

AMERICAN INTERNATIONAL GROUP INC  
Form 10-K  
February 20, 2014

Table of Contents

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

---

**FORM 10-K**

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

**For the fiscal year ended December 31, 2013**

**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**

---

**Securities registered pursuant to Section 12(b) of the Act: See Exhibit 99.02**

**Securities registered pursuant to Section 12(g) of the Act: None**

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☐

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐

Smaller reporting company ☐

(Do not check if a  
smaller reporting company)

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately \$65,993,000,000.

As of February 14, 2014, there were outstanding 1,464,067,641 shares of Common Stock, \$2.50 par value per share, of the registrant.

### DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

**AMERICAN INTERNATIONAL GROUP, INC.**  
**ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2013**  
**TABLE OF CONTENTS**

<b>FORM 10-K</b>		
<b>Item Number</b>	<b>Description</b>	<b>Page</b>
<b><u>PART I</u></b>		
<u>Item 1.</u>	<u>Business</u>	<u>2</u>
	<u>AIG's Global Insurance Operations</u>	<u>3</u>
	<u>A Review of Liability for Unpaid Claims and Claims Adjustment Expense</u>	<u>18</u>
	<u>Reinsurance Activities</u>	<u>21</u>
	<u>Generating Revenues: Investment Activities of Our Insurance Operations</u>	<u>22</u>
	<u>Regulation</u>	<u>23</u>
	<u>Our Competitive Environment</u>	<u>30</u>
	<u>Our Employees</u>	<u>30</u>
	<u>Directors and Executive Officers of AIG</u>	<u>31</u>
	<u>Available Information about AIG</u>	<u>32</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>33</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>47</u>
<u>Item 2.</u>	<u>Properties</u>	<u>47</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>47</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>47</u>
<b><u>PART II</u></b>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>48</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>51</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>54</u>
	<u>Cautionary Statement Regarding Forward-Looking Information</u>	<u>54</u>
	<u>Use of Non-GAAP Measures</u>	<u>56</u>
	<u>Executive Overview</u>	<u>58</u>
	<u>Results of Operations</u>	<u>71</u>
	<u>Liquidity and Capital Resources</u>	<u>128</u>
	<u>Investments</u>	<u>143</u>
	<u>Enterprise Risk Management</u>	<u>161</u>
	<u>Critical Accounting Estimates</u>	<u>178</u>
	<u>Glossary</u>	<u>203</u>
	<u>Acronyms</u>	<u>207</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>208</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>209</u>
	<u>Index to Financial Statements and Schedules</u>	<u>209</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>339</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>339</u>
<b><u>PART III</u></b>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>340</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>340</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>340</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>340</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>340</u>
<b><u>PART IV</u></b>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>340</u>
<b><u>SIGNATURES</u></b>		<u>341</u>



Table of Contents

## PART I

### ITEM 1 / BUSINESS

American International Group, Inc. (AIG) is a leading global insurance company. Founded in 1919, today we provide a wide range of property casualty insurance, life insurance, retirement products, mortgage insurance and other financial services to customers in more than 130 countries and jurisdictions. Our diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

AIG's key strengths include:

**World class insurance franchises** that are leaders in their categories and are continuing to improve their operating performance;

**A diverse mix of businesses** with a presence in most international markets;

**Effective capital management** of the largest shareholders' equity of any insurance company in the world\*, supported by enhanced risk management;

**Execution of strategic objectives**, such as our focus on growth of higher value lines of business to increase profitability and grow assets under management; and

**Improved profitability**, as demonstrated by growth in 2013 over 2012 of pre-tax operating income in each of our core insurance operations.

\* At June 30, 2013, the latest date for which information was available for certain foreign insurance companies.

AIG 2013 Form 10-K



Table of Contents

**ITEM 1 / BUSINESS / AIG**

*In this Annual Report on Form 10-K, unless otherwise mentioned or unless the context indicates otherwise, we use the terms "AIG," the "Company," "we," "us" and "our" to refer to American International Group, Inc., a Delaware corporation, and its consolidated subsidiaries. We use the term "AIG Parent" to refer solely to American International Group, Inc., and not to any of its consolidated subsidiaries.*

**AIG's Global Insurance Operations**

**HOW WE GENERATE REVENUES AND PROFITABILITY**

**We earn revenues** primarily from insurance premiums, policy fees from universal life insurance and investment products, income from investments and advisory fees.

**Our operating expenses** consist of policyholder benefits and claims incurred, interest credited to policyholders, commissions and other costs of selling and servicing our products, and general business expenses.

**Our profitability** is dependent on our ability to price and manage risk on insurance and annuity products, to manage our portfolio of investments effectively, and to control costs through expense discipline.

**AIG Property Casualty**

**AIG Life and Retirement**

**AIG Property Casualty** is a leading provider of insurance products for commercial, institutional and individual customers through one of the world's most far-reaching property casualty networks. AIG Property Casualty offers one of the industry's most extensive ranges of products and services, through its diversified, multichannel distribution network, benefitting from its strong capital position.

**AIG Life and Retirement** is a premier provider of protection, investment and income solutions for financial and retirement security. It is among the largest life insurance, annuity and retirement services businesses in the United States. With one of the broadest distribution networks and most diverse product offerings in the industry, AIG Life and Retirement helps to ensure financial and retirement security for more than 18 million customers.

During the first quarter of 2013, AIG Life and Retirement implemented its previously announced changes reflecting its new structure and now presents its operating results in two operating segments – Retail and Institutional. All prior period amounts presented have been revised to reflect the new structure.

**Mortgage Guaranty** (United Guaranty Corporation or UGC), is a leading provider of private residential mortgage guaranty insurance (MI). MI covers mortgage lenders for the first loss from mortgage defaults on high loan-to-value conventional first-lien mortgages. By providing this coverage, UGC enables mortgage lenders to remain competitive and enables individuals to purchase a house with a lower down payment.

Other Operations also include Global Capital Markets, Direct Investment book, Corporate & Other and Aircraft Leasing.





Table of Contents

**ITEM 1 / BUSINESS / AIG**

**BUSINESS MANAGEMENT**

On August 14, 2013, we announced a reorganization of our Consumer Insurance business and named a new management team. Under the new structure, AIG's global life insurance business will be managed as part of AIG Global Consumer Insurance enabling our consumer network across the world to benefit from the sophistication, scale, and success of our U.S. life insurance platform.

During the fourth quarter of 2013, the newly appointed executive management team made a number of key appointments to its management team and certain key decisions regarding how its underlying operating segments will be organized. However, we continue to work on the final key elements of the new organization and operating structure. When the new structure is finalized, the presentation of AIG Property Casualty and AIG Life and Retirement results may be modified accordingly and prior periods' presentations may be revised to conform to the new reporting presentation.

\* Revenues for AIG Property Casualty and Mortgage Guaranty include net premiums earned, net investment income and net realized capital gains. Revenues for AIG Life and Retirement include premiums, policy fees, net investment income, advisory fees, legal settlements and net realized capital gains.

For financial information concerning our reportable segments, including geographic areas of operation and changes made in 2013, see Note 3 to the Consolidated Financial Statements. Prior periods have been revised to conform to the current period presentation for segment changes and discontinued operations.

AIG 2013 Form 10-K

[Table of Contents](#)

**ITEM 1 / BUSINESS / AIG**

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

- (a) Pre-tax operating income, accident year loss ratio, as adjusted, and book value per share excluding AOCI are non-GAAP measures. See "Use of Non-GAAP Measures" for additional information.
- (b) Based on AerCap's pre-announcement closing price per share of \$24.93 as of December 13, 2013.
- (c) AIG did not receive any proceeds from the sale of AIG Common Stock by the Department of the Treasury. See Notes 4, 16, 17 and 24 to the Consolidated Financial Statements for further discussion of the government support provided to AIG and the Recapitalization.

AIG 2013 Form 10-K

Table of Contents

**ITEM 1 / BUSINESS / AIG PROPERTY CASUALTY**

**AIG Property Casualty**

**Growth and Business Mix:** Grow higher value business to increase profitability and expand in attractive growth economies.

**Underwriting Excellence:** Enhance risk selection and pricing to earn returns commensurate with the risk assumed.

**Claims Best Practices:** Improve claims practices, analytics and tools to improve customer service, increase efficiency and lower the loss ratio.

**Operating Expense Discipline:** Apply operating expense discipline and increase efficiencies by taking full advantage of our global footprint.

**Capital Efficiency:** Enhance capital management through initiatives to streamline our legal entity structure, optimize our reinsurance program and improve tax efficiency.

**Investment Strategy:** Execute our investment strategy, which includes increased asset diversification and yield-enhancement opportunities that meet our capital, liquidity, risk and return objectives.

AIG 2013 Form 10-K

Table of Contents

**ITEM 1 / BUSINESS / AIG PROPERTY CASUALTY**

AIG Property Casualty operating segments are organized into *Commercial Insurance* and *Consumer Insurance*. Run-off lines of business and operations not attributable to these operating segments are included in an Other category.

*Percent of 2013 Net premiums written by operating segment\**

*(dollars in millions)*

\* *The operations reported as part of Other do not have meaningful levels of Net premiums written.*

**Commercial Insurance**

*Percent of 2013 Net premiums written by product line  
(dollars in millions)*

**Consumer Insurance**

*Percent of 2013 Net premiums written by product line  
(dollars in millions)*

AIG 2013 Form 10-K

7

---

Table of Contents

**ITEM 1 / BUSINESS / AIG PROPERTY CASUALTY**

**Commercial Insurance Product Lines**

**Consumer Insurance Product Lines**

**Casualty:** Includes general liability, commercial automobile liability, workers' compensation, excess casualty and crisis management insurance. Casualty also includes risk management and other customized structured programs for large corporate customers and multinational companies.

**Property:** Includes industrial, energy-related and commercial property insurance products, which cover exposures to man-made and natural disasters, including business interruption.

**Specialty:** Includes aerospace, environmental, political risk, trade credit, surety and marine insurance, and various product offerings for small and medium sized enterprises.

**Financial:** Includes various forms of professional liability insurance, including directors and officers (D&O), fidelity, employment practices, fiduciary liability, cyber risk, kidnap and ransom, and errors and omissions insurance (E&O).

**Accident & Health:** Includes voluntary and sponsor-paid personal accidental and supplemental health products for individuals, employees, associations and other organizations. It also includes life products (outside of the U.S. market) as well as a broad range of travel insurance products and services for leisure and business travelers.

**Personal:** Includes automobile, homeowners and extended warranty insurance. It also includes insurance for high-net-worth individuals (offered through Private Client Group), including umbrella, yacht and fine art insurance, and consumer specialty products, such as identity theft and credit card protection.

**Other:** Consists primarily of: run-off lines of business, including excess workers' compensation, asbestos and legacy environmental (1986 and prior); certain environmental liability businesses written prior to 2004; operations and expenses not attributable to the Commercial Insurance or Consumer Insurance operating segments; unallocated net investment income; net realized capital gains and losses; other income and expense items; and adverse loss development, net of amortization of deferred gain, for a retroactive reinsurance arrangement.

## A Look at AIG Property Casualty

AIG Property Casualty conducts its business primarily through the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa.; American Home Assurance Company; Lexington Insurance Company; AIU Insurance Company Ltd.; Fuji Fire & Marine Insurance Company Limited (Fuji); AIG Asia Pacific Insurance, Pte, Ltd. and AIG Europe Limited.

AIG Property Casualty has a significant international presence in both developed markets and growth economy nations. It distributes its products through three major geographic regions:

**Americas:** Includes the United States, Canada, Central America, South America, the Caribbean and Bermuda.

**Asia Pacific:** Includes Japan and other Asia Pacific nations, including China, Korea, Singapore, Vietnam, Thailand, Australia and Indonesia.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

**EMEA (Europe, Middle East and Africa):** Includes the United Kingdom, Continental Europe, Russia, India, the Middle East and Africa.

In 2013, 5.6 percent and 5.1 percent of AIG Property Casualty direct premiums were written in the states of California and New York, respectively, and 18.3 percent and 6.8 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than 5 percent of such premiums.

[AIG 2013 Form 10-K](#)



Table of Contents

**ITEM 1 / BUSINESS / AIG PROPERTY CASUALTY**

**Total Net Premiums Written \$34.4 bn**

Based on net premiums written in 2012, AIG Property Casualty is the largest commercial insurer in the U.S. and Canada. We are the largest U.S. based property casualty insurer in Europe, and the largest foreign property casualty insurer in China. In addition, AIG Property Casualty was first to market in many developing nations and is well positioned to enhance its businesses in countries such as Brazil, China through strategic relationships with PICC Life Insurance Company Limited (PICC Life) and India with the Tata Group.

**Commercial Insurance**

**Consumer Insurance**

Commercial Insurance products are primarily distributed through a network of independent retail and wholesale brokers, and through an independent agency network.

Consumer Insurance products are distributed primarily through agents and brokers, as well as through direct marketing, partner organizations such as bancassurance, and the internet.

AIG 2013 Form 10-K



Table of Contents

**ITEM 1 / BUSINESS / AIG PROPERTY CASUALTY**

**AIG Property Casualty**

Operating in a highly competitive industry, AIG Property Casualty competes against approximately 4,000 stock companies, specialty insurance organizations, mutual companies and other underwriting organizations in the U.S. In international markets, we compete for business with the foreign insurance operations of large global insurance groups and local companies in specific market areas and product types.

Insurance companies compete through a combination of risk acceptance criteria, product pricing, service and terms and conditions. AIG Property Casualty distinguishes itself in the insurance industry primarily based on its well-established brand, global franchise, financial strength and large capital base, innovative products, expertise in providing specialized coverages and customer service.

We serve our business and individual customers on a global basis from the largest multinational corporations to local businesses and individuals. Our clients benefit from our substantial underwriting expertise and long-term commitment to the markets and clients we serve.

Our competitive strengths are:

**Financial strength** well capitalized, strong balance sheet

**Expertise** in-depth knowledge of risk, experienced employees complemented with new talent;

**Global franchise** operating in more than 95 countries and jurisdictions

**Scale** facilitates risk diversification to optimize returns on capital

**Diversification** breadth of customers served, products underwritten and distribution channels

**Innovation** striving to provide superior, differentiated product solutions that meet consumer needs

**Service** focused on customer needs, providing strong global claims, loss prevention and mitigation, engineering, underwriting and other related services

We face the following challenges:

**Barriers to entry are high** for certain markets

**Regulatory changes** in recent years created an increasingly complex environment that is affecting industry growth and profitability

**AIG 2013 Form 10-K**

Table of Contents

**ITEM 1 / BUSINESS / AIG LIFE AND RETIREMENT**

**AIG Life and Retirement**

**Product Diversity and Capacity for Growth:** Continue to enhance our comprehensive portfolio with superior, differentiated product solutions that meet consumer needs for financial and retirement security, using our scale and capital strength to pursue growth opportunities.

**Integrated Distribution:** Grow assets under management by leveraging our extensive distribution organization of over 300,000 financial professionals and expanding relationships with key distribution partners; to effectively market our diverse product offerings across multiple channels under a more unified branding strategy.

**Investment Portfolio:** Maintain a diversified, high quality portfolio of fixed maturity securities that largely match the duration characteristics of liabilities with assets of comparable duration, and pursue yield-enhancement opportunities that meet our liquidity, risk and return objectives.

**Operational Initiatives:** Continue to streamline our life insurance and annuity operations and systems into a lower-cost, more agile model that provides superior service and ease of doing business for customers and producers.

**Effective Risk and Capital Management:** Deliver solid earnings through disciplined pricing and diversification of risk and increase capital efficiency within our insurance entities to enhance return on equity.



Table of Contents

**ITEM 1 / BUSINESS / AIG LIFE AND RETIREMENT**

AIG Life and Retirement's organizational structure includes distinct product divisions, shared annuity and life operations platforms and a unified multi-channel distribution organization with access to all AIG Life and Retirement products. AIG Life and Retirement's operating segments are organized into *Retail* and *Institutional*. *Retail* products are generally marketed directly to individual consumers through independent and career insurance agents, retail banks, direct-to-consumer platforms, and national, regional and independent broker-dealers. *Institutional* products are generally marketed to groups or large institutions through affiliated financial advisors or intermediaries including benefit consultants, independent marketing organizations, structured settlement brokers and broker-dealers.

*Percent of 2013 Premiums and deposits by operating segment  
(dollars in millions)*

Premiums represent amounts received on traditional life insurance policies, group benefit policies and deposits on life contingent payout annuities. Premiums and deposits is a non-GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance, investment-type annuity contracts, guaranteed investment contracts (GICs) and mutual funds.

See Item 7. MD&A Results of Operations AIG Life and Retirement Operations AIG Life and Retirement Premiums, Deposits and Net Flows for a reconciliation of premiums and deposits to premiums.

**Retail**

*Percent of 2013 Premiums and Deposits by product line  
(dollars in millions)*

**Institutional**

*Percent of 2013 Premiums and Deposits by product line  
(dollars in millions)*

AIG 2013 Form 10-K

12

---

Table of Contents

**ITEM 1 / BUSINESS / AIG LIFE AND RETIREMENT**

**Retail Product Lines**

**Institutional Product Lines**

**Life Insurance and A&H:** Primary products include term life insurance, universal life insurance and A&H products. Life insurance and A&H products are primarily distributed through independent marketing organizations, independent insurance agents and career agents and financial advisors. AIG Direct is a proprietary direct-to-consumer distributor of term life insurance and A&H products. The Life Insurance and A&H product line will continue to focus on innovative product development and delivering differentiated life insurance solutions to producers and customers.

