AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
August 04, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014	**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.)
175 Water Street, New York, New York (Address of principal executive offices)	**10038** (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

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

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

As of July 30, 2014, there were 1,426,883,895 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED

June 30, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2014 - $248,923; 2013 - $248,531)	$
Other bond securities, at fair value (See Note 6)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2014 - $2,073; 2013 - $1,726)	
Other common and preferred stock, at fair value (See Note 6)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2014 - $6; 2013 - $0)	
Other invested assets (portion measured at fair value: 2014 - $8,869; 2013 - $8,598)	
Short-term investments (portion measured at fair value: 2014 - $4,310; 2013 - $6,313)	
Total investments	
Cash	
Accrued investment income	
Premiums and other receivables, net of allowance	
Reinsurance assets, net of allowance	
Deferred income taxes	
Deferred policy acquisition costs	
Derivative assets, at fair value	
Other assets, including restricted cash of $1,206 in 2014 and $865 in 2013 (portion measured at fair value: 2014 - $0; 2013 - $418)	
Separate account assets, at fair value	
Assets held-for-sale	
Total assets	$
Liabilities:	
Liability for unpaid claims and claims adjustment expense	$

Unearned premiums
Future policy benefits for life and accident and health insurance contracts
Policyholder contract deposits (portion measured at fair value: 2014 - $898; 2013 - $384)
Other policyholder funds (portion measured at fair value: 2014 - $8; 2013 - $0)
Derivative liabilities, at fair value
Other liabilities (portion measured at fair value: 2014 - $569; 2013 - $933)
Long-term debt (portion measured at fair value: 2014 - $5,824; 2013 - $6,747)
Separate account liabilities
Liabilities held-for-sale
Total liabilities
Contingencies, commitments and guarantees (see Note 10)

Redeemable noncontrolling interests (see Note 12)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2014 - 1,906,662,562 and 2013 - 1,906,645,689
Treasury stock, at cost; 2014 - 478,087,172 shares; 2013 - 442,582,366 shares
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests (including $100 associated with businesses held for sale in 2013)
Total equity
Total liabilities and equity $

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

	Three Months Ended June 30,	
(dollars in millions, except per share data)	**2014**	2013
Revenues:		
Premiums	$ **9,458**	$ 9,200
Policy fees	**701**	623
Net investment income	**3,884**	3,844
Net realized capital gains (losses):		
Total other-than-temporary impairments on available for sale securities	**(32)**	(17)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	**(16)**	(10)
Net other-than-temporary impairments on available for sale securities recognized in net income	**(48)**	(27)
Other realized capital gains (losses)	**149**	1,618
Total net realized capital gains (losses)	**101**	1,591
Aircraft leasing revenue	**489**	1,111
Other income	**1,472**	2,057
Total revenues	**16,105**	18,426
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	**6,771**	8,090
Interest credited to policyholder account balances	**963**	972
Amortization of deferred acquisition costs	**1,396**	1,353
Other acquisition and insurance expenses	**2,213**	2,245
Interest expense	**463**	535
Aircraft leasing expenses	**489**	1,093
Loss on extinguishment of debt	**34**	38
Net (gain) loss on sale of divested businesses	**(2,174)**	47
Other expenses	**1,470**	888
Total benefits, claims and expenses	**11,625**	15,261
Income from continuing operations before income tax expense	**4,480**	3,165
Income tax expense	**1,474**	425
Income from continuing operations	**3,006**	2,740
Income (loss) from discontinued operations, net of income tax expense	**30**	18
Net income	**3,036**	2,758
Less:		
Net income (loss) from continuing operations attributable to		

noncontrolling interests		**(37)**		27
Net income attributable to AIG	**$**	**3,073**	$	2,731
Income (loss) per common share attributable to AIG:				
Basic:				
Income from continuing operations	**$**	**2.11**	$	1.84
Income (loss) from discontinued operations	**$**	**0.02**	$	0.01
Net income attributable to AIG	**$**	**2.13**	$	1.85
Diluted:				
Income from continuing operations	**$**	**2.08**	$	1.83
Income (loss) from discontinued operations	**$**	**0.02**	$	0.01
Net income attributable to AIG	**$**	**2.10**	$	1.84
Weighted average shares outstanding:				
Basic		**1,442,397,111**		1,476,512,720
Diluted		**1,464,676,330**		1,482,246,618
Dividends declared per common share	**$**	**0.125**	$	-

