

AMERICAN INTERNATIONAL GROUP INC

Form 10-Q

November 09, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006
or

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

For the transition period from to

Commission File Number 1-8787

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10270
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Applicable only to corporate issuers

As of October 31, 2006, there were 2,599,721,215 shares outstanding of the issuer's common stock.

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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)*

	September 30, 2006	December 31, 2005
Assets:		
Investments and financial services assets:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2006 \$368,532; 2005 \$349,612) (includes hybrid financial instruments: 2006 \$407)	\$ 376,036	\$ 359,516
Bonds held to maturity, at amortized cost (market value: 2006 \$22,148; 2005 \$22,047)	21,484	21,528
Bond trading securities, at market value (cost: 2006 \$7,267; 2005 \$4,623)	7,238	4,636
Equity securities:		
Common stocks available for sale, at market value (cost: 2006 \$10,125; 2005 \$10,125)	11,835	12,227
Common and preferred stocks trading, at market value (cost: 2006 \$10,098; 2005 \$7,746)	11,528	8,959
Preferred stocks available for sale, at market value (cost: 2006 \$2,450; 2005 \$2,282)	2,500	2,402
Mortgage loans on real estate, net of allowance (2006 \$57; 2005 \$54)	16,842	14,300
Policy loans	7,385	7,039
Collateral and guaranteed loans, net of allowance (2006 \$7; 2005 \$10)	3,597	3,570
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2006 \$8,480; 2005 \$7,419)	39,460	36,245
Securities available for sale, at market value (cost: 2006 \$40,501; 2005 \$37,572)	41,232	37,511
Trading securities, at market value	5,822	6,499
Spot commodities	118	92
Unrealized gain on swaps, options and forward transactions	20,235	18,695
Trading assets	2,194	1,204
Securities purchased under agreements to resell, at contract value	27,041	14,547
Finance receivables, net of allowance (2006 \$679; 2005 \$670) (includes finance receivables held for sale: 2006 \$863; 2005 \$1,110)	28,634	27,995
Securities lending collateral, at market value (which approximates cost)	71,388	59,471
Other invested assets	32,777	27,267
Short-term investments, at cost (which approximates market value)	22,716	15,342

Total investments and financial services assets	750,062	679,045
Cash	1,425	1,897
Investment income due and accrued	6,202	5,727
Premiums and insurance balances receivable, net of allowance (2006 \$881; 2005 \$1,011)	17,540	15,333
Reinsurance assets, net of allowance (2006 \$447; 2005 \$992)	24,364	24,978
Deferred policy acquisition costs	36,342	33,248
Investments in partially owned companies	1,031	1,158
Real estate and other fixed assets, net of accumulated depreciation (2006 \$5,424; 2005 \$4,990)	9,141	7,446
Separate and variable accounts	70,652	63,797
Goodwill	8,576	8,093
Other assets	16,209	12,329
Total assets	\$ 941,544	\$ 853,051

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)

	September 30, 2006	December 31, 2005
Liabilities:		
Reserve for losses and loss expenses	\$ 79,863	\$ 77,169
Unearned premiums	26,068	24,243
Future policy benefits for life and accident and health insurance contracts	118,273	108,807
Policyholders' contract deposits	236,342	227,027
Other policyholders' funds	10,534	10,870
Commissions, expenses and taxes payable	5,125	4,769
Insurance balances payable	4,722	3,564
Funds held by companies under reinsurance treaties	2,442	4,174
Income taxes payable	8,497	6,288
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	21,091	20,811
Securities sold under agreements to repurchase, at contract value	15,071	11,047
Trading liabilities	2,914	2,546
Hybrid financial instrument liabilities, at fair value	8,150	
Securities and spot commodities sold but not yet purchased, at market value	5,645	5,975
Unrealized loss on swaps, options and forward transactions	12,764	12,740
Trust deposits and deposits due to banks and other depositors	4,813	4,877
Commercial paper	8,814	6,514
Notes, bonds, loans and mortgages payable	79,834	71,313
Commercial paper	4,484	2,694
Notes, bonds, loans and mortgages payable	13,350	7,126
Liabilities connected to trust preferred stock	1,399	1,391
Separate and variable accounts	70,652	63,797
Securities lending payable	72,264	60,409
Minority interest	6,290	5,124
Other liabilities (includes hybrid financial instruments: 2006 \$70)	25,800	23,273
Total liabilities	845,201	766,548
Preferred shareholders' equity in subsidiary companies	189	186
Commitments and Contingent Liabilities (See Note 6)		
Shareholders' equity:		
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued 2006 and 2005 2,751,327,476	6,878	6,878
Additional paid-in capital	2,572	2,339
Retained earnings	81,987	72,330
Accumulated other comprehensive income (loss)	6,744	6,967
	(2,027)	(2,197)

Treasury stock, at cost; 2006 152,107,902; 2005 154,680,704 shares of
common stock

Total shareholders equity		96,154		86,317
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity		\$ 941,544		\$ 853,051