**Fixed Annuities:** Products include single and flexible premium deferred fixed annuities and single premium immediate and delayed-income annuities. The Fixed Annuities business line maintains its industry-leading position in the bank distribution channel by designing products collaboratively with banks and offering an efficient and flexible administration platform.

**Retirement Income Solutions:** Primary products include variable and fixed index annuities that provide asset accumulation and lifetime income benefits. Variable annuities are distributed through banks and national, regional and independent broker-dealer firms. Fixed index annuities are distributed through banks, broker dealers, independent marketing organizations and career and independent insurance agents.

**Brokerage Services:** Includes the operations of Advisor Group, which is one of the largest networks of independent financial advisors in the U.S. Brands include Royal Alliance, SagePoint Financial, FSC Securities and Woodbury Financial.

**Retail Mutual Funds:** Includes our mutual fund and related administration and servicing operations.

**Group Retirement:** Products are marketed under The Variable Annuity Life Insurance Company (VALIC) brand and include fixed and variable group annuities, group mutual funds, and group administrative and compliance services. VALIC career financial advisors and independent financial advisors provide retirement plan participants with enrollment support and comprehensive financial planning services.

**Group Benefits:** AIG Benefit Solutions markets a wide range of insurance and other benefit products through employer offerings (both employer-paid and voluntary) and affinity groups. Primary product offerings include life insurance, accidental death, business travel accident, disability income, medical excess (stop loss) and worksite universal life and critical illness and accident coverage.

**Institutional Markets:** Products primarily include stable value wrap products, structured settlement and terminal funding annuities, high net worth products, corporate- and bank-owned life insurance and GICs. These products are marketed primarily through specialized marketing and consulting firms and structured settlement brokers. Institutional Markets has a disciplined and opportunistic approach to growth in these product lines.

AIG 2013 Form 10-K



Table of Contents

**ITEM 1 / BUSINESS / AIG LIFE AND RETIREMENT**

**A Look at AIG Life and Retirement**

AIG Life and Retirement conducts its business primarily through three major insurance operating companies: American General Life Insurance Company, The Variable Annuity Life Insurance Company and The United States Life Insurance Company in the City of New York.

Sales represent life and group A&H premiums from new policies expected to be collected over a one-year period plus 10 percent of life unscheduled deposits, single premiums and annuity deposits from new and existing customers.

**Affiliated**

**Nonaffiliated**

**VALIC career financial advisors** Over 1,200 financial advisors serving the worksites of educational, not-for-profit and governmental organizations

**AIG Financial Network** Over 2,200 agents and financial advisors serving American families and small businesses

**Advisor Group** Over 6,000 independent financial advisors

**AIG Direct** A leading direct-to-consumer distributor of life and A&H products

**Banks** Long-standing market leader in distribution of fixed annuities through banks, with 800 banks and nearly 80,000 financial institution agents

**Independent marketing organizations** Relationships with over 1,200 independent marketing organizations and brokerage general agencies providing access to over 143,000 licensed independent agents

**Broker dealers** Access to over 135,000 licensed financial professionals through relationships with a wide network of broker dealers across the U.S.

**Benefit brokers** Include consultants, brokers, third party administrators and general agents

[AIG 2013 Form 10-K](#)

Table of Contents

**ITEM 1 / BUSINESS / AIG LIFE AND RETIREMENT**

AIG Life and Retirement is among the largest life insurance organizations in the United States and is a leader in today's financial services marketplace.

AIG Life and Retirement competes in the life insurance and retirement savings businesses against approximately 2,300 providers of life insurance and retirement savings products, primarily based on its long-standing market leading positions, innovative products, extensive distribution network, customer service and strong financial ratings. AIG Life and Retirement helps ensure financial and retirement security for more than 18 million customers.

Our competitive strengths are:

**Long-standing market leading positions** in many of our product lines and key distribution channels

**Broad multi-channel distribution network** of over 300,000 financial professionals with opportunities to expand on these relationships to effectively market our diverse product offerings across multiple channels

**Diversified and comprehensive product portfolio** of superior, differentiated solutions that meet consumer needs for financial and retirement security

**Scale and risk diversification** provided by the breadth of our product offerings and scale advantage in key product lines

**Capital strength to fuel growth** in assets under management and pursue opportunities that meet our return objectives

We also face the following challenges:

**Highly competitive environment** where products are differentiated by pricing, terms, service and ease of doing business

**Regulatory requirements** increasing in volume and complexity due to heightened regulatory scrutiny and supervision of the insurance and financial services industries in recent years

**Low interest rate** environment makes it more difficult to profitably price attractive guaranteed return products and puts margin pressure on existing products due to the challenge of investing premiums and deposits and portfolio cash flow in a low rate environment

AIG 2013 Form 10-K

Table of Contents

**ITEM 1 / BUSINESS / OTHER OPERATIONS**

Other Operations

**Risk Selection:** Ensure high quality new business through continuous focus on risk selection and risk-based pricing using disciplined underwriting and a proprietary, multi-variant risk evaluation model.

**Innovation:** Continue to develop and enhance products, technology, and processes that address the needs of stakeholders in the mortgage system.

**Ease of Use:** Reduce complexity and enable stakeholders to easily utilize our services throughout the mortgage insurance process.

**Expense Management:** Streamline our processes through the use of technology and shared services.

**Mortgage Guaranty (United Guaranty Corporation or UGC)** offers private residential mortgage guaranty insurance, which protects mortgage lenders and investors from loss due to borrower default and loan foreclosure. With over 1,000 employees, UGC currently insures over one million mortgage loans in the United States. In 2013, UGC generated more than \$49 billion in new insurance written, which represents the original principal balance of the insured mortgages, making it a leading provider of private mortgage insurance in the United States.

**Products and Services:** UGC provides an array of products and services including first-lien mortgage guaranty insurance in a range of premium payment plans. UGC's primary product is private mortgage insurance. The coverage we provide which is called mortgage guaranty insurance, mortgage insurance, or simply "MI", protects lenders against the increased risk of borrower default related to high loan-to-value (LTV) mortgages those with less than 20 percent equity enabling borrowers to purchase a house with a modest down payment.

**Homeowner Support:** UGC also works with homeowners who are behind on their mortgage payments to identify ways to retain their home. As a liaison between the borrower and the mortgage servicer, UGC provides the added support to qualified homeowners to help them avoid foreclosure.

AIG 2013 Form 10-K

Table of Contents

**ITEM 1 / BUSINESS / OTHER OPERATIONS**

**A Look at Mortgage Guaranty**

National Mortgage Bankers

Community Banks

Money Center Banks

Builder-owned Mortgage Lenders

Regional Mortgage Lenders

Internet-sourced Lenders

Credit Unions

United Guaranty competes with seven private providers of mortgage insurance, both well-established and new entrants to the industry, and The Federal Housing Administration, which is the largest provider of mortgage insurance in the United States.

Our competitive strengths are:

**History** 50 years of service to the mortgage industry

**Financial strength** strong capital position and highly rated mortgage insurer

**Risk-based pricing strategy** provides products that are priced commensurate with underwriting risk using its proprietary multivariate risk evaluation model

**Innovative products** develop and enhance products to address the changing needs of the mortgage industry

**Rigorous approach to risk management**

We face the following challenges:

**Increasingly complex regulations relating to mortgage originations**

**Uncertain future regulatory environment in the residential housing finance system**

**Increasing competition in a limited private MI market**

**Volatility in the U.S. housing market**



Table of Contents

**ITEM 1 / BUSINESS / OTHER OPERATIONS**

**Other Operations also include:**

**Global Capital Markets (GCM)** consists of the operations of AIG Markets, Inc. (AIG Markets) and the remaining derivatives portfolio of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively AIGFP). AIG Markets acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services for AIG entities. The AIGFP portfolio continues to be wound down and is managed consistent with AIG's risk management objectives.

**Direct Investment book (DIB)** consists of a portfolio of assets and liabilities held directly by AIG Parent in the Matched Investment Program (MIP) and certain non-derivative assets and liabilities of AIGFP. The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all of its liabilities as they come due, even under stress scenarios, and to maximize returns consistent with our risk management objectives.

**Retained Interests** includes the fair value gains or losses, prior to their sale in 2012, of the AIA ordinary shares retained following the AIA initial public offering and the MetLife, Inc. (MetLife) securities that were received as consideration from the sale of American Life Insurance Company (ALICO) and the fair value gains or losses, prior to the Federal Reserve Bank of New York (FRBNY) liquidation of Maiden Lane III LLC (ML III) assets in 2012, on the retained interest in ML III.

**Corporate & Other** consists primarily of interest expense, consolidation and eliminations, expenses of corporate staff not attributable to specific reportable segments, certain expenses related to internal controls and the financial and operating platforms, corporate initiatives, certain compensation plan expenses, corporate level net realized capital gains and losses, certain litigation-related charges and credits, the results of AIG's other non-core business operations, and net loss on sale of properties and divested businesses that did not meet the criteria for discontinued operations accounting treatment.

**Aircraft Leasing** consists of ILFC. ILFC is one of the world's leading aircraft lessors. ILFC acquires commercial jet aircraft from various manufacturers and other parties and leases those aircraft to airlines around the world. As of December 31, 2013, ILFC had a lease portfolio of approximately 1,000 aircraft, of which it owned 911 aircraft with a net book value of approximately \$35.2 billion.

On December 16, 2013, AIG and AIG Capital Corporation (Seller), a wholly-owned direct subsidiary of AIG, entered into a definitive agreement (the AerCap Share Purchase Agreement) with AerCap Holdings N.V. (AerCap) and AerCap Ireland Limited (Purchaser), a wholly-owned subsidiary of AerCap, for the sale of 100 percent of the common stock of ILFC by Seller to Purchaser (such transaction, the AerCap Transaction). Under the terms of the AerCap Share Purchase Agreement, consummation of the AerCap Transaction is subject to the satisfaction or waiver of a number of conditions precedent, such as certain customary conditions and other closing conditions, including the receipt of approvals or non-disapprovals from antitrust and other regulatory bodies. The AerCap Transaction was approved by AerCap shareholders on February 13, 2014. See Item 1A. Risk Factors – Business and Regulation and Note 4 to the Consolidated Financial Statements for more information on the AerCap Transaction.

**A REVIEW OF LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSE**

The liability for unpaid claims and claims adjustment expense represents the accumulation of estimates for unpaid reported claims and claims that have been incurred but not reported (IBNR) for AIG Property Casualty and UGC. Unpaid claims and claims adjustment expenses are also referred to as unpaid loss and loss adjustment expenses, or just loss reserves.

We recognize as assets the portion of this liability that will be recovered from reinsurers. Reserves are discounted, where permitted, in accordance with U.S. GAAP.

**AIG 2013 Form 10-K**

Table of Contents

**ITEM 1 / BUSINESS**

The process of establishing the liability for unpaid losses and loss adjustment expense is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process.

We use a number of techniques to analyze the adequacy of the established net liability for unpaid claims and claims adjustment expense (net loss reserves). Using these analytical techniques, we monitor the adequacy of AIG's established reserves and determine appropriate assumptions for inflation and other factors influencing loss costs. Our analysis also takes into account emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence. We also consider specific factors that may impact losses, such as changing trends in medical costs, unemployment levels and other economic indicators, as well as changes in legislation and social attitudes that may affect decisions to file claims or the magnitude of court awards. See Item 7. MD&A Critical Accounting Estimates for a description of our loss reserving process.

*Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry. These changes in estimates are sometimes referred to as "loss development" or "reserve development."*

A significant portion of AIG Property Casualty's business is in the U.S. commercial casualty class, including asbestos and environmental, which tends to involve longer periods of time for the reporting and settlement of claims and may increase the risk and uncertainty with respect to our loss reserve development.

The "Analysis of Consolidated Loss Reserve Development" table presents the development of prior year net loss reserves for calendar years 2003 through 2013 for each balance sheet in that period. The information in the table is presented in accordance with reporting requirements of the Securities and Exchange Commission (SEC). This table should be interpreted with care by those not familiar with its format or those who are familiar with other loss development analyses arranged in an accident year or underwriting year basis rather than the balance sheet, as shown below. See Note 12 to the Consolidated Financial Statements.

*The top row of the table shows **Net Reserves Held** (the net liability for unpaid claims and claims adjustment expenses) at each balance sheet date, net of discount.* This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid as of that balance sheet date, including estimates for IBNR claims. The amount of loss reserve discount included in the net reserves at each date is shown immediately below the net reserves held. The undiscounted reserve at each date is equal to the sum of the discount and the net reserves held. For example, **Net Reserves Held (Undiscounted)** was \$37.7 billion at December 31, 2003.

*The next section of the table shows the original **Net Undiscounted Reserves re-estimated** over 10 years. This re-estimation takes into consideration a number of factors, including changes in the estimated frequency of reported claims, effects of significant judgments, the emergence of latent exposures, and changes in medical cost trends.* For example, the original undiscounted reserve of \$37.7 billion at December 31, 2003, was re-estimated to \$62.1 billion at December 31, 2013. The amount of the development related to losses settled or re-estimated in 2013, but incurred in 2010, is included in the cumulative development amount for years 2010, 2011 and 2012. Any increase or decrease in the estimate is reflected in operating results in the period in which the estimate is changed.

*The middle of the table shows **Net Redundancy (Deficiency)**. This is the aggregate change in estimates over the period of years covered by the table.* For example, the net loss reserve deficiency of \$24.4 billion for 2003 is the difference between the original undiscounted reserve of \$37.7 billion at December 31, 2003 and the \$62.1 billion of re-estimated reserves at December 31, 2013. The net deficiency amounts are cumulative; in other words, the amount





Table of Contents**ITEM 1 / BUSINESS**

shown in the 2012 column includes the amount shown in the 2011 column, and so on. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

The bottom portion of the table shows the ***Paid (Cumulative)*** amounts during successive years related to the undiscounted loss reserves. For example, as of December 31, 2013, AIG had paid a total of \$51.6 billion of the \$62.1 billion in re-estimated reserves for 2003, resulting in Remaining Reserves (Undiscounted) of \$10.5 billion for 2003. Also included in this section are the **Remaining Reserves (Undiscounted)** and the **Remaining Discount** for each year.

The following table presents loss reserves and the related loss development 2003 through 2013 and consolidated gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the re-estimation of these amounts as of December 31, 2013.<sup>(a)</sup>

<i>(in millions)</i>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net Reserves											
Held(b)	\$ 36,228	\$ 47,253	\$ 57,476	\$ 62,630	\$ 69,288	\$ 72,456	\$ 67,899	\$ 71,507	\$ 70,825	\$ 68,782	\$ <b>64,316</b>
Discount (in											
Reserves Held)	1,516	1,553	2,110	2,264	2,429	2,574	2,655	3,217	3,183	3,246	<b>3,555</b>
<b>Net Reserves</b>											
<b>Held</b>											
<b>(Undiscounted)</b>	37,744	48,806	59,586	64,894	71,717	75,030	70,554	74,724	74,008	72,028	\$ <b>67,871</b>
<b>Net</b>											
<b>undiscounted</b>											
<b>Reserve</b>											
<b>re-estimated as</b>											
<b>of:</b>											
One year later	40,931	53,486	59,533	64,238	71,836	77,800	74,736	74,919	74,429	72,585	
Two years later	49,463	55,009	60,126	64,764	74,318	82,043	74,529	75,502	75,167		
Three years later	51,497	56,047	61,242	67,303	78,275	81,719	75,187	76,023			
Four years later	52,964	57,618	63,872	70,733	78,245	82,422	76,058				
Five years later	54,870	60,231	67,102	70,876	79,098	83,135					
Six years later	57,300	63,348	67,518	71,572	79,813						
Seven years later	60,283	63,928	68,233	72,286							
Eight years later	60,879	64,532	69,023								
Nine years later	61,449	65,261									
Ten years later	62,116										
Net Deficiency											
on net reserves											
held	(24,372)	(16,455)	(9,437)	(7,392)	(8,096)	(8,105)	(5,504)	(1,299)	(1,159)	(557)	
Net Deficiency	(4,038)	(3,033)	(2,104)	(1,895)	(1,877)	(1,827)	(1,675)	(174)	(144)	(68)	
related to											
asbestos and											
environmental											

(A&E)										
Net Deficiency excluding A&E	(20,334)	(13,422)	(7,333)	(5,497)	(6,219)	(6,278)	(3,829)	(1,125)	(1,015)	(489)
<b>Paid (Cumulative) as of:</b>										
One year later	12,163	14,910	15,326	14,862	16,531	24,267	15,919	17,661	19,235	18,758
Two years later	21,773	24,377	25,152	24,388	31,791	36,164	28,428	30,620	31,766	
Three years later	28,763	31,296	32,295	34,647	40,401	46,856	38,183	40,091		
Four years later	33,825	36,804	40,380	40,447	48,520	53,616	45,382			
Five years later	38,087	43,162	44,473	46,474	53,593	58,513				
Six years later	42,924	46,330	49,552	50,391	57,686					
Seven years later	45,215	50,462	52,243	53,545						
Eight years later	48,866	52,214	54,332							
Nine years later	50,292	53,693								
Ten years later	51,578									
Remaining Reserves										
(Undiscounted)	10,538	11,568	14,691	18,741	22,127	24,622	30,676	35,932	43,401	53,827
Remaining Discount	1,624	1,723	1,861	2,038	2,251	2,487	2,722	2,955	3,186	3,375
<b>Remaining Reserves</b>										
	\$ 8,914	\$ 9,845	\$ 12,830	\$ 16,703	\$ 19,876	\$ 22,135	\$ 27,954	\$ 32,977	\$ 40,215	\$ 50,452
Net Liability, End of Year	\$ 37,744	\$ 48,806	\$ 59,586	\$ 64,894	\$ 71,717	\$ 75,030	\$ 70,554	\$ 74,724	\$ 74,008	\$ 72,028
Reinsurance Recoverable, End of Year	15,644	14,624	19,693	17,369	16,212	16,803	17,487	19,644	20,320	19,209
<b>Gross Liability, End of Year</b>										
	53,388	63,430	79,279	82,263	87,929	91,833	88,041	94,368	94,328	91,237
Re-estimated Net Liability	62,116	65,261	69,023	72,286	79,813	83,135	76,058	76,023	75,167	72,585
Re-estimated Reinsurance Recoverable	23,728	21,851	24,710	20,998	19,494	18,905	18,509	16,488	18,423	19,408
<b>Re-estimated Gross Liability Cumulative Gross Redundancy (Deficiency)</b>										
	85,844	87,112	93,733	93,284	99,307	102,040	94,567	92,511	93,590	91,993
	\$(32,456)	\$(23,682)	\$(14,454)	\$(11,021)	\$(11,378)	\$(10,207)	\$(6,526)	\$ 1,857	\$ 738	\$ (756)

(a) During 2009, we deconsolidated Transatlantic Holdings, Inc. and sold 21st Century Insurance Group and HSB Group, Inc. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of \$9.7 billion and as an \$8.6 billion increase in paid losses for the years 2000 through 2008 to remove the reserves for these divested entities from the ending balance.