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

cONDENSED Consolidated Statements of Comprehensive Income (Loss) *(unaudited)*

	Three Months Ended June 30,		Six Month June
(in millions)	**2014**	2013	**2014**
Net income	**$ 3,036**	$ 2,758	**$ 4,648**
Other comprehensive income (loss), net of tax			
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**26**	(87)	**115**
Change in unrealized appreciation (depreciation) of all other investments	**2,355**	(4,446)	**5,140**
Change in foreign currency translation adjustments	**47**	(305)	**(111)**
Change in retirement plan liabilities adjustment	**(2)**	17	**7**
Other comprehensive income (loss)	**2,426**	(4,821)	**5,151**
Comprehensive income (loss)	**5,462**	(2,063)	**9,799**
Comprehensive income (loss) attributable to noncontrolling interests	**(37)**	6	**(34)**
Comprehensive income (loss) attributable to AIG	**$ 5,499**	$ (2,069)	**$ 9,833**

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statement of Equity *(unaudited)*

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total A Shar holde Equ
Six Months Ended June 30, 2014						
Balance, beginning of year	**$ 4,766**	**$ (14,520)**	**$ 80,899**	**$ 22,965**	**$ 6,360**	**$ 100,47**
Purchase of common stock	**-**	**(1,849)**	**-**	**-**	**-**	**(1,849**
Net income (loss) attributable to AIG or other noncontrolling interests	**-**	**-**	**-**	**4,682**	**-**	**4,68**
Dividends	**-**	**-**	**-**	**(361)**	**-**	**(361**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**5,151**	**5,15**
Net decrease due to deconsolidation	**-**	**-**	**-**	**-**	**-**	
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Other	**-**	**-**	**68**	**-**	**-**	**6**
Balance, end of period	**$ 4,766**	**$ (16,369)**	**$ 80,967**	**$ 27,286**	**$ 11,511**	**$ 108,16**
Six Months Ended June 30, 2013						
Balance, beginning of year	$ 4,766	$ (13,924)	$ 80,410	$ 14,176	$ 12,574	$ 98,00
Net income attributable to AIG or other noncontrolling interests	-	-	-	4,937	-	4,93
Other comprehensive loss	-	-	-	-	(5,535)	(5,535
Net increase due to consolidation	-	-	-	-	-	
Contributions from noncontrolling interests	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	
Other	-	1	58	-	-	5
Balance, end of period	$ 4,766	$ (13,923)	$ 80,468	$ 19,113	$ 7,039	$ 97,46

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Six Months Ended June 30, *(in millions)*	2014	2013
Cash flows from operating activities:		
Net income	$ 4,648	$ 4,989
(Income) loss from discontinued operations	17	(91)
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	(456)	(1,665)
Net (gain) loss on sale of divested businesses	(2,178)	47
Net losses on extinguishment of debt	272	378
Unrealized (gains) losses in earnings - net	127	(1,173)
Equity in income from equity method investments, net of dividends or distributions	(687)	(792)
Depreciation and other amortization	2,343	2,500
Impairments of assets	259	282
Changes in operating assets and liabilities:		
Property casualty and life insurance reserves	981	775
Premiums and other receivables and payables - net	(782)	(564)
Reinsurance assets and funds held under reinsurance treaties	(815)	(544)
Capitalization of deferred policy acquisition costs	(3,019)	(2,953)
Current and deferred income taxes - net	1,605	933
Other, net	(674)	(448)
Total adjustments	(3,024)	(3,224)
Net cash provided by operating activities	1,641	1,674
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	12,191	19,164
Other securities	2,744	2,850
Other invested assets	1,925	3,121
Divested businesses, net	2,348	-
Maturities of fixed maturity securities available for sale	11,460	12,517
Principal payments received on and sales of mortgage and other loans receivable	1,646	1,623
Purchases of:		
Available for sale investments	(22,186)	(35,522)
Other securities	(290)	(1,763)
Other invested assets	(2,236)	(3,434)

