AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 02, 2015

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 September 30, 2015	**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 October 29, 2015, there were 1,237,012,512 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

September 30, 2015

Table of Contents

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets *(unaudited)*

	Sep
(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2015 - $241,985; 2014 - $243,307)	$
Other bond securities, at fair value (See Note 5)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2015 - $1,806; 2014 - $1,930)	
Other common and preferred stock, at fair value (See Note 5)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2015 - $11; 2014 - $6)	
Other invested assets (portion measured at fair value: 2015 - $9,333; 2014 - $9,394)	
Short-term investments (portion measured at fair value: 2015 - $2,733; 2014 - $1,684)	
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	
Other assets, including restricted cash of $247 in 2015 and $2,025 in 2014	
Separate account assets, at fair value	
Total assets	$
Liabilities:	
Liability for unpaid losses and loss adjustment expenses	$
Unearned premiums	
Future policy benefits for life and accident and health insurance contracts	
Policyholder contract deposits (portion measured at fair value: 2015 - $2,287; 2014 - $1,561)	

Other policyholder funds (portion measured at fair value: 2015 - $8; 2014 - $8)
Other liabilities (portion measured at fair value: 2015 - $298; 2014 - $350)
Long-term debt (portion measured at fair value: 2015 - $3,985; 2014 - $5,466)
Separate account liabilities
Total liabilities
Contingencies, commitments and guarantees (see Note 9)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2015 - 1,906,671,492 and 2014 - 1,906,671,492
Treasury stock, at cost; 2015 - 659,876,877 shares; 2014 - 530,744,521 shares
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests
Total equity
Total liabilities and equity **$**

See accompanying Notes to Condensed Consolidated Financial Statements.

2

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) *(unaudited)*

	Three Months Ended September 30,			
(dollars in millions, except per share data)		**2015**		2014
Revenues:				
Premiums	**$**	**8,862**	$	9,486
Policy fees		**701**		677
Net investment income		**3,206**		4,028
Net realized capital gains (losses):				
Total other-than-temporary impairments on available for sale securities		**(225)**		(34)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)		**(17)**		(1)
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)		**(242)**		(35)
Other realized capital gains (losses)		**(100)**		571
Total net realized capital gains (losses)		**(342)**		536
Aircraft leasing revenue		**-**		-
Other income		**395**		1,970
Total revenues		**12,822**		16,697
Benefits, losses and expenses:				
Policyholder benefits and losses incurred		**6,936**		7,203
Interest credited to policyholder account balances		**881**		882
Amortization of deferred policy acquisition costs		**1,275**		1,288
General operating and other expenses		**3,175**		3,151
Interest expense		**321**		430
Aircraft leasing expenses		**-**		-
Loss on extinguishment of debt		**346**		742
Net (gain) loss on sale of divested businesses		**3**		(18)
Total benefits, claims and expenses		**12,937**		13,678
Income (loss) from continuing operations before income tax expense		**(115)**		3,019
Income tax expense		**65**		820
Income (loss) from continuing operations		**(180)**		2,199
Income (loss) from discontinued operations, net of income tax expense		**(17)**		2
Net income (loss)		**(197)**		2,201
Less:				
Net income (loss) from continuing operations attributable to noncontrolling interests		**34**		9

$

Net income (loss) attributable to AIG	**$**	**(231)**	$	2,192	**$**
Income (loss) per common share attributable to AIG:					
Basic:					
Income (loss) from continuing operations	**$**	**(0.17)**	$	1.54	**$**
Income (loss) from discontinued operations	**$**	**(0.01)**	$	-	**$**
Net income (loss) attributable to AIG	**$**	**(0.18)**	$	1.54	**$**
Diluted:					
Income (loss) from continuing operations	**$**	**(0.17)**	$	1.52	**$**
Income (loss) from discontinued operations	**$**	**(0.01)**	$	-	**$**
Net income (loss) attributable to AIG	**$**	**(0.18)**	$	1.52	**$**
Weighted average shares outstanding:					
Basic		**1,279,072,748**		1,419,239,774	
Diluted		**1,279,072,748**		1,442,067,842	
Dividends declared per common share	**$**	**0.280**	$	0.125	**$**