(b) The increase in Net Reserves Held from 2009 to 2010 is partially due to the \$1.7 billion in Net Reserves Held by Fuji, which was acquired in 2010. The decrease in 2011 is due to the cession of asbestos reserves described in Item 7. MD&A Results of Operations Segment Results AIG Property Casualty Operations Liability for Unpaid Claims and Claims Adjustment Expense Asbestos and Environmental Reserves.

The Liability for unpaid claims and claims adjustment expense as reported in AIG's Consolidated Balance Sheet at December 31, 2013 differs from the total reserve reported in the annual statements filed with state insurance departments and, where applicable, with foreign regulatory authorities primarily for the following reasons:

Reserves for certain foreign operations are not required or permitted to be reported in the United States for statutory reporting purposes, including contingency reserves for catastrophic events;

AIG 2013 Form 10-K

Table of Contents

**ITEM 1 / BUSINESS**

Statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable; and

Unlike statutory financial statements, AIG's consolidated Liability for unpaid claims and claims adjustment expense excludes the effect of intercompany transactions.

Gross loss reserves are calculated without reduction for reinsurance recoverables and represent the accumulation of estimates for reported losses and IBNR, net of estimated salvage and subrogation. We review the adequacy of established gross loss reserves in the manner previously described for net loss reserves. A reconciliation of activity in the Liability for unpaid claims and claims adjustment expense is included in Note 12 to the Consolidated Financial Statements.

For further discussion of asbestos and environmental reserves, see Item 7. MD&A Results of Operations Segment Results AIG Property Casualty Operations Liability for Unpaid Claims and Claims Adjustment Expense Asbestos and Environmental Reserves.

**REINSURANCE ACTIVITIES**

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss exposure related to certain events such as natural and man-made catastrophes.

AIG subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we are required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

Over the last several years, AIG Property Casualty revised its ceded reinsurance framework and strategy to improve capital management and support our global product line risk and profitability objectives. As a result of adopting the revised framework and strategy, many individual reinsurance contracts were consolidated into more efficient global programs and reinsurance ceded to third parties in support of risk and capital management objectives has decreased for the full year 2013 compared to the prior year. There are many different forms of reinsurance agreements and different markets that may be used to achieve our risk and profitability objectives. We continually evaluate the relative attractiveness of various reinsurance markets and arrangements that may be used to achieve our risk and profitability objectives.

Reinsurance markets include:

Traditional local and global reinsurance markets including in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;

Capital markets through investors in insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, "sidecars" (special purpose entities that allow investors to take on the risk of a book of business from an insurance company in exchange for a premium) and similar vehicles; and

Other insurers that engage in both direct and assumed reinsurance and/or engage in swaps.

The form of reinsurance that we may choose from time to time will generally depend on whether we are seeking (i) proportional reinsurance, whereby we cede a specified percentage of premium and losses to reinsurers, or non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis and (ii) treaties that cover a defined book of policies, or facultative placements that cover an individual policy. The vast majority of our reinsurance is non-proportional.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Reinsurance arrangements do not relieve AIG subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

AIG 2013 Form 10-K

21

---

Table of Contents

**ITEM 1 / BUSINESS**

We continued our strategy to take advantage of the pricing differential between traditional reinsurance markets and capital markets. On July 9, 2013, we entered into a five-year catastrophe bond transaction with Tradewynd Re Ltd., which will provide \$125 million of indemnity protection against U.S., Caribbean and Gulf of Mexico named storms, and U.S. and Canadian earthquakes. The transaction provides us with fully collateralized coverage against losses from the events described above on a per-occurrence basis through June 2018.

In addition, we entered into a five-year capital markets reinsurance transaction, effective as of January 1, 2014 with Tradewynd Re Ltd., which will provide \$400 million of indemnity reinsurance protection against U.S., Caribbean and Gulf of Mexico named storms, and U.S. and Canadian earthquakes. To fund its potential obligations to AIG, Tradewynd Re Ltd. issued three tranches of notes, one with a one-year term and two with three-year terms. The transaction closed December 18, 2013 and provides AIG with fully collateralized coverage against losses from the events described above on a per-occurrence basis through December 2018.

See Item 7. MD&A Enterprise Risk Management Insurance Operations Risks AIG Property Casualty Key Insurance Risks Reinsurance Recoverable for a summary of significant reinsurers.

**GENERATING REVENUES: INVESTMENT ACTIVITIES OF OUR INSURANCE OPERATIONS**

AIG Property Casualty and AIG Life and Retirement generally receive premiums and deposits well in advance of paying covered claims or benefits. In the intervening periods, we invest these premiums and deposits to generate net investment income that is available to pay claims or benefits. As a result, we generate significant revenues from insurance investment activities.

*We generate significant revenues in our AIG Property Casualty and AIG Life and Retirement operations from investment activities.*

AIG's worldwide insurance investment policy places primary emphasis on investments in fixed maturity securities of corporations, municipal bonds and government issuances in all of its portfolios, and, to a lesser extent, investments in high-yield bonds, common stock, real estate, hedge funds and other alternative investments.

The majority of assets backing our insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities.

**AIG Property Casualty** Fixed maturity securities held by the insurance companies included in AIG Property Casualty domestic operations have historically consisted primarily of laddered holdings of corporate bonds, municipal bonds and government bonds. These investments provided attractive returns and limited credit risk. To meet our domestic operations' current risk return and business objectives, our domestic property and casualty companies have been shifting investment allocations to a broader array of debt, including structured securities and equity sectors. Our fixed maturity securities must meet our liquidity, duration and quality objectives as well as current capital, risk return and business objectives. Fixed maturity securities held by AIG Property Casualty international operations consist primarily of intermediate duration high-grade securities, primarily in the markets being served. In addition, AIG Property Casualty has redeployed cash in excess of operating needs and short-term investments into longer-term, higher-yielding securities.

**AIG Life and Retirement** Our investment strategy is to largely match the duration of our liabilities with assets of comparable duration, to the extent practicable. AIG Life and Retirement primarily invests in a diversified portfolio of fixed maturity securities, including corporate bonds, RMBS, CMBS and CDO/ABS. To further diversify the portfolio, investments are made in private equity funds, hedge funds and affordable housing partnerships. Although these alternative investments are subject to periodic earnings fluctuations, for the three years ended December 31, 2013, they have achieved total returns in excess of AIG Life and Retirement's fixed maturity security returns. AIG Life and Retirement expects that these alternative investments will continue to outperform the fixed maturity security portfolio over the long term.

**AIG 2013 Form 10-K**

Table of Contents**ITEM 1 / BUSINESS**

The following table summarizes the investment results of AIG's insurance operations.

Years Ended December 31, (in millions)	Annual Average Investments <sup>(a)</sup>	Net Investment Income	Pre-tax Return on Average Investments <sup>(b)</sup>
AIG Property Casualty:			
<b>2013</b>	<b>\$ 119,307</b>	<b>\$ 5,267</b>	<b>4.4%</b>
2012	120,425	4,780	4.0
2011	112,310	4,253	3.8
AIG Life and Retirement:			
<b>2013</b>	<b>\$ 192,895</b>	<b>\$ 10,854</b>	<b>5.6%</b>
2012	190,983	10,718	5.6
2011	172,846	9,882	5.7

(a) Excludes cash and short-term investments and includes unrealized appreciation of investments.

(b) Net investment income divided by the annual average investments. The increase in AIG Property Casualty pre-tax return on average investments for the year ended December 31, 2013 compared to 2012 primarily relates to alternative investments and fair value option assets. See Item 7. MD&A Results of Operations AIG Property Casualty AIG Property Casualty Net Investment Income and Net Realized Capital Gains (Losses).

**REGULATION**

Our operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, derivatives, investment advisory, banking and thrift regulators in the United States and abroad.

Our insurance subsidiaries are subject to regulation and supervision by the states and jurisdictions in which they do business. The insurance and financial services industries generally have been subject to heightened regulatory scrutiny and supervision in recent years.

**The following table provides a general overview of our primary regulators and related bodies and a brief description of their oversight with respect to us and our subsidiaries, including key regulations or initiatives that we are currently, or may in the future be, subject to. Such regulations and initiatives, both in the United States and abroad, are discussed in more detail following the table.**

**Board of Governors of the Federal Reserve System (FRB):** Oversees and regulates financial institutions, including non-bank systemically important financial institutions (SIFIs), bank holding companies and savings and loan holding companies (SLHCs). We are currently subject to the FRB's examination, supervision and enforcement authority, and reporting requirements, as an SLHC and as a SIFI.

**Office of the Comptroller of the Currency (OCC):** Charters, regulates and supervises all national banks and federal savings associations. The OCC supervises and regulates AIG Federal Savings Bank, our federal savings association subsidiary.

**Securities and Exchange Commission (SEC):** Oversees and regulates the U.S. securities and security-based swap markets, U.S. mutual funds, U.S. broker-dealers and U.S. investment advisors. Principal regulator of the mutual funds offered by our broker-dealer subsidiaries owned by AIG Life and Retirement. The SEC is in the process of implementing rules and regulations governing reporting, execution and margin requirements for security-based swaps entered into within the U.S. Our security-based swap activities conducted by Global Capital Markets are subject to these rules and regulations.



## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

**Commodities Futures Trading Commission (CFTC):** Oversees and regulates the U.S. swap, commodities and futures markets. The CFTC has implemented, and is in the process of implementing, rules and regulations governing reporting, execution and margin requirements for swaps entered into within the U.S. or by U.S. persons. Our swap activities conducted by Global Capital Markets are subject to these rules and regulations.

**Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank):** Dodd-Frank has effected comprehensive changes to financial services regulation and subjects us, or will subject us, as applicable, to additional federal regulation, including:

minimum capital requirements for SLHCs and insured depository institutions;

enhanced prudential standards for SIFIs (including minimum leverage and risk-based capital requirements, stress tests and an early remediation regime process);

prohibitions on proprietary trading; and

increased regulation and restrictions on derivatives markets and transactions.

AIG 2013 Form 10-K

23

---

Table of Contents

**ITEM 1 / BUSINESS**

**U.S. State Regulation**

**State Insurance Regulators:** Our insurance subsidiaries are subject to regulation and supervision by the states and other jurisdictions in which they do business. Regulation is generally derived from statutes that delegate supervisory and regulatory powers to a state insurance regulator, and primarily relates to the insurer's financial condition, corporate conduct and market conduct activities.

**NAIC Standards:** The National Association of Insurance Commissioners (NAIC) is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but through the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight.

**Foreign Regulation**

**Financial Stability Board (FSB):** Consists of representatives of national financial authorities of the G20 nations. The FSB itself is not a regulator, but it coordinates the work of national financial authorities and international standard-setting bodies and develops and promotes implementation of regulatory, supervisory and other financial policies.

**International Association of Insurance Supervisors (IAIS):** Represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but the FSB has directed the IAIS to create standards on issues such as financial group supervision, capital and solvency standards, systemic economic risk and corporate governance and incorporate them into IAIS' Insurance Core Principles (ICPs). The FSB also charged IAIS with developing a template for measuring systemic risks posed by insurer groups. Based on IAIS' assessment template, the FSB identified AIG as a global systemically important insurer (G-SII), which may subject us to a policy framework that includes recovery and resolution planning requirements, enhanced group-wide supervision, basic capital requirements and higher loss absorbency capital requirements. The IAIS is also developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which includes additional supervisory oversight based on its ICPs but also adds requirements and supervisory processes pertaining to the international business activities of IAIGs. AIG currently meets the parameters set forth to define an IAIG.

**European Union (EU):** Certain financial services firms with regulated entities in the EU, such as us, are subject to supplementary supervision, which seeks to enable supervisors to perform consolidated banking supervision and insurance group supervision at the level of the ultimate parent entity. The objective of supplementary supervision is to detect, monitor, manage and control group risks. The UK Prudential Regulatory Authority, the United Kingdom's prudential regulator, is our EU supervisory coordinator. The EU has also established a set of regulatory requirements for EU derivatives activities under the European Market Infrastructure Regulation (EMIR) that include, among other things, risk mitigation, risk management and regulatory reporting, which are effective, and clearing requirements expected to become effective in 2014.

The EU's Solvency II Directive (2009/138/EEC) (Solvency II), which is expected to become effective in 2016, includes minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The impact on us will depend on whether the U.S. insurance regulatory regime is deemed "equivalent" to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then we could be subjected to Solvency II standards.

**Regulation of Foreign Insurance Company Subsidiaries:** Generally, our subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements. Our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries also regulate rates on various types of policies.

**AIG 2013 Form 10-K**

Table of Contents

**ITEM 1 / BUSINESS**

**Federal Reserve Supervision**

We are regulated by the FRB and subject to its examination, supervision and enforcement authority and reporting requirements as a SLHC and as a SIFI.

We are a SLHC within the meaning of the Home Owners' Loan Act (HOLA). Because we were grandfathered as a unitary SLHC within the meaning of HOLA when we organized AIG Federal Savings Bank and became a SLHC in 1999, we generally are not restricted under existing laws as to the types of business activities in which we may engage, as long as AIG Federal Savings Bank continues to be a qualified thrift lender.

Dodd-Frank has effected comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. The FRB supervises and regulates SLHCs, and the OCC supervises and regulates federal savings associations, such as AIG Federal Savings Bank. Dodd-Frank directs existing and newly-created government agencies and oversight bodies to promulgate regulations implementing the law, an ongoing process that has begun and is anticipated to continue over the next few years.

Changes mandated by Dodd-Frank include directing the FRB to promulgate minimum capital requirements for SLHCs. The FRB, the OCC and the Federal Deposit Insurance Corporation (FDIC) have established revised minimum leverage and risk-based capital requirements, which are based on accords established by the Basel Committee on Banking Supervision, that apply to bank holding companies and SLHCs, as well as to insured depository institutions, such as AIG Federal Savings Bank. The requirements, however, do not apply to SLHCs that are substantially engaged in insurance underwriting activities. The FRB expects to implement a capital framework for SLHCs that are substantially engaged in insurance underwriting activities by the time covered SLHCs must comply with the requirements in 2015.

As required by Dodd-Frank, the FRB has also proposed enhanced prudential standards (including minimum leverage and risk-based capital requirements) for SIFIs and has stated its intention to propose enhanced prudential standards for SLHCs pursuant to HOLA. We cannot predict whether the capital regulations will be adopted as proposed or what enhanced prudential standards the FRB will promulgate for SLHCs, either generally or as applicable to insurance businesses. Further, we cannot predict how the FRB will exercise general supervisory authority over us as a SIFI, although the FRB could, as a prudential matter, for example, limit our ability to pay dividends, repurchase shares of AIG Common Stock or acquire or enter into other businesses. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally, impact our businesses, results of operations, cash flows or financial condition, or require us to raise additional capital or result in a downgrade of our credit ratings.

On July 8, 2013, AIG received notice from the U.S. Treasury that the Financial Stability Oversight Council (Council) has made a final determination that AIG should be supervised by the FRB as a SIFI pursuant to Dodd-Frank. As a SIFI, we are regulated by the FRB both in that capacity and, for as long as AIG continues to control an insured depository institution, in our capacity as a SLHC. The regulations applicable to SIFIs and to SLHCs, when all have been adopted as final rules, may differ materially from each other. AIG is working to restructure AIG Federal Savings Bank into a trust-only thrift and deregister AIG as a SLHC.

As a SIFI, we anticipate we will be subject to:

stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions;

stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly resolution in the event of severe financial distress; and

an early remediation regime process to be administered by the FRB.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Furthermore, if the Council were to make an additional separate determination that AIG poses a "grave threat" to U.S. financial stability, we would be required to maintain a debt-to-equity ratio of no more than 15:1 and the FRB may:

limit our ability to merge with, acquire, consolidate with, or become affiliated with another company;

restrict our ability to offer specified financial products;

AIG 2013 Form 10-K

25

---

Table of Contents

**ITEM 1 / BUSINESS**

require us to terminate specified activities;

impose conditions on how we conduct our activities; and

with approval of the Council, and a determination that the foregoing actions are inadequate to mitigate a threat to U.S. financial stability, require us to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

As part of its general prudential supervisory powers, the FRB has the authority to limit our ability to conduct activities that would otherwise be permissible for us to engage in if we do not satisfy certain requirements.