Mortgage and other loans receivable	**(3,445)**	(2,143)
Net change in restricted cash	**(628)**	1,216
Net change in short-term investments	**498**	8,863
Other, net	**(365)**	(421)
Net cash provided by investing activities	**3,662**	6,071
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**8,162**	6,757
Policyholder contract withdrawals	**(7,241)**	(8,066)
Issuance of long-term debt	**3,028**	2,338
Repayments of long-term debt	**(6,027)**	(8,319)
Purchase of Common Stock	**(1,849)**	-
Dividends paid	**(361)**	-
Other, net	**(1,514)**	235
Net cash used in financing activities	**(5,802)**	(7,055)
Effect of exchange rate changes on cash	**(3)**	(70)
Net increase (decrease) in cash	**(502)**	620
Cash at beginning of year	**2,241**	1,151
Change in cash of businesses held-for-sale	**88**	(9)
Cash at end of period	**$ 1,827**	$ 1,762

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 1,727**	$ 2,408
Taxes	**$ 482**	$ 209
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,937**	$ 1,980
Non-cash consideration received from sale of ILFC	**$ 4,586**	$ -

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms “AIG,” “we,” “us” or “our” mean American International Group, Inc. and its consolidated subsidiaries and the term “AIG Parent” means American International Group, Inc. and not any of its consolidated subsidiaries.

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report). The condensed consolidated financial information as of December 31, 2013 included herein has been derived from audited consolidated financial statements in the 2013 Annual Report.

Certain of our foreign subsidiaries included in the condensed consolidated financial statements report on different fiscal-period bases. The effect on our condensed consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these condensed consolidated financial statements has been recorded. In the opinion of management, these condensed consolidated financial statements contain normal recurring adjustments, including eliminations of material intercompany accounts and transactions, necessary for a fair statement of the results presented herein.

Interim period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2014 and prior to the issuance of these condensed consolidated financial statements.

Sale of ILFC

On May 14, 2014, we completed the sale of 100 percent of the common stock of International Lease

Finance Corporation (ILFC) to AerCap Ireland Limited, a wholly owned subsidiary of AerCap Holdings N.V. (AerCap), in exchange for total consideration of approximately $7.6 billion, including cash and 97.6 million newly issued AerCap common shares (the AerCap Transaction). The total value of the consideration was based in part on AerCap's closing price per share of $47.01 on May 13, 2014. ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income through the date of the completion of the sale. ILFC's assets and liabilities were classified as held-for-sale at December 31, 2013 in the Condensed Consolidated Balance Sheets. See Note 4 herein for further discussion.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment. Accounting policies that we believe are most dependent on the application of estimates and assumptions are considered our critical accounting estimates and are related to the determination of:

- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset;

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

- liability for unpaid claims and claims adjustment expense;
- reinsurance assets;
- valuation of future policy benefit liabilities and timing and extent of loss recognition;
- valuation of liabilities for guaranteed benefit features of variable annuity products;
- estimated gross profits to value deferred acquisition costs for investment oriented products;
- impairment charges, including other than temporary impairments on available for sale securities, impairments on investments in life settlements and goodwill impairment;
- liability for legal contingencies; and
- fair value measurements of certain financial assets and liabilities.

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, our consolidated financial condition, results of operations and cash flows could be materially affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2014

Certain Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standard that requires us to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount we agreed to pay on the basis of our arrangement among our co obligors and (ii) any additional amount we expect to pay on behalf of our co obligors.

We adopted the standard on its required effective date of January 1, 2014. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of an Investment within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued an accounting standard addressing whether consolidation guidance or foreign currency guidance applies to the release of the cumulative translation adjustment into net income when a parent sells all or a part of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or net assets that are a business (other than a sale of in substance real estate) within a foreign entity. The standard also resolves the diversity in practice for the cumulative translation adjustment treatment in business combinations achieved in stages involving foreign entities.

Under the standard, the entire amount of the cumulative translation adjustment associated with the foreign entity should be released into earnings when there has been: (i) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete or substantially complete liquidation of the foreign entity in which the subsidiary or the net assets had

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resided; (ii) a loss of a controlling financial interest in an investment in a foreign entity; or (iii) a change in accounting method from applying the equity method to an investment in a foreign entity to consolidating the foreign entity.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Investment Company Guidance

In June 2013, the FASB issued an accounting standard that amends the criteria a company must meet to qualify as an investment company, clarifies the measurement guidance, and requires new disclosures for investment companies. An entity that is regulated by the Securities and Exchange Commission under the Investment Company Act of 1940 (the 1940 Act) qualifies as an investment company. Entities that are not regulated under the 1940 Act must have certain fundamental characteristics and must consider other characteristics to determine whether they qualify as investment companies. An entity's purpose and design must be considered when making the assessment.