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

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

(in millions)	Three Months Ended September 30, 2015	2014	Nine Mont Ended September 2015	
Net income (loss)	**$ (197)**	$2,201	**$ 4,071**	$ 6
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	**(61)**	59	**(169)**	
Change in unrealized appreciation (depreciation) of all other investments	**(857)**	(168)	**(3,309)**	4
Change in foreign currency translation adjustments	**(238)**	(78)	**(734)**	
Change in retirement plan liabilities adjustment	**92**	6	**148**	
Other comprehensive income (loss)	**(1,064)**	(181)	**(4,064)**	4
Comprehensive income (loss)	**(1,261)**	2,020	**7**	11
Comprehensive income (loss) attributable to noncontrolling interests	**33**	8	**30**	
Comprehensive income (loss) attributable to AIG	**$(1,294)**	$2,012	**$ (23)**	$11

See accompanying Notes to Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED Statements of Equity *(unaudited)*

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Nine Months Ended September 30, 2015					
Balance, beginning of year	**$ 4,766**	**$ (19,218)**	**$ 80,958**	**$ 29,775**	**$ 10,617**
Purchase of common stock	**-**	**(7,663)**	**-**	**-**	**-**
Net income attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**4,037**	**-**
Dividends	**-**	**-**	**-**	**(687)**	**-**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(4,060)**
Deferred income taxes	**-**	**-**	**(7)**	**-**	**-**
Net increase due to acquisitions and consolidations	**-**	**-**	**-**	**-**	**-**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**484**	**(3)**	**-**
Balance, end of period	**$ 4,766**	**$ (26,881)**	**$ 81,435**	**$ 33,122**	**$ 6,557**
Nine Months Ended September 30, 2014					
Balance, beginning of year	$ 4,766	$ (14,520)	$ 80,899	$ 22,965	$ 6,360
Purchase of common stock	-	(3,200)	-	-	-
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	6,874	-
Dividends	-	-	-	(539)	-
Other comprehensive income (loss)	-	-	-	-	4,971
Net decrease due to dispositions	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	-	5	-	-
Balance, end of period	$ 4,766	$ (17,720)	$ 80,904	$ 29,300	$ 11,331

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Nine Months Ended September 30, *(in millions)*		2015		201
Cash flows from operating activities:				
Net income	$	4,071	$	6,84
Loss from discontinued operations		-		1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Noncash revenues, expenses, gains and losses included in income (loss):				
Net gains on sales of securities available for sale and other assets		(660)		(60
Net (gain) loss on sale of divested businesses		10		(2,19
Losses on extinguishment of debt		756		1,01
Unrealized gains in earnings - net		(550)		(79
Equity in income from equity method investments, net of dividends or distributions		(684)		(1,10
Depreciation and other amortization		3,502		3,37
Impairments of assets		886		41
Changes in operating assets and liabilities:				
Insurance reserves		(1,618)		18
Premiums and other receivables and payables - net		(389)		4
Reinsurance assets and funds held under reinsurance treaties		1,396		(6
Capitalization of deferred policy acquisition costs		(4,376)		(4,54
Current and deferred income taxes - net		1,736		2,29
Other, net		(1,846)		(51
Total adjustments		(1,837)		(2,50
Net cash provided by operating activities		2,234		4,35
Cash flows from investing activities:				
Proceeds from (payments for)				
Sales or distributions of:				
Available for sale investments		20,846		16,06
Other securities		4,895		3,93
Other invested assets		7,015		3,03
Divested businesses, net		-		2,34
Maturities of fixed maturity securities available for sale		18,427		18,62
Principal payments received on and sales of mortgage and other loans receivable		3,298		2,55
Purchases of:				
Available for sale investments		(36,333)		(34,63
Other securities		(1,622)		(30
Other invested assets		(2,675)		(3,20