**Volcker Rule**

On December 10, 2013, the FRB, OCC, FDIC, SEC and CFTC adopted the final rule implementing Section 619 of Dodd-Frank, referred to as the "Volcker Rule." For as long as AIG Federal Savings Bank continues to be a qualified thrift lender, we and our affiliates are considered banking entities for purposes of the rule and, after the end of the rule's conformance period in July 2015 (subject to extension by the FRB until 2017), would be prohibited from "proprietary trading" and sponsoring or investing in "covered funds," subject to the rule's exceptions. The term "covered funds" includes hedge, private equity or similar funds and, in certain cases, issuers of asset-backed securities if such securities have equity-like characteristics. The Volcker Rule, as adopted, contains an exemption for proprietary trading and "covered fund" sponsorship or investment by a regulated insurance company or its affiliate for the general account of the regulated insurance company or a separate account established by the regulated insurance company. Even if we no longer control an insured depository institution, however, Dodd-Frank authorizes the FRB to subject SIFIs to additional capital requirements and quantitative limitations if they engage in activities prohibited for banking entities under the Volcker Rule.

**Other Effects of Dodd-Frank**

In addition, Dodd-Frank may also have the following effects on us:

As a SIFI, we will be required to provide to regulators an annual plan for our rapid and orderly resolution in the event of material financial distress or failure, which must, among other things, ensure that AIG Federal Savings Bank is adequately protected from risks arising from our other entities and meet several specific standards, including requiring a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements.

The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other financial services companies engage in.

Title II of Dodd-Frank provides that a financial company whose largest United States subsidiary is an insurer (such as us) may be subject to a special liquidation process outside the federal bankruptcy code. That process is to be administered by the FDIC upon a coordinated determination by the Secretary of the Treasury, the director of the Federal Insurance Office and the FRB, in consultation with the FDIC, that such a financial company is in default or in danger of default and presents a systemic risk to U.S. financial stability.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps (which are regulated by the CFTC) and security-based swaps (which are regulated by the SEC), (ii) mandated clearing through central counterparties and execution through regulated exchanges or electronic facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the CFTC has not yet finalized certain requirements, many other requirements have taken effect, such as swap reporting, the mandatory clearing of certain interest rate swaps and credit default swaps, and the mandatory trading of certain swaps on swap execution facilities or exchanges starting in February 2014. The SEC has proposed, but not yet finalized, rules with respect to the regulations and restrictions noted above. These regulations have affected and may further affect various activities of AIG and its insurance and financial services subsidiaries as rules are finalized to implement additional elements of the regulatory regime.

AIG 2013 Form 10-K

26

---

Table of Contents

**ITEM 1 / BUSINESS**

Similar regulations have been proposed or adopted outside the United States. For instance, the EU has also established a set of new regulatory requirements for EU derivatives activities under EMIR. These requirements include, among other things, various risk mitigation, risk management and regulatory reporting requirements that have already become effective and clearing requirements that are expected to become effective in 2014. These requirements could result in increased administrative costs with respect to our EU derivatives activities and overlapping or inconsistent regulation depending on the ultimate application of cross-border regulatory requirements between and among U.S. and non-U.S. jurisdictions.

Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.

Dodd-Frank established a Federal Insurance Office (FIO) within the Department of the Treasury headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council. On December 12, 2013, the FIO released a Dodd-Frank mandated study on how to modernize and improve the system of insurance regulation in the United States. The report concluded that the uniformity and efficiency of the current state based regulatory system could be improved and highlighted areas in which Federal involvement is recommended. In the near-term, the FIO recommended that the states undertake reforms regarding capital adequacy, reform of insurer resolution practices, and marketplace regulation.

Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) as an independent agency within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction, although the U.S. Department of Housing and Urban Development has since transferred authority to the CFPB to investigate mortgage insurance practices. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

Title XIV of Dodd-Frank also restricts certain terms for mortgage loans, such as loan fees, prepayment fees and other charges, and imposes certain duties on a lender to ensure that a borrower can afford to repay the loan.

Dodd-Frank imposes various assessments on financial companies, including, as applicable to us, ex-post assessments to provide funds necessary to repay any borrowing and to cover the costs of any special resolution of a financial company conducted under Title II (although the regulatory authority would have to take account of the amounts paid by us into state guaranty funds).

We cannot predict whether these actions will become effective or the effect they may have on the financial markets or on our business, results of operations, cash flows, financial condition and credit ratings. However, it is possible that such effect could be materially adverse. See Item 1A. Risk Factors - Regulation for additional information.

**Other Regulatory Developments**

As described below, AIG has been designated as a Global Systemically Important Insurer (G-SII).

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and taking steps to avoid similar problems in the future. The FSB, consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions, should be regulated. These frameworks and recommendations address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including

compensation, and a number of related issues associated with responses to the financial crisis. The FSB has directed the International Association of Insurance Supervisors (the IAIS, headquartered in Basel, Switzerland) to create standards relative to these areas and incorporate them within that body's Insurance Core Principles (ICPs). IAIS's ICPs form the baseline threshold against which countries' financial services regulatory efforts in the insurance sector are measured. That measurement is made by periodic Financial Sector Assessment Program

AIG 2013 Form 10-K

27

---



Table of Contents

**ITEM 1 / BUSINESS**

(FSAP) reviews conducted by the World Bank and the International Monetary Fund and the reports thereon spur the development of country-specific additional or amended regulatory changes. Lawmakers and regulatory authorities in a number of jurisdictions in which our subsidiaries conduct business have already begun implementing legislative and regulatory changes consistent with these recommendations, including proposals governing consolidated regulation of insurance holding companies by the Financial Services Agency in Japan, financial and banking regulation adopted in France and compensation regulations proposed or adopted by the financial regulators in Germany and the United Kingdom Prudential Regulation Authority.

The FSB has also charged the IAIS with developing a template for measuring systemic risks posed by insurer groups. The IAIS has requested data from selected insurers around the world to determine which elements of the insurance sector, if any, could materially and adversely impact other parts of the global financial services sector (e.g., commercial and investment banking, securities trading, etc.). The IAIS has provided its assessment template to the FSB. Based on this assessment template, on July 18, 2013, the FSB, in consultation with the IAIS and national authorities, identified an initial list of G-SIIs, which includes AIG. The IAIS intends G-SIIs to be subject to a policy framework that includes recovery and resolution planning requirements, enhanced group-wide supervision, basic capital requirements and higher loss absorbency (HLA) capital requirements. The IAIS is currently developing a basic capital requirement (BCR), which it expects to finalize by the end of 2014. The BCR is expected to cover all group activities and could be implemented by national authorities as soon as 2015. The BCR will also serve as a foundation for the application of HLA capital requirements, which the IAIS intends to focus on non-traditional and non-insurance activities. It is expected that the IAIS will develop HLA capital requirements by the end of 2015 and the G-SII policy framework will be fully implemented by 2019.

The IAIS is also developing a ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which includes additional supervisory oversight based on its ICPs but also adds requirements and supervisory processes pertaining to the international business activities of IAIGs. As currently delineated under the ComFrame, AIG meets the parameters set forth to define an IAIG. While we currently do not know when any ComFrame requirements will be finalized and become effective, the IAIS will undertake a field testing of the ComFrame, including the possibility of additional capital requirements for IAIGs, which is expected to commence in the beginning of 2014. It is expected that implementation of the ComFrame would begin in 2019.

Legislation in the European Union could also affect our international insurance operations. The Solvency II Directive (2009/138/EEC) (Solvency II), which was adopted on November 25, 2009 and is expected to become effective in 2016, reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. Solvency II is expected to be accompanied by Omnibus II, an EU proposal for a directive that also contains provisions for the capital treatment of products with long-term guarantees. Additionally, the European Insurance and Occupational Pensions Authority recently introduced interim guidelines effective January 1, 2014 that provide regulators in EU Member States with a framework to ensure that insurers make demonstrable progress towards meeting Solvency II requirements in 2016. The impact on us will depend on whether the U.S. insurance regulatory regime is deemed "equivalent" to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then we, along with other U.S.-based insurance companies, could be required to be supervised under Solvency II standards. Whether the U.S. insurance regulatory regime will be deemed "equivalent" is still under consideration by European authorities and remains uncertain, so we are not currently able to predict the impact of Solvency II.

We expect that the regulations applicable to us and our regulated entities will continue to evolve for the foreseeable future.

**Regulation of Insurance Subsidiaries**

Certain states and other jurisdictions require registration and periodic reporting by insurance companies that are licensed in such jurisdictions and are controlled by other corporations. Applicable legislation typically requires periodic disclosure concerning the corporation that controls the registered insurer and the other companies in the holding company system and prior approval of intercompany services and transfers of assets, including in some instances payment of dividends by the insurance subsidiary, within the holding company system. Our subsidiaries are registered under such legislation in those jurisdictions that have such requirements.

Our insurance subsidiaries are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in



Table of Contents

**ITEM 1 / BUSINESS**

statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to the financial condition of the insurers and their corporate conduct and market conduct activities. This includes approval of policy forms and rates, the standards of solvency that must be met and maintained, including with respect to risk-based capital, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed and reserves for unearned premiums, losses and other purposes. In general, such regulation is for the protection of policyholders rather than the equity owners of these companies.

In the U.S., the Risk-Based Capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which allows states to act upon the results of RBC calculations, and provides for four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a calculated RBC ratio above the respective threshold through a mandatory regulatory takeover of the company. The action thresholds are based on RBC levels that are calculated so that a company subject to such actions is solvent but its future solvency is in doubt without some type of corrective action. The RBC formula computes a risk-adjusted surplus level by applying discrete factors to various asset, premium and reserve items. These factors are developed to be risk-sensitive so that higher factors are applied to items exposed to greater risk. The statutory surplus of each of our U.S.-based life and property and casualty insurance subsidiaries exceeded RBC minimum required levels as of December 31, 2013.

If any of our insurance entities fell below prescribed levels of statutory surplus, it would be our intention to provide appropriate capital or other types of support to that entity, under formal support agreements or capital maintenance agreements (CMAs) or otherwise. For additional details regarding CMAs that we have entered into with our insurance subsidiaries, see Item 7. MD&A Liquidity and Capital Resources Liquidity and Capital Resources of AIG Parent and Subsidiaries AIG Property Casualty AIG Life and Retirement and Other Operations Mortgage Guaranty.

The NAIC's Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs. See Item 1A Risk Factors and Note 19 to the Consolidated Financial Statements for risks and additional information related to these statutory reserving requirements.

The NAIC has undertaken the Solvency Modernization Initiative (SMI) which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and is expected to lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and corporate governance.

A substantial portion of AIG Property Casualty's business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, our subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements, licenses issued by foreign authorities to our subsidiaries are subject to modification or revocation by such authorities, and therefore these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate.

In addition to licensing requirements, our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the local government, to which admitted insurers are obligated to cede a portion of their business on terms that may not always allow foreign insurers, including our subsidiaries, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

Table of Contents

**ITEM 1 / BUSINESS**

See Item 7. MD&A   Liquidity and Capital Resources   Regulation and Supervision and Note 19 to the Consolidated Financial Statements.

**OUR COMPETITIVE ENVIRONMENT**

Our businesses operate in a highly competitive global environment. Principal sources of competition are insurance companies, banks, and other non-bank financial institutions. We consider our principal competitors to be other large multinational insurance organizations. We describe our competitive strengths, our strategies to retain existing customers and attract new customers within each of our operating business segment descriptions.

**OUR EMPLOYEES**

At December 31, 2013, we had approximately 64,000 employees. We believe that our relations with our employees are satisfactory.

\* Includes approximately 600 employees of ILFC, which was held for sale at December 31, 2013.

AIG 2013 Form 10-K

Table of Contents**ITEM 1 / BUSINESS****DIRECTORS AND EXECUTIVE OFFICERS OF AIG**

Information concerning the directors and executive officers of AIG as of February 20, 2014 is set forth below.

<b>Name</b>	<b>Title</b>	<b>Age</b>	<b>Served as Director or Officer Since</b>
Robert H. Benmosche	Director, President and Chief Executive Officer	69	2009
W. Don Cornwell	Director	66	2011
John H. Fitzpatrick	Director	57	2011
William G. Jurgensen	Director	62	2013
Christopher S. Lynch	Director	56	2009
Arthur C. Martinez	Director	74	2009
George L. Miles, Jr.	Director	72	2005
Henry S. Miller	Director	68	2010
Robert S. Miller	Chairman	72	2009
Suzanne Nora Johnson	Director	56	2008
Ronald A. Rittenmeyer	Director	66	2010
Douglas M. Steenland	Director	62	2009
Theresa M. Stone	Director	69	2013
Michael R. Cowan	Executive Vice President and Chief Administrative Officer	60	2011
William N. Dooley	Executive Vice President Investments	60	1992
John Q. Doyle	Executive Vice President Commercial Property and Casualty Insurance	50	2013
Peter D. Hancock	Executive Vice President Property and Casualty Insurance	55	2010
David L. Herzog	Executive Vice President and Chief Financial Officer	54	2005
Kevin T. Hogan	Executive Vice President Consumer Insurance	51	2013
Jeffrey J. Hurd	Executive Vice President Human Resources and Communications	47	2010
Thomas A. Russo	Executive Vice President and General Counsel	70	2010
Siddhartha Sankaran	Executive Vice President and Chief Risk Officer	36	2010
Brian T. Schreiber	Executive Vice President and Deputy AIG Chief Investment Officer	48	2002
Jay S. Wintrob	Executive Vice President Life and Retirement	56	1999
Charles S. Shamieh	Senior Vice President and Chief Corporate Actuary	47	2011

All directors of AIG are elected for one-year terms at the annual meeting of shareholders.

All executive officers are elected to one-year terms, but serve at the pleasure of the Board of Directors. Except for the following individuals below, each of the executive officers has, for more than five years, occupied an executive position with AIG or companies that are now its subsidiaries. There are no arrangements or understandings between any executive officer and any other person pursuant to which the executive officer was elected to such position.

**Robert Benmosche** joined AIG as Chief Executive Officer in August 2009. Previously, he served as Chairman and Chief Executive Officer of MetLife, Inc. from September 1998 to February 2006 (Chairman until April 2006). He served as President of MetLife, Inc. from September 1999 to June 2004, President and Chief Operating Officer from November 1997 to June 1998, and Executive Vice President from September 1995 to October 1997. He has been a director of ILFC, our wholly-owned subsidiary, since June 2010. Mr. Benmosche served as a member of the Board of Directors of Credit Suisse Group from 2002 to April 2013.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

**Michael R. Cowan** joined AIG as Senior Vice President and Chief Administrative Officer in January 2010. Prior to joining AIG, he was at Merrill Lynch where he had served as Senior Vice President, Global Corporate Services, since 1998. Mr. Cowan began his career at Merrill Lynch in 1986 as a Financial Manager and later served as Chief Administrative Officer for Europe, the Middle East and Africa. He was also Chief Financial Officer and a member of the Executive Management Committee for the Global Private Client business, including Merrill Lynch Asset Management.

**Thomas Russo** joined AIG as Executive Vice President – Legal, Compliance, Regulatory Affairs and Government Affairs and General Counsel in February 2010. Prior to joining AIG, Mr. Russo was with the law firm of Patton Boggs, LLP, where he served as Senior Counsel. Prior to that, he was Chief Legal Officer of Lehman Brothers Holdings, Inc. Before joining Lehman Brothers in 1993, he was a partner at the law firm of Cadwalader, Wickersham & Taft and a member of its Management Committee.

AIG 2013 Form 10-K

31

---

Table of Contents

**ITEM 1 / BUSINESS**

**Peter Hancock** joined AIG in February 2010 as Executive Vice President of Finance and Risk. Prior to joining AIG, Mr. Hancock served as Vice Chairman of KeyCorp, responsible for Key National Banking. Prior to KeyCorp, he served as Managing Director of Trinsum Group, Inc. Prior to that position, Mr. Hancock was at JP Morgan for 20 years, eventually serving as head of its fixed income division and ultimately Chief Financial Officer.

**Siddhartha Sankaran** joined AIG in December 2010 as Senior Vice President and Chief Risk Officer. Prior to that, he was a partner in the Finance and Risk practice of Oliver Wyman Financial Services and served as Canadian Market Manager since 2006.

**Kevin T. Hogan** joined AIG as Chief Executive Officer of AIG Global Consumer Insurance in October 2013. Mr. Hogan joined Zurich Insurance Group in December 2008, serving as Chief Executive Officer of Global Life Americas until June 2010 and as Chief Executive Officer of Global Life from July 2010 to August 2013. From 1984 to 2008, Mr. Hogan held various positions with AIG, including Chief Operating Officer of American International Underwriters, AIG's Senior Life Division Executive for China and Taiwan and Chief Distribution Officer, Foreign Life and Retirement Services.

**AVAILABLE INFORMATION ABOUT AIG**

Our corporate website is [www.aig.com](http://www.aig.com). We make available free of charge, through the Investor Information section of our corporate website, the following reports (and related amendments as filed with the SEC) as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC:

*Annual Reports on Form 10-K*

*Quarterly Reports on Form 10-Q*

*Current Reports on Form 8-K*

*Proxy Statements on Schedule 14A, as well as other filings with the SEC*

Also available on our corporate website:

*Charters for Board Committees: Audit, Nominating and Corporate Governance, Compensation and Management Resources, Finance and Risk Management, Regulatory, Compliance and Public Policy, and Technology Committees*

*Corporate Governance Guidelines (which include Director Independence Standards)*

*Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics (we will post on our website any amendment or waiver to this Code within the time period required by the SEC)*

*Employee Code of Conduct*

*Related-Party Transactions Approval Policy*

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Except for the documents specifically incorporated by reference into this Annual Report on Form 10-K, information contained on our website or that can be accessed through our website is not incorporated by reference into this Annual Report on Form 10-K. Reference to our website is made as an inactive textual reference.

