 Act”)) are effective as of a date within 90 days of the filing of this report based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13(a)-15(b) under the Securities Exchange Act of 1934, as amended.

11(b) – There were no changes in the registrant’s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant’s internal control over financial reporting.

Item 12 – Exhibits attached hereto

12(a)(1) – Code of Ethics – Not Applicable to this semi-annual report

12(a)(2) – Certifications – Attached hereto

12(a)(3) – Not Applicable

12(b) – Certifications – Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BlackRock MuniYield New York Insured Fund, Inc.

By: /s/ Donald C. Burke

Donald C. Burke
Chief Executive Officer of
BlackRock MuniYield New York Insured Fund, Inc.

Date: March 25, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Donald C. Burke

Donald C. Burke
Chief Executive Officer (principal executive officer) of
BlackRock MuniYield New York Insured Fund, Inc.

Date: March 25, 2009

By: /s/ Neal J. Andrews

Neal J. Andrews
Chief Financial Officer (principal financial officer) of
BlackRock MuniYield New York Insured Fund, Inc.

Date: March 25, 2009