Mortgage and other loans receivable	**(6,845)**	(4,94
Net change in restricted cash	**1,476**	(66
Net change in short-term investments	**(1,028)**	2,34
Other, net	**(774)**	(29
Net cash provided by investing activities	**6,680**	4,80
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**12,216**	12,31
Policyholder contract withdrawals	**(10,801)**	(11,03
Issuance of long-term debt	**6,449**	5,82
Repayments of long-term debt	**(8,343)**	(11,56
Purchase of Common Stock	**(7,473)**	(3,40
Dividends paid	**(687)**	(53
Other, net	**(425)**	(1,20
Net cash (used in) financing activities	**(9,064)**	(9,60
Effect of exchange rate changes on cash	**(39)**	(1
Net decrease in cash	**(189)**	(39
Cash at beginning of year	**1,758**	2,24
Change in cash of businesses held-for-sale	**-**	8
Cash at end of period	**$ 1,569**	$ 1,93

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 1,112**	$ 2,496
Taxes	**$ 406**	$ 614
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 2,801**	$ 3,007
Non-cash consideration received from sale of ILFC	**$ -**	$ 4,586
Non-cash consideration received from sale of AerCap	**$ 500**	$ -

See accompanying Notes to Condensed Consolidated Financial Statements.

6

TABLE OF CONTENTS

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 100 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, 2014 (2014 Annual Report). The condensed consolidated financial information as of December 31, 2014 included herein has been derived from audited Consolidated Financial Statements in the 2014 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 September 30, 2015 and prior to the issuance of these Condensed Consolidated Financial Statements.

Sale of ILFC and shares of AerCap

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 (Loss) through the date of the completion of the sale.

In June 2015, we sold 86.9 million ordinary shares of AerCap by means of an underwritten public offering of 71.2 million ordinary shares and a private sale of 15.7 million ordinary shares to AerCap. We received cash proceeds of approximately $3.7 billion, reflecting proceeds of approximately $3.4 billion from the underwritten offering and cash proceeds of $250 million from the private sale of shares to AerCap. In connection with the closing of the private sale of shares to AerCap, we also received $500 million of 6.50% fixed-to-floating rate junior subordinated notes issued by AerCap Global Aviation Trust and guaranteed by AerCap and certain of its subsidiaries. These notes, included in Bonds available for sale, mature in 2045 and are callable beginning in 2025. We accounted for our interest in AerCap using the equity method of accounting through the date of the June 2015 sale, and as available for sale thereafter. In August 2015, we sold our remaining 10.7 million ordinary shares of AerCap by means of an underwritten public offering and received proceeds of approximately $500 million.

TABLE OF CONTENTS

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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;
- liability for unpaid losses and loss adjustment expenses;
- 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 2015

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the Financial Accounting Standards Board (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.

We adopted the standard on its required effective date of January 1, 2015. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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, must be presented as a discontinued operation if they meet the new definition. The standard also requires entities to provide disclosures about the disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.

We adopted the standard on its required effective date of January 1, 2015 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or 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 standard aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings 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.

We adopted the standard on its required effective date of January 1, 2015 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

Revenue Recognition

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2017 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We plan to adopt the standard on its required effective date of January 1, 2018 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

TABLE OF CONTENTS

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 standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early 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 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.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

In August 2014, the FASB issued an accounting standard that allows a reporting entity to measure the financial assets and financial liabilities of a qualifying consolidated collateralized financing entity using the fair value of either its financial assets or financial liabilities, whichever is more observable.

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The standard may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. We plan to adopt the standard on its required effective date of January 1, 2016 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

Consolidation: Amendments to the Consolidation Analysis

In February 2015, the FASB issued an accounting standard that affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

The standard is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The standard may be applied retrospectively or through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. We plan to adopt the standard on its required effective date of January 1, 2016 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued an accounting standard that provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles applicable to a customer's accounting for service contracts. Consequently, all software licenses will be accounted for consistent with other licenses of intangible assets.

The standard is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The standard may be adopted prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We plan to adopt the standard on its required effective date of January 1, 2016 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.