[AIG 2013 Form 10-K](#)

32

---



Table of Contents

**ITEM 1A / RISK FACTORS**

**ITEM 1A / RISK FACTORS**

Investing in AIG involves risk. In deciding whether to invest in AIG, you should carefully consider the following risk factors. Any of these risk factors could have a significant or material adverse effect on our businesses, results of operations, financial condition or liquidity. They could also cause significant fluctuations and volatility in the trading price of our securities. Readers should not consider any descriptions of these factors to be a complete set of all potential risks that could affect AIG. These factors should be considered carefully together with the other information contained in this report and the other reports and materials filed by us with the Securities and Exchange Commission (SEC). Further, many of these risks are interrelated and could occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence or exacerbate the effect of others. Such a combination could materially increase the severity of the impact of these risks on our businesses, results of operations, financial condition and liquidity.

**MARKET CONDITIONS**

**Difficult conditions in the global capital markets and the economy may materially and adversely affect our businesses, results of operations, financial condition and liquidity.** Our businesses are highly dependent on the economic environment, both in the U.S. and around the world. Extreme market events, such as the global financial crisis during 2008 and 2009, have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, and a widening of credit spreads. Concerns and events beyond our control, such as uncertainty as to the U.S. debt ceiling, the continued funding of the U.S. government, U.S. fiscal and monetary policy, the U.S. housing market, and concerns about European sovereign debt risk and the European banking industry, have in the past, and may in the future, adversely affect liquidity, increase volatility, decrease asset prices, erode confidence and lead to wider credit spreads. Difficult economic conditions could also result in increased unemployment and a severe decline in business across a wide range of industries and regions. These market and economic factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity.

Under difficult economic or market conditions, we could experience reduced demand for our products and an elevated incidence of claims and lapses or surrenders of policies. Contract holders may choose to defer or cease paying insurance premiums. Other ways in which we could be negatively affected by economic conditions include, but are not limited to:

declines in the valuation and performance of our investment portfolio, including declines attributable to rapid increases in interest rates;

increased credit losses;

declines in the value of other assets;

impairments of goodwill and other long-lived assets;

additional statutory capital requirements;

limitations on our ability to recover deferred tax assets;

a decline in new business levels and renewals;

a decline in insured values caused by a decrease in activity at client organizations;

an increase in liability for future policy benefits due to loss recognition on certain long-duration insurance contracts;

higher borrowing costs and more limited availability of credit;

an increase in policy surrenders and cancellations; and

a write-off of deferred policy acquisition costs (DAC).

**Sustained low interest rates may materially and adversely affect our profitability.** Recent periods have been characterized by low interest rates relative to historical levels. Sustained low interest rates can negatively affect the performance of our investment securities and reduce the level of investment income earned on our investment

AIG 2013 Form 10-K

33

---

Table of Contents

## ITEM 1A / RISK FACTORS

portfolios. If a low interest rate environment persists, we may experience slower investment income growth. Due to practical and capital markets limitations, we may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. Continued low interest rates could also impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued.

## INVESTMENT PORTFOLIO, CONCENTRATION OF INVESTMENTS, INSURANCE AND OTHER EXPOSURES

**The performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates.** Our investment securities are subject to market risks and uncertainties. In particular, interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rates to rise, which would adversely affect the value of the fixed income securities that we hold and could adversely affect our ability to sell these securities. In addition, the evaluation of available-for-sale securities for other-than-temporary impairments, which may occur if interest rates rise, is a quantitative and qualitative process that is subject to significant management judgment. For a sensitivity analysis of our exposure to certain market risk factors, see Item 7. MD&A Enterprise Risk Management Market Risk Management. Furthermore, our alternative investment portfolio includes investments for which changes in fair value are reported through operating income and are therefore subject to significant volatility. In an economic downturn or declining market, the reduction in our investment income due to decreases in the fair value of alternative investments could have a material adverse effect on operating income.

**Our investment portfolio is concentrated in certain segments of the economy.** Our results of operations and financial condition have in the past been, and may in the future be, adversely affected by the degree of concentration in our investment portfolio. We have concentrations in real estate and real estate-related securities, including residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and commercial mortgage loans. We also have significant exposures to financial institutions and, in particular, to money center and global banks; U.S. state and local government issuers and authorities; PICC Group and PICC P&C, as a result of our strategic investments; and Euro Zone financial institutions, governments and corporations. Events or developments that have a negative effect on any particular industry, asset class, group of related industries or geographic region may adversely affect our investments to the extent they are concentrated in such segments. Our ability to sell assets concentrated in such areas may be limited.

**Concentration of our insurance and other risk exposures may have adverse effects.** We may be exposed to risks as a result of concentrations in our insurance policies, derivatives and other obligations that we undertake for customers and counterparties. We manage these concentration risks by monitoring the accumulation of our exposures by factors such as exposure type, industry, geographic region, counterparty and other factors. We also seek to use reinsurance, hedging and other arrangements to limit or offset exposures that exceed the limits we wish to retain. In certain circumstances, however, these risk management arrangements may not be available on acceptable terms or may prove to be ineffective for certain exposures. Also, our exposure may be so large that even a slightly adverse experience compared to our expectations may have a material adverse effect on our consolidated results of operations or financial condition, or result in additional statutory capital requirements for our subsidiaries.

**Our valuation of fixed maturity and equity securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations, financial condition and liquidity.** During periods of market disruption, it may be difficult to value certain of our investment securities if trading becomes less frequent and/or market data becomes less observable. There may be cases where certain assets in normally active markets with significant observable data become inactive with insufficient observable data due to the financial environment or market conditions in effect at that time. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods that are more complex. These values may not be realized in a market transaction, may not reflect the loan value of the asset and may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value and/or an inability to realize that value in a market transaction or secured lending transaction may have a material adverse effect on our results of operations, financial condition and liquidity.

Table of Contents

**ITEM 1A / RISK FACTORS**

**RESERVES AND EXPOSURES**

**Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events.** Events such as hurricanes, windstorms, flooding, earthquakes, acts of terrorism, explosions and fires, cyber crimes, product defects, pandemic and other highly contagious diseases, mass torts and other catastrophes have adversely affected our business in the past and could do so in the future. In addition, we recognize the scientific consensus that climate change is a reality of increasing concern, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, diminished snow and ice, and sea level rise. We understand that climate change potentially poses a serious financial threat to society as a whole, with implications for the insurance industry in areas such as catastrophe risk perception, pricing and modeling assumptions. Because there is significant variability associated with the impacts of climate change, we cannot predict how physical, legal, regulatory and social responses may impact our business.

Such catastrophic events, and any relevant regulations, could expose us to:

widespread claim costs associated with property, workers' compensation, A&H, business interruption and mortality and morbidity claims;

loss resulting from a decline in the value of our invested assets;

limitations on our ability to recover deferred tax assets;

loss resulting from actual policy experience that is adverse compared to the assumptions made in product pricing;

declines in value and/or losses with respect to companies and other entities whose securities we hold and counterparties we transact business with and have credit exposure to, including reinsurers, and declines in the value of investments; and

significant interruptions to our systems and operations.

Catastrophic events are generally unpredictable. Our exposure to catastrophes depends on various factors, including the frequency and severity of the catastrophes, the rate of inflation and the value and geographic concentration of insured property and people. Vendor models and proprietary assumptions and processes that we use to manage catastrophe exposure may prove to be ineffective due to incorrect assumptions or estimates.

In addition, legislative and regulatory initiatives and court decisions following major catastrophes could require us to pay the insured beyond the provisions of the original insurance policy and may prohibit the application of a deductible, resulting in inflated catastrophe claims.

For further details on potential catastrophic events, including a sensitivity analysis of our exposure to certain catastrophes, see Item 7. MD&A Enterprise Risk Management Insurance Operations Risks AIG Property Casualty Key Insurance Risks.

**Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses.** We regularly review the adequacy of the established Liability for unpaid claims and claims adjustment expense and conduct extensive analyses of our reserves during the year. Our loss reserves, however, may develop adversely. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail casualty lines of business. These include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, D&O and products liability.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

While we use a number of analytical reserve development techniques to project future loss development, reserves may 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 due to difficulties in predicting changes, such as changes in inflation, the judicial environment, or other social or economic factors affecting claims. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years. For a further discussion of our loss reserves, see Item 7. MD&A Results of Operations Segment Results AIG Property Casualty Operations Liability for Unpaid Claims and Claims Adjustment Expense and Critical

AIG 2013 Form 10-K

35

---

Table of Contents

## ITEM 1A / RISK FACTORS

Accounting Estimates    Liability for Unpaid Claims and Claims Adjustment Expense (AIG Property Casualty and Mortgage Guaranty).

**Reinsurance may not be available or affordable and may not be adequate to protect us against losses.** Our subsidiaries are major purchasers of reinsurance and we use reinsurance as part of our overall risk management strategy, and have continued our strategy, adopted in 2010, to improve the allocation of our reinsurance between traditional reinsurance markets and the capital markets, such as through the utilization of catastrophe bonds, to manage risks more efficiently. While reinsurance does not discharge our subsidiaries from their obligation to pay claims for losses insured under our policies, it does make the reinsurer liable to them for the reinsured portion of the risk. For this reason, reinsurance is an important risk management tool to manage transaction and insurance line risk retention and to mitigate losses from catastrophes. Market conditions beyond our control determine the availability and cost of reinsurance. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. As a result, we may, at certain times, be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms. In that case, we would have to accept an increase in exposure risk, reduce the amount of business written by our subsidiaries or seek alternatives. Additionally, we are exposed to credit risk with respect to our subsidiaries' reinsurers to the extent the reinsurance receivable is not secured by collateral or does not benefit from other credit enhancements. We also bear the risk that a reinsurer may be unwilling to pay amounts we have recorded as reinsurance recoverable for any reason, including that (i) the terms of the reinsurance contract do not reflect the intent of the parties of the contract, (ii) the terms of the contract cannot be legally enforced, (iii) the terms of the contract are interpreted by a court differently than intended, (iv) the reinsurance transaction performs differently than we anticipated due to a flawed design of the reinsurance structure, terms or conditions, or (v) a change in laws and regulations, or in the interpretation of the laws and regulations, materially impacts a reinsurance transaction. The insolvency of one or more of our reinsurers, or inability or unwillingness to make timely payments under the terms of our agreements, could have a material adverse effect on our results of operations and liquidity. Additionally, the use of catastrophe bonds may not provide the same levels of protection as traditional reinsurance transactions and any disruption, volatility and uncertainty in the catastrophe bond market, such as following a major catastrophe event, may limit our ability to access such market on terms favorable to us or at all. Also, some catastrophe bond transactions may be based on an industry loss index rather than on actual losses incurred by us, which would result in residual risk. Our inability to obtain adequate reinsurance or other protection could have a material adverse effect on our business, results of operations and financial condition.

We currently have limited reinsurance coverage for terrorist attacks. Further, the availability of private sector reinsurance for terrorism is limited. As a result, we rely heavily on the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), which provides U.S. government risk assistance to the insurance industry to manage the exposure to terrorism incidents in the United States. Under TRIPRA, once our losses for certain acts of terrorism exceed a deductible equal to 20 percent of our commercial property and casualty insurance premiums for the prior calendar year, the federal government will reimburse us for 85 percent of losses in excess of our deductible, up to a total industry program limit of \$100 billion. However, TRIPRA is scheduled to expire in December 2014, and there is no assurance that TRIPRA will be renewed in its current form or at all. To the extent that TRIPRA is renewed on less favorable terms or is not renewed at all, we may not hold adequate terrorism reinsurance coverage or reserves in the event of one or more insured terrorist incidents in the United States, which could result in a material adverse effect on our business, results of operations, financial condition and liquidity.

For additional information on our reinsurance, see Item 7. MD&A    Enterprise Risk Management    Insurance Operations Risks    AIG Property Casualty Key Insurance Risks    Reinsurance Recoverable.

## LIQUIDITY, CAPITAL AND CREDIT

**Our internal sources of liquidity may be insufficient to meet our needs.** We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet any statutory capital requirements of our subsidiaries. If our liquidity is insufficient to meet our needs, we may at the time need to have recourse to third-party financing, external capital markets or other sources of liquidity, which may not be available or could be prohibitively expensive. The availability and cost of any additional financing at any given time depends on a variety of factors, including general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions and our credit ratings and credit capacity. It is also possible that, as a result of such recourse to external financing, customers, lenders or investors could develop a negative perception of our long-or short-term financial

AIG 2013 Form 10-K

Table of Contents

## ITEM 1A / RISK FACTORS

prospects. Disruptions, volatility and uncertainty in the financial markets, and downgrades in our credit ratings, may limit our ability to access external capital markets at times and on terms favorable to us to meet our capital and liquidity needs or prevent our accessing the external capital markets or other financing sources. For a further discussion of our liquidity, see Item 7. MD&A Liquidity and Capital Resources.

**A downgrade in our credit ratings could require us to post additional collateral and result in the termination of derivative transactions.** Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing. A downgrade of our long-term debt ratings by the major rating agencies would require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions. This could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of further downgrades of two notches to our long-term senior debt ratings, AIG would be required to post additional collateral of \$111 million, and certain of our counterparties would be permitted to elect early termination of contracts.

**AIG Parent's ability to access funds from our subsidiaries is limited.** As a holding company, AIG Parent depends on dividends, distributions and other payments from its subsidiaries to fund dividends on AIG Common Stock and to make payments due on its obligations, including its outstanding debt. The majority of our investments are held by our regulated subsidiaries. Our subsidiaries may be limited in their ability to make dividend payments or advance funds to AIG Parent in the future because of the need to support their own capital levels or because of regulatory limits. The inability of our subsidiaries to make payments, dividends or distributions in an amount sufficient to enable AIG Parent to meet its cash requirements could have an adverse effect on our operations, our ability to pay dividends or our ability to meet our debt service obligations.

**AIG Parent's ability to support our subsidiaries is limited.** AIG Parent has in the past and expects to continue to provide capital to our subsidiaries as necessary to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations. If AIG Parent is unable to satisfy a capital need of a subsidiary, the subsidiary could become insolvent or, in certain cases, could be seized by its regulator.

**Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments.** Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of \$49 billion at December 31, 2013. Adverse real estate and capital markets, and tighter credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage-related securities portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

**A downgrade in the Insurer Financial Strength ratings of our insurance companies could prevent them from writing new business and retaining customers and business.** Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance companies. IFS ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, termination of assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance subsidiaries.

## BUSINESS AND OPERATIONS

**Interest rate fluctuations, increased surrenders, declining investment returns and other events may require our subsidiaries to accelerate the amortization of DAC and record additional liabilities for future policy benefits.** We incur significant costs in connection with acquiring new and renewal insurance business. DAC represents deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business. The recovery of DAC is generally dependent upon the future profitability of the related business, but DAC amortization varies based on the type of contract. For long-duration traditional business, DAC is





Table of Contents

**ITEM 1A / RISK FACTORS**

generally amortized in proportion to premium revenue and varies with lapse experience. Actual lapses in excess of expectations can result in an acceleration of DAC amortization.

DAC for investment-oriented products is generally amortized in proportion to estimated gross profits. Estimated gross profits are affected by a number of assumptions, including current and expected interest rates, net investment income and spreads, net realized gains and losses, fees, surrender rates, mortality experience and equity market returns and volatility. If actual and/or future estimated gross profits are less than originally expected, then the amortization of DAC would be accelerated in the period the actual experience is known and would result in a charge to income. For example, if interest rates rise rapidly and significantly, customers with policies that have interest crediting rates below the current market may seek competing products with higher returns and we may experience an increase in surrenders and withdrawals of life and annuity contracts, resulting in a decrease in future profitability and an acceleration of the amortization of DAC.

We also periodically review products for potential loss recognition events, principally insurance-oriented products. This review involves estimating the future profitability of in-force business and requires significant management judgment about assumptions including mortality, morbidity, persistency, maintenance expenses, and investment returns, including net realized capital gains (losses). If actual experience or estimates result in projected future losses, we may be required to amortize any remaining DAC and record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations. For example, realized gains on investment sales in 2012 and 2013 have reduced future investment margins and required the recognition of additional liabilities for certain payout annuities. For further discussion of DAC and future policy benefits, see Item 7. MD&A Critical Accounting Estimates and Notes 9 and 12 to the Consolidated Financial Statements.

**Certain of our products offer guarantees that may increase the volatility of our results.** We offer variable annuity products that guarantee a certain level of benefits, such as guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum account value benefits (GMAV). For GMDB, our most widely offered guaranteed benefit feature, the liabilities included in Future policyholder benefits at December 31, 2013 were \$355 million. Our economic hedging program utilizes derivative instruments, including equity options, futures contracts and interest rate swap contracts, and is designed so that changes in value of the derivative instruments move in the opposite direction of changes in the GMWB and GMAV embedded derivative liabilities. Differences between the change in fair value of GMWB and GMAV embedded derivative liabilities and the hedging instruments can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior and our inability to purchase hedging instruments at prices consistent with the desired risk and return trade-off. While we believe that our actions have reduced the risks related to guaranteed benefits, our exposure is not fully hedged, and we remain liable if counterparties are unable or unwilling to pay. In addition, we remain exposed to the risk that policyholder behavior and mortality may differ from our assumptions. Finally, downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the liabilities associated with the guaranteed benefits, reducing our net income and shareholders' equity. See Note 13 to the Consolidated Financial Statements and Item 7. MD&A Critical Accounting Estimates for more information regarding these products.