An entity that no longer meets the requirements to be an investment company as a result of this standard should present the change in its status as a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. An entity that is an investment company should apply the standard prospectively as an adjustment to opening net assets as of the effective date. The adjustment to net assets represents both the difference between the fair value and the carrying amount of the entity's investments and any amount previously recognized in Accumulated other comprehensive income.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standard that requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward. When the carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued an accounting standard that clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, so that the loan is derecognized and the real estate property is recognized, when either (i) the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The standard is effective for interim and annual reporting periods beginning after December 15, 2014. Early adoption is permitted. We plan to adopt the standard on its required effective date of January 1, 2015 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Reporting Discontinued Operations

In April 2014, the FASB issued an accounting standard that changes the requirements for presenting a component or group of components of an entity as a discontinued operation and requires new disclosures. Under the standard, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, will be eligible for presentation as a discontinued operation if they meet the new definition. The standard also requires entities to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.

The standard is effective prospectively for all disposals of components (or classification of components as held-for-sale) of an entity that occur within interim and annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or classifications of components as held-for-sale) that have not been reported in financial statements previously issued. We plan to adopt the standard on its required effective date of January 1, 2015 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The new standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and other agreements that are governed under other GAAP guidance, but affects the revenue recognition for certain of our other activities.

The standard is effective for interim and annual reporting periods beginning after December 15, 2016 and must be applied retrospectively or through a cumulative effect adjustment to retained earnings recognized at the date of adoption. Early adoption is not permitted. We plan to adopt the standard on its required effective date of January 1, 2017 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

In June 2014, the FASB issued an accounting standard that changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The new standard aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements such that they all will be accounted for as secured borrowings. The standard eliminates sale accounting for repurchase-to-maturity transactions and supersedes the standard under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement.

The amendments are effective for interim and annual reporting periods beginning after December 15, 2014. Earlier adoption is not permitted. We plan to adopt the standard on its required effective date of January 1, 2015 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accounting for Share-Based Payments with Performance Targets

In June 2014, the FASB issued an accounting standard that clarifies the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition.

The amendments are effective for interim and annual reporting periods beginning after December 15, 2015. Earlier adoption is permitted. The standard may be applied prospectively to all awards granted or modified after the effective date; or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We plan to adopt the standard on its required effective date of January 1, 2016. We do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

3. SEGMENT INFORMATION

We report the results of our operations consistent with the manner in which our chief operating decision makers review the business to assess performance and to allocate resources through two reportable segments: AIG Property Casualty and AIG Life and Retirement. We evaluate performance based on revenues and pre tax income (loss), excluding results from discontinued operations, because we believe this provides more meaningful information on how our operations are performing.

The following tables present our operations by reportable segment:

Three Months Ended June 30, *(in millions)*	**2014** Total Revenues	**2014** Pre-tax Income (Loss) from continuing operations	2013 Total Revenues	2013 Pre-tax from contin
AIG Property Casualty				
Commercial Insurance	**$ 5,889**	**$ 863**	$ 5,696	$
Consumer Insurance	**3,342**	**157**	3,347	
Other	**719**	**470**	758	

Total AIG Property Casualty		9,950		1,490		9,801
AIG Life and Retirement						
Retail		2,972		738		3,439
Institutional		1,598		511		2,609
Total AIG Life and Retirement		4,570		1,249		6,048
Other Operations						
Mortgage Guaranty		260		211		243
Global Capital Markets		286		245		232
Direct Investment book		365		272		815
Corporate & Other		411		956		445
Aircraft Leasing		489		-		1,111
Consolidation and elimination		(7)		1		(10)
Total Other Operations		1,804		1,685		2,836
AIG Consolidation and elimination		(219)		56		(259)
Total AIG Consolidated	$	16,105	$	4,480	$	18,426 $