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Premiums and other considerations	\$ 18,856	\$ 17,243	\$ 55,401	\$ 52,459
Net investment income	6,263	5,654	18,002	16,213
Realized capital gains (losses)	(87)	77	(132)	89
Other income	4,167	3,434	9,930	12,752
Total revenues	29,199	26,408	83,201	81,513
Benefits and expenses:				
Incurred policy losses and benefits	14,737	16,501	43,725	45,657
Insurance acquisition and other operating expenses	8,161	7,360	23,141	20,959
Total benefits and expenses	22,898	23,861	66,866	66,616
Income before income taxes, minority interest and cumulative effect of an accounting change	6,301	2,547	16,335	14,897
Income taxes	1,943	748	5,066	4,537
Income before minority interest and cumulative effect of an accounting change	4,358	1,799	11,269	10,360
Minority interest	(134)	(54)	(694)	(327)
Income before cumulative effect of an accounting change	4,224	1,745	10,575	10,033
Cumulative effect of an accounting change, net of tax			34	
Net income	\$ 4,224	\$ 1,745	\$ 10,609	\$ 10,033
Earnings per common share:				
Basic				
Income before cumulative effect of an accounting change	\$ 1.62	\$ 0.67	\$ 4.06	\$ 3.86
			0.01	

Cumulative effect of an accounting change, net of tax								
Net income	\$	1.62	\$	0.67	\$	4.07	\$	3.86
Diluted								
Income before cumulative effect of an accounting change	\$	1.61	\$	0.66	\$	4.03	\$	3.82
Cumulative effect of an accounting change, net of tax					0.01			
Net income	\$	1.61	\$	0.66	\$	4.04	\$	3.82
Dividends declared per common share	\$	0.165	\$	0.175	\$	0.48	\$	0.475
Average shares outstanding:								
Basic		2,607		2,597		2,607		2,597
Diluted		2,626		2,624		2,625		2,624

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)*

Nine Months Ended September 30,	2006	2005
Summary:		
Net cash provided by (used in) operating activities	\$ 6,004	\$ 20,190
Net cash used in investing activities	(51,400)	(52,577)
Net cash provided by financing activities	44,865	32,576
Effect of exchange rate changes on cash	59	(90)
Change in cash	(472)	99
Cash at beginning of period	1,897	2,009
Cash at end of period	\$ 1,425	\$ 2,108
Cash flows from operating activities:		
Net income	\$ 10,609	\$ 10,033
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Realized capital (gains) losses	394	296
Foreign exchange transaction (gains) losses	845	(2,889)
Equity in income of partially owned companies and other invested assets	(2,655)	(1,217)
Amortization of premium and discount on securities	100	357
Depreciation expenses, principally flight equipment	1,743	1,311
Provision for finance receivable losses	329	315
Changes in operating assets and liabilities:		
General and life insurance reserves	10,507	17,257
Premiums and insurance balances receivable and payable net	(173)	89
Reinsurance assets	614	(2,163)
Deferred policy acquisition costs	(3,210)	(2,351)
Investment income due and accrued	(475)	(399)
Funds held under reinsurance treaties	(1,732)	544
Other policyholders funds	(510)	613
Income taxes payable	1,905	2,532
Commissions, expenses and taxes payable	356	516
Other assets and liabilities net	(120)	1,233
Bonds, common and preferred stocks trading, at market value	(4,410)	(3,532)
Trading assets and liabilities net	(622)	1,711
Trading securities, at market value	677	(3,532)
Spot commodities	(26)	82

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Net unrealized (gain) loss on swaps, options and forward transactions	(966)	694
Securities purchased under agreements to resell	(12,494)	14,143
Securities sold under agreements to repurchase	4,024	(12,887)
Securities and spot commodities sold but not yet purchased, at market value	(330)	249
Finance receivables held for sale originations and purchases	(7,965)	(9,111)
Sales of finance receivables held for sale	7,888	8,409
Other net	1,701	(2,113)
Total adjustments	(4,605)	10,157
Net cash provided by (used in) operating activities	\$ 6,004	\$ 20,190

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

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

Nine Months Ended September 30,	2006	2005
Cash flows from investing activities:		
Cost of bonds, at market sold	\$ 70,737	\$ 93,690
Cost of bonds, at market matured or redeemed	11,794	12,553
Cost of equity securities sold	8,891	9,271
Realized capital gains (losses)	(325)	24
Sales of securities available for sale	4,300	4,913
Maturities of securities available for sale	974	2,190
Sales of flight equipment	380	376
Sales or distributions of other invested assets	11,591	7,480
Finance receivable principal payments received	9,131	8,842
Mortgage, policy, collateral and guaranteed loans payments received	3,081	2,715
Purchases of fixed maturity securities	(98,852)	(130,547)
Purchases of equity securities	(11,032)	(10,947)
Purchases of securities available for sale	(8,162)	(12,992)
Purchases of flight equipment	(4,860)	(5,482)
Purchases of other invested assets	(11,935)	(8,874)
Net additions to real estate and other assets	(1,405)	(1,398)
Finance receivables held for investment originations and purchases	(9,947)	(13,021)
Mortgage, policy, collateral and guaranteed loans granted	(5,793)	(3,941)
Change in securities lending collateral	(11,917)	(8,458)
Change in short-term investments	(8,051)	