**Indemnity claims could be made against us in connection with divested businesses.** We have provided financial guarantees and indemnities in connection with the businesses we have sold, including ALICO, as described in greater detail in Note 15 to the Consolidated Financial Statements. While we do not currently believe the claims under these indemnities will be material, it is possible that significant indemnity claims could be made against us. If such a claim or claims were successful, it could have a material adverse effect on our results of operations, cash flows and liquidity. See Note 15 to the Consolidated Financial Statements for more information on these financial guarantees and indemnities.

**Our foreign operations expose us to risks that may affect our operations.** We provide insurance, investment and other financial products and services to both businesses and individuals in more than 130 countries. A substantial portion of our AIG Property Casualty business is conducted outside the United States, and we intend to continue to grow this business. Operations outside the United States, particularly in developing nations, may be affected by regional economic downturns, changes in foreign currency exchange rates, political upheaval, nationalization and other restrictive government actions, which could also affect our other operations.

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to

**AIG 2013 Form 10-K**

Table of Contents

**ITEM 1A / RISK FACTORS**

meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Consequently, our insurance subsidiaries could be prevented from conducting future business in some of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, depending on the magnitude of the event and our financial exposure at that time in that country.

**We may experience difficulty in marketing and distributing products through our current and future distribution channels.** Although we distribute our products through a wide variety of distribution channels, we maintain relationships with certain key distributors. Distributors have in the past, and may in the future, elect to renegotiate the terms of existing relationships, or reduce or terminate their distribution relationships with us, including for such reasons as industry consolidation of distributors or other industry changes that increase the competition for access to distributors, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our businesses, operating results and financial condition.

In addition, when our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution, despite our training and compliance programs. If our products are distributed to customers for whom they are unsuitable or distributed in any other inappropriate manner, we may suffer reputational and other harm to our business.

**Significant conditions precedent must be satisfied to complete the sale of the common stock of ILFC on the agreed terms.** On December 16, 2013, AIG and AIG Capital Corporation (Seller), a wholly-owned direct subsidiary of AIG, entered into a definitive agreement (the AerCap Share Purchase Agreement) with AerCap Holdings N.V. (AerCap) and AerCap Ireland Limited (Purchaser), a wholly-owned subsidiary of AerCap, for the sale of 100% of the common stock of ILFC by Seller to Purchaser (such transaction, the AerCap Transaction). Under the terms of the AerCap Share Purchase Agreement, consummation of the AerCap Transaction is subject to the satisfaction or waiver of a number of conditions precedent, such as certain customary conditions and other closing conditions, including the receipt of approvals or non-disapprovals from antitrust and other regulatory bodies. The AerCap Transaction was approved by AerCap shareholders on February 13, 2014.

Any relevant regulatory body may refuse its approval or may seek to make its approval subject to compliance by ILFC or the Purchaser with unanticipated or onerous conditions. Even if approval is not required, the regulator may impose requirements on ILFC subsequent to consummation of the AerCap Transaction. We or the Purchaser might not agree to such conditions or requirements and may have a contractual right to terminate the AerCap Share Purchase Agreement.

In addition to other customary termination events, the Share Purchase Agreement allows termination by (i) AIG, Seller or Purchaser if the closing of the AerCap Transaction has not occurred on or before September 16, 2014 (the Long-Stop Date), subject to an extension to December 16, 2014 for the receipt of certain approvals, (ii) AIG, Seller or Purchaser in the event that approvals or non-disapprovals from certain regulatory bodies have not been obtained by the Long-Stop Date (as extended), (iii) AIG or Seller, if the AerCap board of directors withdraws or adversely modifies its approval of the AerCap Transaction or (iv) AIG or Seller if all conditions are satisfied, AIG and Seller are prepared to close but Purchaser fails to close the AerCap Transaction as required.

Because of the closing conditions and termination rights applicable to the AerCap Transaction, completion of the AerCap Transaction is not assured or may be delayed or, even if the transaction is completed, the terms of the sale may need to be significantly restructured.

**The completion of the AerCap Transaction as contemplated could expose us to additional risks related to AerCap's stock and credit.**

Upon completion of the AerCap Transaction, we will hold approximately 46 percent of the common stock of AerCap. As a result, declines in the value of AerCap's common stock, and the other effects of our accounting for this investment under the equity method of accounting, could have a material adverse effect on our results of operations in a reporting period.

In addition, in connection with the AerCap Transaction, AIG, AerCap, Purchaser, AerCap Ireland Capital Limited (AerCap Ireland) and certain subsidiaries of AerCap, as guarantors, entered into a credit agreement for a senior unsecured revolving credit facility between AerCap Ireland, as borrower, and AIG, as lender and administrative agent (the Revolving Credit Facility). The Revolving Credit Facility provides for an aggregate commitment of \$1 billion and



Table of Contents

**ITEM 1A / RISK FACTORS**

permits loans for general corporate purposes. An event of default under the Revolving Credit Facility could have a material adverse effect on our results of operations and financial condition.

**Failure to complete the AerCap Transaction could negatively affect our businesses and financial results.** If the AerCap Transaction is not completed, the ongoing businesses of ILFC and AIG may be adversely affected and we will be subject to several risks, including the following:

alternative plans to dispose of ILFC, such as through a sale or initial public offering, may be difficult to structure and may take extended periods of time to implement, depending on, among other things, the global economic and regulatory environments and general market conditions;

we may not be able to realize equivalent or greater value for ILFC under an alternative asset monetization plan which could impact the carrying values of ILFC's assets and liabilities;

we will have incurred certain significant costs relating to the disposition of ILFC without receiving the benefits of the AerCap Transaction, and may incur further significant costs if an alternative monetization plan is undertaken;

negative customer perception could adversely affect ILFC's ability to compete for, maintain or win new and existing business in the marketplace; and

potential further diversion of our management's time and attention.

**Significant legal proceedings may adversely affect our results of operations or financial condition.** We are party to numerous legal proceedings, including securities class actions and regulatory and governmental investigations. Due to the nature of these proceedings, the lack of precise damage claims and the type of claims we are subject to, we cannot currently quantify our ultimate or maximum liability for these actions. Developments in these unresolved matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period. Starr International Company, Inc. (SICO) has brought suits against the United States (including the Federal Reserve Bank of New York) challenging the government's assistance of AIG, pursuant to which (i) AIG entered into a credit facility with the Federal Reserve Bank of New York; (ii) the United States received an approximately 80 percent ownership interest in AIG; and (iii) AIG entered into transactions involving Maiden Lane III LLC. The United States has alleged that AIG is obligated to indemnify the United States for any recoveries in these lawsuits. A determination that the United States is liable for damages in such suits, together with a determination that AIG is obligated to indemnify the United States, could have a material adverse effect on our business, consolidated financial condition and results of operations. For a discussion of the SICO litigation and other unresolved matters, see Note 15 to the Consolidated Financial Statements.

**If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations.** We use computer systems to store, retrieve, evaluate and utilize customer, employee, and company data and information. Some of these systems in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions, including providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a natural disaster, a computer virus, a terrorist attack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems have in the past been, and may in the future be, subject to unauthorized access, such as physical or electronic break-ins or unauthorized tampering. Like other global companies, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, systems failures and disruptions. AIG maintains cyber risk insurance, but this insurance may not cover all costs associated with the consequences of personal, confidential or proprietary information being compromised. In some cases, such unauthorized access may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.



Table of Contents

## ITEM 1A / RISK FACTORS

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information. Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

### REGULATION

**Our businesses are heavily regulated and changes in regulation may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability.** Our operations generally, and our insurance subsidiaries, in particular, are subject to extensive and potentially conflicting supervision and regulation by national authorities and by the various jurisdictions in which we do business. Supervision and regulation relate to numerous aspects of our business and financial condition. State and foreign regulators also periodically review and investigate our insurance businesses, including AIG-specific and industry-wide practices. The primary purpose of insurance regulation is the protection of our insurance contract holders, and not our investors. The extent of domestic regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments.

We strive to maintain all required licenses and approvals. However, our businesses may not fully comply with the wide variety of applicable laws and regulations. The relevant authority's interpretation of the laws and regulations also may change from time to time. Regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the required licenses and approvals or do not comply with applicable regulatory requirements, these authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit them to supervise the business and operations of an insurance company.

In the U.S., the RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which specifies the regulatory actions the insurance regulator may take if an insurer's RBC calculations fall below specific thresholds. Those actions range from requiring an insurer to submit a plan describing how it would regain a specified RBC ratio to a mandatory regulatory takeover of the company. Regulators at the federal and international levels are also considering the imposition of additional capital requirements on certain insurance companies, which may include us, that may augment or even displace state-law RBC standards that apply at the legal entity level, and such capital calculations may be made on bases other than the statutory statements of our insurance subsidiaries. See "Our status as a savings and loan holding company and a systemically important financial institution, as well as the enactment of Dodd-Frank, will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows" and "Actions by foreign governments and regulators could subject us to substantial additional regulation" below for additional information on increased capital requirements that may be imposed on us. We cannot predict the effect these initiatives may have on our business, results of operations, cash flows and financial condition.

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Thus, our insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, liquidity and financial condition, depending on the magnitude of the event and our financial exposure at that time in that country.

See Item 1. Business Regulation for further discussion of our regulatory environment.

**Our status as a savings and loan holding company and a systemically important financial institution, as well as the enactment of Dodd-Frank, will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows.** On July 21, 2010, Dodd-Frank, which effects comprehensive changes to the regulation of financial services in the United States, was



Table of Contents

**ITEM 1A / RISK FACTORS**

signed into law. Dodd-Frank directs existing and newly created government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years.

We cannot predict the requirements of the regulations ultimately adopted, the level and magnitude of supervision we may become subject to, or how Dodd-Frank and such regulations will affect the financial markets generally or our businesses, results of operations or cash flows. It is possible that the regulations adopted under Dodd-Frank and our regulation by the FRB as an SLHC or as a SIFI could significantly alter our business practices, limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome and costly requirements and additional costs. Some of the regulations may also affect the perceptions of regulators, customers, counterparties, creditors or investors about our financial strength and could potentially affect our financing costs.

See Item 1. Business Regulation for further discussion of the details of the aforementioned regulations to which AIG and its businesses are subject.

**Actions by foreign governments and regulators could subject us to substantial additional regulation.** We cannot predict the impact laws and regulations adopted in foreign jurisdictions may have on the financial markets generally or our businesses, results of operations or cash flows. It is possible such laws and regulations, and the impact of our designation as a global systemically important insurer (G-SII), may significantly alter our business practices, limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome requirements and additional costs. It is possible that the laws and regulations adopted in foreign jurisdictions will differ from one another and that they could be inconsistent with the laws and regulations of other jurisdictions including the United States.

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and taking steps to avoid similar problems in the future. The FSB, consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions, should be regulated. These frameworks and recommendations address such issues as financial group supervision, capital and solvency standards, corporate governance including compensation, and a number of related issues associated with responses to the financial crisis. The FSB has directed the IAIS to create standards relative to these areas and incorporate them within that body's ICPs. Lawmakers and regulatory authorities in a number of jurisdictions in which our subsidiaries conduct business have already begun implementing legislative and regulatory changes consistent with these recommendations.

The FSB has also charged the IAIS with developing a template for measuring systemic risks posed by insurer groups. The IAIS has requested data from selected insurers around the world to determine which elements of the insurance sector, if any, could materially and adversely impact other parts of the global financial services sector (e.g., commercial and investment banking, securities trading, etc.). The IAIS has provided its assessment template to the FSB. Based on this assessment template, on July 18, 2013, the FSB, in consultation with the IAIS and national authorities, identified an initial list of global systemically important insurers (G-SIIs), which includes AIG. The IAIS intends G-SIIs to be subject to a policy framework that includes recovery and resolution planning requirements, enhanced group-wide supervision, basic capital requirements (BCR) and higher loss absorbency (HLA) capital requirements.

The IAIS is also developing a ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which includes additional supervisory oversight based on its ICPs but also adds requirements and supervisory processes pertaining to the international business activities of IAIGs. As currently delineated under the ComFrame, we meet the parameters set forth to define an IAIG. While we currently do not know when any ComFrame requirements will be finalized and become effective, the IAIS will undertake a field testing of the ComFrame, including the possibility of additional capital requirements for IAIGs, which is expected to commence in the beginning of 2014. It is expected that implementation of the ComFrame would begin in 2019.

Solvency II Legislation in the European Union could also affect our international insurance operations by reforming minimum capital and solvency requirements, governance requirements, risk management and public reporting standards.

For further details on these international regulations and their potential impact on AIG and its businesses, see Item 1. Business Regulation Other Regulatory Developments.

**AIG 2013 Form 10-K**





Table of Contents

**ITEM 1A / RISK FACTORS**

**The USA PATRIOT Act, the Office of Foreign Assets Control and similar laws that apply to us may expose us to significant penalties.**

The operations of our subsidiaries are subject to laws and regulations, including, in some cases, the USA PATRIOT Act of 2001, which require companies to know certain information about their clients and to monitor their transactions for suspicious activities. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. Although we have instituted compliance programs to address these requirements, there are inherent risks in global transactions.

**Attempts to efficiently manage the impact of Regulation XXX and Actuarial Guideline AXXX may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations.** The NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees. In addition, NAIC Actuarial Guideline 38 (AXXX) (Guideline AXXX) clarifies the application of Regulation XXX as to certain universal life insurance policies with secondary guarantees.

AIG Life and Retirement manages the capital impact on its life insurers of statutory reserve requirements under Regulation XXX and Guideline AXXX through affiliated reinsurance transactions, to maintain our ability to offer competitive pricing and successfully market such products. See Note 19 to the Consolidated Financial Statements for additional information on statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of affiliated reinsurance. The NAIC, the New York State Department of Financial Services and other regulators have increased their focus on life insurers' affiliated reinsurance transactions used to satisfy certain reserve requirements or to manage the capital impact of certain statutory reserve requirements, particularly transactions using captive insurance companies or special purpose vehicles. While AIG Life and Retirement does not use captive or special purpose vehicle structures for this purpose, we cannot predict whether any applicable insurance laws will be changed in a way that prohibits or adversely impacts the use of affiliated reinsurance. If regulations change, we could be required to increase statutory reserves, increase prices on our products or incur higher expenses to obtain reinsurance, which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may reduce the sales of these products or incur higher operating costs, or it may impact our sales of these products.

**New regulations promulgated from time to time may affect our businesses, results of operations, financial condition and ability to compete effectively.** Legislators and regulators may periodically consider various proposals that may affect the profitability of certain of our businesses. New regulations may even affect our ability to conduct certain businesses at all, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions. These proposals could also impose additional taxes on a limited subset of financial institutions and insurance companies (either based on size, activities, geography, government support or other criteria). It is uncertain whether and how these and other such proposals would apply to us or our competitors or how they could impact our consolidated results of operations, financial condition and ability to compete effectively.

**An "ownership change" could limit our ability to utilize tax losses and credits carryforwards to offset future taxable income.** As of December 31, 2013, we had a U.S. federal net operating loss carryforward of approximately \$34.2 billion, \$ 1.1 billion in capital loss carryforwards and \$5.8 billion in foreign tax credits (tax losses and credits carryforwards). Our ability to use such tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax losses and credits carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax losses and credits carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change.

AIG 2013 Form 10-K

Table of Contents

## ITEM 1A / RISK FACTORS

If we were to experience an "ownership change", it is possible that a significant portion of our tax losses and credits carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax losses and credits carryforwards, and on January 8, 2014, the Board adopted an amendment to the Plan, extending its expiration date to January 8, 2017. The Board intends to submit the amendment of the Plan to our shareholders for ratification at our 2014 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, shareholders adopted a protective amendment to our Restated Certificate of Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an "ownership change" and currently expires on May 11, 2014. The Board intends to submit to our shareholders for approval at our 2014 Annual Meeting of Shareholders an amendment to our Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment but would expire on the third anniversary of the date of our 2014 Annual Meeting of Shareholders.

The Plan is designed to reduce the likelihood of an "ownership change" by (i) discouraging any person or group from becoming a 4.99 percent shareholder and (ii) discouraging any existing 4.99 percent shareholder from acquiring additional shares of AIG Common Stock. The Protective Amendment generally restricts any transfer of AIG Common Stock that would (i) increase the ownership by any person to 4.99 percent or more of AIG stock then outstanding or (ii) increase the percentage of AIG stock owned by a Five Percent Stockholder (as defined in the Plan). Despite the intentions of the Plan and the Protective Amendment to deter and prevent an "ownership change", such an event may still occur. In addition, the Plan and the Protective Amendment may make it more difficult and more expensive to acquire us, and may discourage open market purchases of AIG Common Stock or a non-negotiated tender or exchange offer for AIG Common Stock. Accordingly, the Plan and the Protective Amendment may limit a shareholder's ability to realize a premium over the market price of AIG Common Stock in connection with any stock transaction.

**Changes in tax laws could increase our corporate taxes, reduce our deferred tax assets or make some of our products less attractive to consumers.** Changes in tax laws or their interpretation could negatively impact our business or results. Some proposed changes could have the effect of increasing our effective tax rate by reducing deductions or increasing income inclusions, such as by limiting rules that allow for deferral of tax on certain foreign insurance income. Conversely, other changes, such as lowering the U.S. federal corporate tax rate discussed recently in the context of tax reform, could reduce the value of our deferred tax assets. In addition, changes in the way foreign taxes can be credited against U.S. taxes, methods for allocating interest expense, the ways insurance companies calculate and deduct reserves for tax purposes, and impositions of new or changed premium, value added and other indirect taxes could increase our tax expense, thereby reducing earnings.