Short Duration Insurance Contracts

In May 2015, the FASB issued an accounting standard that requires additional disclosures (including accident year information) for short-duration insurance contracts. New disclosures about the liability for unpaid losses and loss adjustment expenses will be required of public business entities for annual periods beginning after December 15, 2015. The annual disclosures by accident year include: disaggregated net incurred and paid claims development tables segregated by business type (not required to exceed 10 years), reconciliation of total net reserves included in development tables to the reported liability for unpaid losses and loss adjustment expenses, incurred but not reported (IBNR) information, quantitative information and a qualitative description about claim frequency, and the average annual percentage payout of incurred claims. Further, the new standard requires, when applicable, disclosures about discounting liabilities for unpaid losses and loss adjustment expenses and significant changes and reasons for changes in methodologies and assumptions used to determine unpaid losses and loss adjustment expenses. In addition, the roll forward of the liability for unpaid losses and loss adjustment expenses currently disclosed in annual financial statements will be required for interim periods beginning in the first quarter of 2017. Early adoption of the new annual and interim disclosures is permitted.

We plan to adopt the standard on its required effective date. Because the new standard does not affect accounting recognition or measurement, the adoption of the standard will have no effect on our consolidated financial condition, results of operations, or cash flows.

3. SEGMENT INFORMATION

We report our results of operations consistent with the manner in which our chief operating decision makers review the business to assess performance and allocate resources through two reportable segments: Commercial Insurance and Consumer Insurance as well as a Corporate and Other category. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

We evaluate performance based on revenue and pre-tax operating income (loss). Pre-tax operating income (loss) is derived by excluding certain items from net income (loss) attributable to AIG. See the table below for items excluded from pre-tax operating income (loss).

TABLE OF CONTENTS

Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following tables present our operations by reportable segment:

		2015		
Three Months Ended September 30,		Total	Pre-Tax Operating	
(in millions)		Revenues	Income (Loss)	Reve
Commercial Insurance				
Property Casualty	$	5,715$	569$	
Mortgage Guaranty		266	162	
Institutional Markets		578	84	
Total Commercial Insurance		6,559	815	
Consumer Insurance				
Retirement		2,203	635	
Life		1,578	(40)	
Personal Insurance		2,871	62	
Total Consumer Insurance		6,652	657	
Corporate and Other*		109	(613)	
AIG consolidation and elimination		(141)	(11)	
Total AIG consolidated revenues and pre-tax operating income		13,179	848	1
Reconciling items from Total revenues and Pre-tax operating income (loss) to revenues and pre-tax income (loss):				
Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense		4	4	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains		-	(2)	
Loss on extinguishment of debt		-	(346)	
Net realized capital gains (loss)		(342)	(342)	
Net gain (loss) on sale of divested businesses		-	(3)	
Non-operating litigation reserves and settlements		-	30	
Reserve development related to non-operating run-off insurance business		-	(30)	
Restructuring and other costs		-	(274)	
Other		(19)	-	
Revenues and pre-tax income (loss)	$	12,822$	(115)$	1

	2015	
		Pre-Tax

Nine Months Ended September 30,	Total	Operating	
(in millions)	Revenues	Income (Loss)	Reve
Commercial Insurance			
Property Casualty	$ **17,904**	$ **2,931**	$ 1
Mortgage Guaranty	**791**	**464**	
Institutional Markets	**2,374**	**382**	
Total Commercial Insurance	**21,069**	**3,777**	2
Consumer Insurance			
Retirement	**7,056**	**2,239**	
Life	**4,823**	**280**	
Personal Insurance	**8,602**	**106**	
Total Consumer Insurance	**20,481**	**2,625**	2
Corporate and Other*	**2,270**	**(79)**	
AIG consolidation and elimination	**(416)**	**(80)**	
Total AIG consolidated revenues and pre-tax operating income	**43,404**	**6,243**	4

TABLE OF CONTENTS

Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Reconciling items from Total revenues and Pre-tax operating income (loss) to revenues and pre-tax income:				
Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**(39)**	**(39)**	162	162
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	**-**	**(84)**	-	(90)
Loss on extinguishment of debt	**-**	**(756)**	-	