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	2014		2013	
Six Months Ended June 30,		Pre-tax Income (Loss)		Pre-tax
(in millions)	Total Revenues	from continuing operations	Total Revenues	from contin
AIG Property Casualty				
Commercial Insurance	$ 11,531	$ 1,576	$ 11,469	$
Consumer Insurance	6,600	184	6,853	
Other	1,485	1,039	1,447	
Total AIG Property Casualty	19,616	2,799	19,769	
AIG Life and Retirement				
Retail	5,738	1,403	6,442	
Institutional	3,183	1,078	4,346	
Total AIG Life and Retirement	8,921	2,481	10,788	
Other Operations				
Mortgage Guaranty	509	288	474	
Global Capital Markets	345	274	505	
Direct Investment book	830	627	1,226	
Corporate & Other	793	132	906	
Aircraft Leasing	1,602	17	2,185	
Consolidation and elimination	(15)	2	(19)	
Total Other Operations	4,064	1,340	5,277	
AIG Consolidation and elimination	(384)	133	(446)	
Total AIG Consolidated	$ 32,217	$ 6,753	$ 35,388	$

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

Held-For-Sale Classification

On May 14, 2014, we completed the sale of 100 percent of the common stock of ILFC to AerCap Ireland Limited, a wholly owned subsidiary of AerCap, in exchange for total consideration of approximately $7.6 billion, including cash and 97.6 million newly issued AerCap common shares, valued at approximately $4.6 billion based on AerCap's closing price per share of $47.01 on May 13, 2014. Net cash proceeds to AIG were $2.4 billion after the settlement of intercompany loans, and AIG recorded pre-tax and after-tax gains of approximately $2.2 billion and $1.4 billion, respectively, for the three- and six-month periods ended June 30, 2014. In connection with the AerCap Transaction, we entered into a five-year credit agreement for a senior unsecured revolving credit facility between AerCap Ireland Capital Limited, as borrower, and AIG

Parent as lender, (the Revolving Credit Facility). The Revolving Credit Facility provides for an aggregate commitment of $1.0 billion and permits loans for general corporate purposes after the closing of the AerCap Transaction. At June 30, 2014, no amounts were outstanding under the Revolving Credit Facility.

As a result of the AerCap Transaction, we own approximately 46 percent of the outstanding common stock of AerCap. This common stock is subject to certain restrictions as to the amount and timing of potential sales as set forth in the Stockholders’ Agreement and Registration Rights Agreement between AIG and AerCap. We account for our interest in AerCap using the equity method of accounting. The difference between the carrying amount of our investment in AerCap common stock and our share of the underlying equity in the net assets of AerCap was approximately $1.4 billion at June 30, 2014. Approximately $0.4 billion of this difference was allocated to the assets and liabilities of AerCap based on their respective fair values and is being amortized into income over the estimated lives of the related assets and liabilities. The remainder was allocated to goodwill.

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Item 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income through the date of the completion of the sale. ILFC's assets and liabilities were classified as held-for-sale at December 31, 2013 in the Condensed Consolidated Balance Sheets.

The following table summarizes the components of ILFC assets and liabilities held-for-sale:

(in millions)		December 31, 2013
Assets:		
Equity securities	$	3
Mortgage and other loans receivable, net		229
Flight equipment primarily under operating leases, net of accumulated depreciation		35,508
Short-term investments		658
Cash		88
Premiums and other receivables, net of allowance		318
Other assets		2,066
Assets held-for-sale		38,870
Less: Loss accrual		(9,334)
Total assets held-for-sale	$	29,536
Liabilities:		
Other liabilities	$	3,127
Long-term debt		21,421
Total liabilities held-for-sale	$	24,548

Discontinued Operations

In connection with the 2010 sale of American Life Insurance Company (ALICO) to MetLife, Inc. (MetLife), we recognized the following income (loss) from discontinued operations:

(in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
		2014		2013		**2014**		2013
Revenues:								
Gain on sale	**$**	**52**	$	28	**$**	**51**	$	145
Income from discontinued operations, before income tax expense		**52**		28		**51**		145

Income tax expense		**22**		10		**68**		54
Income (loss) from discontinued operations, net of income tax	**$**	**30**	$	18	**$**	**(17)**	$	91

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

Assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of valuation inputs:

- **Level 1:** Fair value measurements based on quoted prices in active markets that we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do not adjust the quoted price for such instruments.