In addition to proposing to change the taxation of corporations in general and insurance companies in particular, the Executive Branch of the U.S. Government and Congress have considered proposals that could increase taxes on owners of insurance products. For example, there are proposals that would limit the deferral of tax on income from life and annuity contracts relative to other investment products. These changes could reduce demand in the U.S. for life insurance and annuity contracts, or cause consumers to shift from these contracts to other investments, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business.

Governments' need for additional revenue makes it likely that there will be continued proposals to change tax rules in ways that would reduce our earnings. However, it remains difficult to predict whether or when there will be any tax law changes having a material adverse effect on our financial condition or results of operations.

## BUSINESS AND OPERATIONS OF ILFC PRIOR TO COMPLETION OF THE AERCAP TRANSACTION

**We will be subject to the following risks until we complete the AerCap Transaction:**

**Our aircraft leasing business depends on lease revenues and exposes us to the risk of lessee nonperformance.** A decrease in ILFC's customers' ability to meet their obligations to ILFC under their leases may negatively affect our business, results of operations and cash flows.

**Customer demand for certain aircraft may be lower than anticipated, which could negatively impact ILFC's business.** Aircraft are long-lived assets and demand for a particular model and type can decline over time. Demand may fall for a variety of reasons, including obsolescence following the introduction of newer technologies, market saturation due to increased production rates, technical problems associated with a particular model, new



Table of Contents

## ITEM 1A / RISK FACTORS

manufacturers entering the marketplace, additional governmental regulation, or the overall health of the airline industry. This may result in declining lease rates, losses on sales, impairment charges or fair value adjustments and may adversely affect ILFC's business and our consolidated financial condition, results of operations and cash flows.

### COMPETITION AND EMPLOYEES

**We face intense competition in each of our businesses.** Our businesses operate in highly competitive environments, both domestically and overseas. Our principal competitors are other large multinational insurance organizations, as well as banks, investment banks and other non-bank financial institutions. The insurance industry in particular is highly competitive. Within the U.S., AIG Property Casualty subsidiaries compete with approximately 4,000 other stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations. AIG Life and Retirement subsidiaries compete in the U.S. with approximately 2,300 life insurance companies and other participants in related financial services fields. Overseas, our subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies.

The past reduction of our credit ratings and past negative publicity have made, and may continue to make, it more difficult to compete to retain existing customers and to maintain our historical levels of business with existing customers and counterparties. General insurance and life insurance companies compete through a combination of risk acceptance criteria, product pricing, and terms and conditions. Retirement services companies compete through crediting rates and the issuance of guaranteed benefits. A decline in our position as to any one or more of these factors could adversely affect our profitability.

**Competition for employees in our industry is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.** Our success depends, in large part, on our ability to attract and retain key people. Due to the intense competition in our industry for key employees with demonstrated ability, we may be unable to hire or retain such employees. Losing any of our key people also could have a material adverse effect on our operations given their skills, knowledge of our business, years of industry experience and the potential difficulty of promptly finding qualified replacement employees. Our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining key employees.

**Mr. Benmosche may be unable to continue to provide services to AIG due to his health.** Robert Benmosche, our President and Chief Executive Officer, was diagnosed with cancer and has been undergoing treatment for his disease. He continues to fulfill all of his responsibilities and has stated his desire to continue in such roles until the first quarter of 2015. However, his condition may change and prevent him from continuing to perform these roles.

**Managing key employee succession and retention is critical to our success.** We would be adversely affected if we fail to adequately plan for the succession of our senior management and other key employees. While we have succession plans and long-term compensation plans designed to retain our employees, our succession plans may not operate effectively and our compensation plans cannot guarantee that the services of these employees will continue to be available to us.

**Employee error and misconduct may be difficult to detect and prevent and may result in significant losses.** There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, misuse of customer or proprietary information, or failure to comply with regulatory requirements or our internal policies may result in losses. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

### ESTIMATES AND ASSUMPTIONS

**Actual experience may differ from management's estimates used in the preparation of financial statements.** Our financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP), which requires the application of accounting policies that often involve a significant degree of judgment. The accounting policies that we consider most dependent on the application of estimates and assumptions, and therefore may be viewed as critical accounting estimates, are described in Item 7. MD&A Critical Accounting Estimates.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates are based on judgment, current facts and circumstances, and, when applicable,

AIG 2013 Form 10-K

Table of Contents

**ITEM 1A / RISK FACTORS**

internally developed models. Therefore, actual results could differ from these estimates, possibly in the near term, and could have a material effect on our consolidated financial statements.

**Changes in accounting principles and financial reporting requirements could impact our reported results of operations and our reported financial position.** Our financial statements are subject to the application of U.S. GAAP, which is periodically revised. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (FASB). The impact of accounting pronouncements that have been issued but are not yet required to be implemented is disclosed in our reports filed with the SEC. See Note 2 of the Notes to the Consolidated Financial Statements. The FASB and International Accounting Standards Board (IASB) have ongoing projects to revise accounting standards for insurance contracts. While the final resolution of changes to U.S. GAAP and International Financial Reporting Standards pursuant to these projects is unclear, changes to the manner in which we account for insurance products could have a significant impact on our future financial reports, operations, capital management and business. Further, the adoption of a new insurance contracts standard as well as other future accounting standards could have a material effect on our reported results of operations and reported financial condition.

**Changes in our assumptions regarding the discount rate, expected rate of return, and expected compensation for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability.** We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment, may result in increased expenses and reduce our profitability. See Note 21 to the Consolidated Financial Statements for further details on our pension and postretirement benefit plans.

AIG 2013 Form 10-K

Table of Contents

**ITEM 1B / UNRESOLVED STAFF COMMENTS**

**ITEM 1B / UNRESOLVED STAFF COMMENTS**

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of AIG's fiscal year relating to AIG's periodic or current reports under the Exchange Act.

**ITEM 2 / PROPERTIES**

AIG and its subsidiaries operate from over 400 offices in the United States and approximately 600 offices in over 75 foreign countries. The following offices are located in buildings in the United States owned by AIG and its subsidiaries:

**AIG Property Casualty:**

175 Water Street in New York, New York

Wilmington, Delaware

Stevens Point, Wisconsin

San Juan, Puerto Rico

**Other Operations:**

Greensboro and Winston-Salem, North Carolina

Livingston, New Jersey

Stowe, Vermont

In addition, AIG Property Casualty owns offices in approximately 20 foreign countries and jurisdictions including Argentina, Bermuda, Colombia, Ecuador, Japan, Mexico, the U.K., Taiwan, and Venezuela. The remainder of the office space utilized by AIG and its subsidiaries is leased. AIG believes that its leases and properties are sufficient for its current purposes.

**AIG Life and Retirement:**

Amarillo, Ft. Worth and Houston, Texas

Nashville, Tennessee

**LOCATIONS OF CERTAIN ASSETS**

As of December 31, 2013, approximately 9 percent of the consolidated assets of AIG were located outside the U.S. and Canada, including \$295 million of cash and securities on deposit with regulatory authorities in those locations. See Note 3 to the Consolidated Financial Statements for additional geographic information. See Note 6 to the Consolidated Financial Statements for total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities.



Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the countries in which AIG's business is conducted have currency restrictions that generally cause a delay in a company's ability to repatriate assets and profits. See also Item 1A. Risk Factors Business and Operations for additional information.

### **ITEM 3 / LEGAL PROCEEDINGS**

For a discussion of legal proceedings, see Note 15 Contingencies, Commitments and Guarantees to the Consolidated Financial Statements, which is incorporated herein by reference.

### **ITEM 4 / MINE SAFETY DISCLOSURES**

Not applicable.

AIG 2013 Form 10-K

47

---

Table of Contents

**ITEM 5 / MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**PART II**

**ITEM 5 / MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

AIG's common stock, par value \$2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG), as well as on the Tokyo Stock Exchange. There were approximately 36,319 stockholders of record of AIG Common Stock as of January 31, 2014.

The following table presents high and low closing sale prices of AIG Common Stock on the New York Stock Exchange Composite Tape for each quarter of 2013 and 2012:

	<b>2013</b>		<b>2012</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
First quarter	\$ <b>39.58</b>	\$ <b>34.84</b>	\$ 30.83	\$ 23.54
Second quarter	<b>46.21</b>	<b>37.69</b>	34.76	27.21
Third quarter	<b>50.57</b>	<b>44.22</b>	35.02	30.15
Fourth quarter	<b>52.30</b>	<b>47.30</b>	37.21	30.68

**DIVIDENDS**

On August 1, 2013, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.10 per share, which was paid on September 26, 2013 to shareholders of record on September 12, 2013.

On October 31, 2013, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.10 per share, which was paid on December 19, 2013 to shareholders of record on December 5, 2013.

On February 13, 2014, our Board of Directors declared a cash dividend on AIG Common Stock of \$0.125 per share, payable on March 25, 2014 to shareholders of record on March 11, 2014.

Any payment of dividends must be approved by AIG's Board of Directors. In determining whether to pay any dividend, our Board of Directors may consider AIG's financial position, the performance of our businesses, our consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities, and other factors. AIG is subject to restrictions on the payment of dividends and purchases of AIG Common Stock as a result of being regulated as a SLHC, and AIG may become subject to other restrictions on the payment of dividends and repurchases of AIG Common Stock as a SIFI and a G-SII. See Item 1. Business Regulation and Item 1A. Risk Factors Regulation for further discussion.

For a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries, see Item 1A. Risk Factors Liquidity, Capital and Credit AIG Parent's ability to access funds from our subsidiaries is limited, and Note 19 to the Consolidated Financial Statements.

**EQUITY COMPENSATION PLANS**

Our table of equity compensation plans will be included in the definitive proxy statement for AIG's 2014 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG's fiscal year pursuant to Regulation 14A.

[AIG 2013 Form 10-K](#)

Table of Contents**ITEM 5 / MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****PURCHASES OF EQUITY SECURITIES**

The following table provides the information with respect to purchases made by or on behalf of AIG or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of AIG Common Stock during the three months ended December 31, 2013:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1 31		\$		\$ 808
November 1 30	7,565,549	49	7,565,549	440
December 1 31	727,904	50	727,904	403
Total	8,293,453	\$ 49	8,293,453	\$ 403

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to \$1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. The authorization has no set expiration or termination date. AIG purchased approximately 12 million shares of AIG Common Stock pursuant to the authorization in 2013 for an aggregate purchase price of approximately \$597 million. On February 13, 2014, our Board of Directors increased the August 1, 2013 authorization to repurchase shares of AIG Common Stock by \$1.0 billion, resulting in an aggregate remaining authorization of approximately \$1.4 billion.

See Note 16 to the Consolidated Financial Statements for additional information on AIG share purchases.

**COMMON STOCK PERFORMANCE GRAPH**

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2008 to December 31, 2013) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies consisting of 15 insurance companies to which we compare our business and operations:

ACE Limited	Lincoln National Corporation
AEGON, N.V.	MetLife, Inc.
Aflac Incorporated	Principal Financial Group, Inc.
Allianz Group	Prudential Financial, Inc.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

AXA Group

The Travelers Companies, Inc.

The Chubb Corporation

XL Capital Ltd.

CNA Financial Corporation

Zurich Insurance Group

Hartford Financial Services Group, Inc.

[AIG 2013 Form 10-K](#)

Table of Contents

**ITEM 5 / MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS  
AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Value of \$100 Invested on December 31, 2008**

Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization.

**As of December 31,**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
AIG	\$ 100.00	\$ 95.48	\$ 183.50	\$ 90.02	\$ 136.97	\$ 198.87
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19
Peer Group	100.00	116.50	125.85	109.14	140.15	208.31

AIG 2013 Form 10-K

[Table of Contents](#)**ITEM 6 / SELECTED FINANCIAL DATA****ITEM 6 / SELECTED FINANCIAL DATA**

The Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying notes included elsewhere herein.

<i>(in millions, except per share data)</i>	Years Ended December 31,				
	2013	2012	2011	2010(a)	2009(a)
<b>Revenues:</b>					
Premiums	\$ 37,350	\$ 38,047	\$ 39,026	\$ 45,352	\$ 48,613
Policy fees	2,535	2,349	2,309	2,418	2,329
Net investment income	15,810	20,343	14,755	20,934	18,992
Net realized capital gains (losses)	1,744	930	691	(847)	(3,706)
Aircraft leasing revenue	4,420	4,504	4,508	4,749	4,967
Other income	6,819	4,848	3,816	5,680	4,986
<b>Total revenues</b>	<b>68,678</b>	<b>71,021</b>	<b>65,105</b>	<b>78,286</b>	<b>76,181</b>
<b>Benefits, claims and expenses:</b>					
Policyholder benefits and claims incurred	29,503	32,036	33,523	41,429	45,381
Interest credited to policyholder account balances	3,892	4,340	4,432	4,483	4,574
Amortization of deferred policy acquisition costs	5,157	5,709	5,486	5,821	6,670
Other acquisition and insurance expenses	9,166	9,235	8,458	10,163	9,815
Interest expense	2,142	2,319	2,444	6,742	13,237
Aircraft leasing expenses	4,549	4,138	5,401	5,289	3,506
Net loss on extinguishment of debt	651	32	2,908	104	
Net (gain) loss on sale of properties and divested businesses	48	6,736	74	(19,566)	1,271
Other expenses	4,202	3,585	3,280	4,155	6,169
<b>Total benefits, claims and expenses</b>	<b>59,310</b>	<b>68,130</b>	<b>66,006</b>	<b>58,620</b>	<b>90,623</b>
Income (loss) from continuing operations before income taxes <sup>(b)</sup>	9,368	2,891	(901)	19,666	(14,442)
Income tax expense (benefit)	360	(808)	(19,764)	6,736	(2,055)
Income (loss) from continuing operations	9,008	3,699	18,863	12,930	(12,387)
Income (loss) from discontinued operations, net of taxes	84	1	2,467	(645)	2,661
<b>Net income (loss)</b>	<b>9,092</b>	<b>3,700</b>	<b>21,330</b>	<b>12,285</b>	<b>(9,726)</b>
<b>Net income (loss) attributable to AIG</b>	<b>9,085</b>	<b>3,438</b>	<b>20,622</b>	<b>10,058</b>	<b>(8,362)</b>
<b>Income (loss) per common share attributable to AIG common shareholders</b>					
Basic					
Income (loss) from continuing operations	6.11	2.04	9.65	16.02	(90.50)
Income (loss) from discontinued operations	0.05		1.36	(1.04)	19.13
Net income (loss) attributable to AIG	6.16	2.04	11.01	14.98	(71.37)
Diluted					
Income (loss) from continuing operations	6.08	2.04	9.65	16.02	(90.50)

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Income (loss) from discontinued operations	<b>0.05</b>		1.36	(1.04)	19.13
Net income (loss) attributable to AIG	<b>6.13</b>	2.04	11.01	14.98	(71.37)
Dividends declared per common share	<b>0.20</b>				

**Year-end balance sheet data:**

Total investments	<b>356,428</b>	375,824	410,438	410,412	601,165
Total assets	<b>541,329</b>	548,633	553,054	675,573	838,346
Long-term debt	<b>41,693</b>	48,500	75,253	106,461	136,733
Total liabilities	<b>440,218</b>	449,630	442,138	568,363	748,550
Total AIG shareholders' equity	<b>100,470</b>	98,002	101,538	78,856	60,585
Total equity	<b>101,081</b>	98,669	102,393	106,776	88,837
Book value per share <sup>(a)</sup>	<b>68.62</b>	66.38	53.53	561.40	448.54
Book value per share, excluding Accumulated other comprehensive income (loss) <sup>(a)</sup>	<b>64.28</b>	57.87	50.11	498.25	400.90
AIG Property Casualty combined ratio	<b>101.3</b>	108.5	108.7	116.8	108.4

**Other data (from continuing operations):**

Other-than-temporary impairments	<b>327</b>	1,167	1,280	3,039	6,696
Adjustment to federal deferred tax valuation allowance	<b>(3,165)</b>	(1,907)	(18,307)	1,361	2,986
Amortization of prepaid commitment fee asset			49	3,471	8,359
Catastrophe-related losses <sup>(c)</sup>	<b>\$ 787</b>	\$ 2,652	\$ 3,307	\$ 1,076	\$ 53

(a) Comparability between 2010 and 2009 data is affected by the deconsolidation of AIA in the fourth quarter of 2010. Book value per share, excluding Accumulated other comprehensive income (loss) is a non-GAAP measure. See Item 7. MD&A Use of Non-GAAP Measures for additional information. Comparability of 2010 and 2009 is affected by a one for twenty reverse stock split.

(b) Reduced by fourth quarter reserve strengthening charges of \$4.2 billion and \$2.2 billion in 2010 and 2009, respectively, related to the annual review of AIG Property Casualty loss and loss adjustment reserves.

(c) Catastrophe-related losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of \$10 million each.

AIG 2013 Form 10-K



## ITEM 6 / SELECTED FINANCIAL DATA

The following are significant developments that affected multiple periods and financial statement captions. Other items that affected comparability are included in the footnotes to the table presented immediately above.

### Adjustments to Federal Deferred Tax Valuation Allowance

AIG concluded that \$18.4 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statements of Income in 2011. The valuation allowance resulted primarily from losses subject to U.S. income taxes recorded from 2008 through 2010. See Note 23 to the Consolidated Financial Statements for further discussion.