- **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, quoted prices for identical or similar assets or liabilities in markets that are not active, 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.

- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that 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.

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Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 and indicates the level of the fair value measurement based on the observability of the inputs used:

June 30, 2014 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral
Assets:					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 24	$ 2,801	$ -	$ -	$ -
Obligations of states, municipalities and political subdivisions	-	27,731	1,991	-	-
Non-U.S. governments	604	21,551	25	-	-
Corporate debt	-	147,560	2,196	-	-
RMBS	-	21,363	16,328	-	-
CMBS	-	6,477	5,917	-	-
CDO/ABS	-	4,305	7,431	-	-
Total bonds available for sale	628	231,788	33,888	-	-
Other bond securities:					
U.S. government and government sponsored entities	89	5,291	-	-	-
Obligations of states, municipalities and political subdivisions	-	123	-	-	-
Non-U.S. governments	-	2	-	-	-
Corporate debt	-	1,055	-	-	-
RMBS	-	1,216	1,062	-	-
CMBS	-	553	757	-	-
CDO/ABS	-	2,885	8,397	-	-
Total other bond securities	89	11,125	10,216	-	-
Equity securities available for sale:					
Common stock	3,253	2	-	-	-
Preferred stock	-	28	-	-	-
Mutual funds	763	2	-	-	-
Total equity securities available for sale	4,016	32	-	-	-
Other equity securities	653	71	-	-	-
Mortgage and other loans receivable	-	-	6	-	-
Other invested assets	25	3,020	5,824	-	-
Derivative assets:					

Interest rate contracts[b]	16	2,890	23	-	-	
Foreign exchange contracts[b]	-	1,089	14	-	-	
Equity contracts	110	22	93	-	-	
Commodity contracts	-	-	1	-	-	
Credit contracts	-	-	41	-	-	
Other contracts	-	-	37	-	-	
Counterparty netting and cash collateral	-	-	-	(1,801)	(918)	
Total derivative assets	126	4,001	209	(1,801)	(918)	
Short-term investments	595	3,715	-	-	-	
Separate account assets	72,986	2,732	-	-	-	
Other assets	-	-	-	-	-	
Total	$ 79,118	$ 256,484	$ 50,143	$ (1,801)	$ (918)	$ 3
Liabilities:						
Policyholder contract deposits	$ -	$ 56	$ 842	$ -	$ -	$
Other policyholder funds	-	8	-	-	-	

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Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivative liabilities:						
Interest rate contracts[b]	-	2,589	90	-	-	2,679
Foreign exchange contracts[b]	-	1,525	23	-	-	1,548
Equity contracts	1	93	2	-	-	96
Commodity contracts	-	4	-	-	-	4
Credit contracts	-	-	1,126	-	-	1,126
Other contracts	-	-	90	-	-	90
Counterparty netting and cash collateral	-	-	-	(1,801)	(1,326)	(3,127)
Total derivative liabilities	1	4,211	1,331	(1,801)	(1,326)	2,416
Long-term debt	-	5,430	394	-	-	5,824
Other liabilities	208	361	-	-	-	569
Total	$ 209	$ 10,066	$ 2,567	$ (1,801)	$ (1,326)	$ 9,715

December 31, 2013 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral	T
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 133	$ 3,062	$ -	$ -	$ -	$ 3,
Obligations of states, municipalities and political subdivisions	-	28,300	1,080	-	-	29,3
Non-U.S. governments	508	21,985	16	-	-	22,5
Corporate debt	-	143,297	1,255	-	-	144,5
RMBS	-	21,207	14,941	-	-	36,
CMBS	-	5,747	5,735	-	-	11,4
CDO/ABS	-	4,034	6,974	-	-	11,0
Total bonds available for sale	641	227,632	30,001	-	-	258,2
Other bond securities:						
U.S. government and government sponsored entities	78	5,645	-	-	-	5,7
Obligations of states, municipalities and political subdivisions	-	121	-	-	-	
Non-U.S. governments	-	2	-	-	-	
Corporate debt	-	1,169	-	-	-	1,
RMBS	-	1,326	937	-	-	2,2
CMBS	-	509	844	-	-	1,3
CDO/ABS						