### Aircraft Leasing

We determined ILFC no longer met the criteria at December 31, 2013 to be presented in discontinued operations. ILFC operating results, which were previously presented as discontinued operations, have been reclassified as continuing operations in all periods. ILFC's results are reflected in Aircraft leasing revenue and Aircraft leasing expense, and the loss associated with the 2012 classification of ILFC as held for sale is included in Net loss on sale of properties and divested businesses in the Consolidated Statements of Income. The assets and liabilities of ILFC are classified as held for sale at December 31, 2013 and 2012. See Notes 1 and 4 to the Consolidated Financial Statements for a further discussion.

### Capitalization and Book Value Per Share

As a result of the closing of the Recapitalization on January 14, 2011, the remaining SPV Preferred Interests held by the FRBNY of approximately \$26.4 billion were purchased by AIG and transferred to the Department of the Treasury. The SPV Preferred Interests were no longer considered permanent equity on AIG's Consolidated Balance Sheets, and were classified as redeemable noncontrolling interests. See Note 17 to the Consolidated Financial Statements for further discussion.

**The following table presents pro forma ratios as if the Recapitalization had been consummated in 2009 and a reconciliation of book value per share to book value per share, excluding Accumulated other comprehensive**

AIG 2013 Form 10-K

**ITEM 6 / SELECTED FINANCIAL DATA**

income (loss), which is a non-GAAP measure. See Item 7. MD&A Use of Non-GAAP Measures for additional information.\*

<i>(in millions, except per share data)</i>	<b>At December 31,</b>					
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	
Total AIG shareholders' equity	\$ <b>100,470</b>	\$ 98,002	\$ 101,538	\$ 78,856	\$ 60,585	
Recapitalization Value on conversion of equity units				(3,328)		
				2,169	5,880	
Pro forma shareholders' equity	<b>100,470</b>	98,002	101,538	77,697	66,465	
Accumulated other comprehensive income	<b>6,360</b>	12,574	6,481	8,871	6,435	
Total AIG shareholders' equity, excluding accumulated other comprehensive income	\$ <b>94,110</b>	\$ 85,428	\$ 95,057	\$ 69,985	\$ 54,150	
Total common shares outstanding	<b>1,464,063,323</b>	1,476,321,935	1,896,821,482	140,463,159	135,070,907	
Issuable for equity units				2,854,069	7,736,904	
Shares assumed converted				1,655,037,962	1,655,037,962	
Pro forma common shares outstanding	<b>1,464,063,323</b>	1,476,321,935	1,896,821,482	1,798,355,190	1,797,845,773	
Book value per common share	\$ <b>68.62</b>	\$ 66.38	\$ 53.53	\$ 561.40	\$ 448.54	
Book value per common share, excluding accumulated other comprehensive income	\$ <b>64.28</b>	\$ 57.87	\$ 50.11	\$ 498.25	\$ 400.90	
Pro forma book value per share	<b>N/A</b>	N/A	N/A	\$ 43.20	\$ 36.97	
Pro forma book value per share, excluding accumulated other comprehensive income	<b>N/A</b>	N/A	N/A	\$ 38.27	\$ 33.39	

\* Amounts for periods after December 31, 2009 have been revised to reflect reclassification of income taxes from AOCI to additional paid in capital to correct the presentation of components of AIG shareholders' equity. These income tax items related to the creation in 2009 of special purpose vehicles that held our interests in AIA Group Limited (AIA) and American Life Insurance Company (ALICO). There was no effect on Total AIG shareholders' equity or on Total equity as a result of this reclassification.

**FRBNY Activity and Effect on Interest Expense in 2010**

The decline in interest expense in 2010 was due primarily to a reduced weighted-average interest rate on borrowings, a lower average outstanding balance and a decline in amortization of the prepaid commitment fee asset related to the partial repayment of the credit facility provided by the FRBNY (the FRBNY Credit Facility). On January 14, 2011, AIG repaid the remaining \$20.7 billion and terminated this facility, resulting in a net \$3.3 billion pretax charge in the first quarter of 2011, representing primarily the accelerated amortization of the remaining

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

prepaid commitment fee asset included in Net loss on extinguishment of debt. See Note 24 to the Consolidated Financial Statements for further discussion of the Recapitalization.

As a result of the closing of the Recapitalization on January 14, 2011, the preferred interests (the SPV Preferred Interests) in the special purpose vehicles that held remaining AIA shares and the proceeds of the AIA initial public offering and the ALICO sale (the SPVs) were transferred to the Department of the Treasury. After such closing, the SPV Preferred Interests were not considered permanent equity on AIG's Consolidated Balance Sheets and were classified as redeemable noncontrolling interests.

### Asset Dispositions in 2011 and 2013

We entered into an agreement to sell ILFC on December 16, 2013 and executed multiple asset dispositions in 2011, as further discussed in Note 4 to the Consolidated Financial Statements.

AIG 2013 Form 10-K

53

---

Table of Contents

## ITEM 7 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K and other publicly available documents may include, and officers and representatives of American International Group, Inc. (AIG) may from time to time make, projections, goals, assumptions and statements that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions 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, goals, assumptions and statements include statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan," "view," "target" or "estimate." These projections, goals, assumptions and statements may address, among other things:

the monetization of AIG's interests in International Lease Finance Corporation (ILFC), including whether AIG's proposed sale of ILFC will be completed and if completed, the timing and final terms of such sale;

AIG's strategy for risk management;

AIG's generation of deployable capital;

AIG's exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers and sovereign bond issuers;

AIG's return on equity and earnings per share;

AIG's exposure to European governments and European financial institutions;

AIG's strategies to grow net investment income, efficiently manage capital and reduce expenses;

AIG's strategies for customer retention, growth, product development, market position, financial results and reserves; and

the revenues and combined ratios of AIG's subsidiaries.

It is possible that AIG's actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause AIG's actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

changes in market conditions;

judgments concerning casualty insurance underwriting and insurance liabilities;

the occurrence of catastrophic events, both natural and man-made; judgments concerning the recognition of deferred tax assets; and

significant legal proceedings;

such other factors discussed in:

the timing and applicable requirements of any new regulatory framework to which AIG is subject as a savings and loan holding company (SLHC), as a systemically important financial institution (SIFI) and as a global systemically important insurer (G-SII);

Part I, Item 1A. Risk Factors of this Annual Report on Form 10-K; and

concentrations in AIG's investment portfolios;

this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report on Form 10-K.

actions by credit rating agencies;

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

[AIG 2013 Form 10-K](#)

Table of Contents

The MD&A is organized as follows:

**INDEX TO ITEM 7**

	<b>Page</b>
<b><u>USE OF NON -GAAP MEASURES</u></b>	<b><u>56</u></b>
<b><u>EXECUTIVE OVERVIEW</u></b>	<b><u>58</u></b>
<b><u>RESULTS OF OPERATIONS</u></b>	<b><u>71</u></b>
Segment Results	<u>74</u>
AIG Property Casualty Operations	<u>79</u>
Liability for Unpaid Claims and Claims Adjustment Expense	<u>95</u>
AIG Life and Retirement Operations	<u>107</u>
Other Operations	<u>121</u>
Discontinued Operations	<u>127</u>
<b><u>LIQUIDITY AND CAPITAL RESOURCES</u></b>	<b><u>128</u></b>
Overview	<u>128</u>
Analysis of Sources and Uses of Cash	<u>130</u>
Liquidity and Capital Resources of AIG Parent and Subsidiaries	<u>132</u>
Credit Facilities	<u>136</u>
Contingent Liquidity Facilities	<u>137</u>
Contractual Obligations	<u>137</u>
Off-Balance Sheet Arrangements and Commercial Commitments	<u>139</u>
Debt	<u>140</u>
Credit Ratings	<u>141</u>
Regulation and Supervision	<u>142</u>
Dividends and Repurchases of AIG Common Stock	<u>142</u>
Dividend Restrictions	<u>143</u>
<b><u>INVESTMENTS</u></b>	<b><u>143</u></b>
Overview	<u>143</u>
Investment Highlights	<u>143</u>
Investment Strategies	<u>144</u>
Credit Ratings	<u>144</u>
Investments by Segment	<u>146</u>
Available-for-Sale Investment	<u>148</u>
Impairments	<u>156</u>
<b><u>ENTERPRISE RISK MANAGEMENT</u></b>	<b><u>161</u></b>
Overview	<u>161</u>
Credit Risk Management	<u>163</u>
Market Risk Management	<u>164</u>
Liquidity Risk Management	<u>169</u>
<b><u>CRITICAL ACCOUNTING ESTIMATES</u></b>	<b><u>178</u></b>
<b><u>GLOSSARY</u></b>	<b><u>203</u></b>

---

**ACRONYMS**

207

---

Throughout the MD&A, we use certain terms and abbreviations which are summarized in the Glossary and Acronyms.

AIG has incorporated into this discussion a number of cross-references to additional information included throughout this Annual Report on Form 10-K to assist readers seeking additional information related to a particular subject.

AIG 2013 Form 10-K

55

---

Table of Contents

**ITEM 7 / USE OF NON-GAAP MEASURES**

**USE OF NON-GAAP MEASURES**

In Item 6. Selected Financial Data and throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful, representative and most transparent. Some of the measurements we use are "non-GAAP financial measures" under SEC rules and regulations. GAAP is the acronym for "accounting principles generally accepted in the United States." The non-GAAP financial measures we present may not be comparable to similarly-named measures reported by other companies.

**Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (Loss) (AOCI)** is used to show the amount of our net worth on a per-share basis. We believe Book Value Per Common Share Excluding AOCI is useful to investors because it eliminates the effect of non-cash items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio and foreign currency translation adjustments. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

We use the following operating performance measures because we believe they enhance understanding of the underlying profitability of continuing operations and trends of AIG and our business segments. We believe they also allow for more meaningful comparisons with our insurance competitors. When we use these measures, reconciliations to the most comparable GAAP measure are provided in the Results of Operations section of this MD&A.

**AIG After-tax operating income (loss) attributable to AIG** is derived by excluding the following items from net income (loss) attributable to AIG: income (loss) from discontinued operations, net loss (gain) on sale of divested businesses and properties, income from divested businesses, legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments, legal reserves (settlements) related to "legacy crisis matters," deferred income tax valuation allowance (releases) charges, changes in fair value of AIG Life and Retirement fixed maturity securities designated to hedge living benefit liabilities (net of interest expense), changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital (gains) losses, AIG Property Casualty other (income) expense net, (gain) loss on extinguishment of debt, net realized capital (gains) losses, non-qualifying derivative hedging activities, excluding net realized capital (gains) losses, and bargain purchase gain. "Legacy crisis matters" include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis and legal fees incurred by AIG as the plaintiff in connection with such legal matters.

**AIG Property Casualty**

**Pre-tax operating income (loss):** includes both underwriting income (loss) and net investment income, but excludes net realized capital (gains) losses, other (income) expense net, legal settlements related to legacy crisis matters described above, and bargain purchase gain. Underwriting income (loss) is derived by reducing net premiums earned by claims and claims adjustment expenses incurred, acquisition expenses and general operating expenses.

**Ratios:** AIG Property Casualty, along with most property and casualty insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every \$100 of net premiums earned, the amount of claims and claims adjustment expense, and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

**Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium



adjustments, and the impact of reserve discounting. Catastrophe losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of \$10 million each.

AIG 2013 Form 10-K

Table of Contents

**ITEM 7 / USE OF NON-GAAP MEASURES**

***AIG Life and Retirement***

**Pre-tax operating income (loss):** is derived by excluding the following items from pre-tax income (loss): legal settlements related to legacy crisis matters described above, changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense), net realized capital (gains) losses, and changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital (gains) losses.

**Premiums and deposits:** includes direct and assumed amounts received on traditional life insurance policies, group benefit policies and deposits on life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts, guaranteed investment contracts (GICs) and mutual funds.

**Other Operations** Pre-tax operating income (loss): pre-tax income (loss) excluding certain legal reserves (settlements) related to legacy crisis matters described above, (gain) loss on extinguishment of debt, net realized capital (gains) losses, net loss (gain) on sale of divested businesses and properties, change in benefit reserves and DAC, VOBA, and SIA related to net realized capital (gains) losses and income from divested businesses, including Aircraft Leasing.

Results from discontinued operations are excluded from all of these measures.

AIG 2013 Form 10-K

57

---

Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

**Executive Overview**

This overview of management's discussion and analysis highlights selected information and may not contain all of the information that is important to current or potential investors in AIG's securities. You should read this Annual Report on Form 10-K in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting AIG and its subsidiaries.

**Financial Performance**

**AIG Property Casualty** pre-tax operating income improved in 2013 compared to 2012. Underwriting performance improved in 2013, as evidenced by the accident year combined ratio, as adjusted, which declined compared to the prior year. The improvement in pre-tax operating income also reflected lower catastrophe losses, and an increase in reserve discount compared to the prior year, partially offset by adverse prior year development. Net investment income increased in 2013 compared to 2012 due to an increase in alternative investment income and income associated with PICC P&C shares, which are accounted for under the fair value option.

**AIG Life and Retirement** reported growth in premiums and deposits primarily due to strong sales of annuities in our Retirement Income Solutions and Fixed Annuities product lines and increased Retail Mutual Fund sales. Pre-tax operating income improved in 2013 compared to 2012 primarily from active spread management and growth in fee income, as well as adjustments to update certain estimated gross profit assumptions used to amortize DAC and related items in our investment-oriented product lines.

**Mortgage Guaranty** pre-tax operating income improved in 2013 compared to 2012 due to an increase in net premiums earned, a decline in delinquency rates and improving cure rates, which drove lower incurred losses. New insurance written increased in 2013 compared to 2012 due to elevated levels of mortgage refinancing activity during 2013 and the market acceptance of UGC's risk-based pricing model by approximately 300 new lenders.

**Our investment portfolio performance**, excluding gains recognized in 2012 from our previous investments in Maiden Lane II LLC (ML II), Maiden Lane III LLC (ML III) and AIA Group Limited (AIA), improved in 2013 compared to 2012 primarily due to an increase in alternative investment income largely as a result of favorable equity market performance, partially offset by the effect of our reinvestment of the proceeds from investment activities in a low interest rate environment.

**Net realized capital gains** improved in 2013 compared to 2012 due to lower levels of other-than-temporary impairments on investments, partially offset by impairments on investments in life settlements.

**AIG 2013 Form 10-K**

Table of Contents**ITEM 7 / EXECUTIVE SUMMARY****Our Performance   Selected Indicators****Years Ended December 31,***(in millions, except per share data and ratios)*

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Results of operations data:</b>			
Total revenues	\$ <b>68,678</b>	\$ 71,021	\$ 65,105
Income from continuing operations	<b>9,008</b>	3,699	18,863
Net income attributable to AIG	<b>9,085</b>	3,438	20,622
Net income per common share attributable to AIG (diluted)	<b>6.13</b>	2.04	11.01
After-tax operating income attributable to AIG	<b>6,762</b>	6,635	2,086
<b>Key metrics:</b>			
AIG Property Casualty combined ratio	<b>101.3</b>	108.5	108.7
AIG Property Casualty accident year combined ratio, as adjusted	<b>98.4</b>	99.8	99.1
AIG Life and Retirement premiums and deposits	\$ <b>28,809</b>	\$ 20,994	\$ 24,392
AIG Life and Retirement assets under management	<b>317,977</b>	290,387	256,924
Mortgage Guaranty new insurance written	<b>49,933</b>	37,509	18,792

*(in millions, except per share data)*

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
--	------------------------------	------------------------------

**Balance sheet data:**

Total assets	\$ <b>541,329</b>	\$ 548,633
Long-term debt	<b>41,693</b>	48,500
Total AIG shareholders' equity	<b>100,470</b>	98,002
Book value per common share	<b>68.62</b>	66.38
Book value per common share, excluding AOCI	<b>64.28</b>	57.87

AIG 2013 Form 10-K

[Table of Contents](#)

**ITEM 7 / EXECUTIVE SUMMARY**

AIG 2013 Form 10-K

60

---

[Table of Contents](#)

## **ITEM 7 / EXECUTIVE SUMMARY**

\* Includes operating borrowings of other subsidiaries and consolidated investments and hybrid debt securities.



Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

**Liquidity and Capital Resources Highlights**

**We reduced our debt** in 2013 as a result of maturities, repayments and repurchases of \$9.7 billion. Partially offsetting this decrease were the issuances of \$1.0 billion aggregate principal amount of 3.375% senior notes due 2020 and \$1.0 billion aggregate principal amount of 4.125% senior notes due 2024.

**We maintained financial flexibility at AIG Parent in 2013** through \$4.1 billion in cash dividends from AIG Property Casualty subsidiaries and \$4.4 billion in cash dividends and loan repayments from AIG Life and Retirement subsidiaries.

**Our Board of Directors authorized the repurchase of shares of AIG Common Stock on August 1, 2013**, with an aggregate purchase price of up to \$1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. During 2013, we repurchased approximately 12 million shares of AIG Common Stock, par value \$2.50 per share (AIG Common Stock) under this authorization at a total cost of approximately \$597 million.

**Our Board of Directors increased our AIG Common Stock share repurchase authorization by \$1.0 billion on February 13, 2014**, resulting in an aggregate remaining repurchase authorization of approximately \$1.4 billion.

**We paid a cash dividend on AIG Common Stock** of \$0.10 per share on each of September 26, 2013 and December 19, 2013.

**On February 13, 2014, our Board of Directors declared a cash dividend on AIG Common Stock** of \$0.125 per share, payable on March 25, 2014 to shareholders of record on March 11, 2014.

**We announced an agreement to sell ILFC**, which will support our capital management initiatives, sharpen our business focus, and enable us to redeploy assets in a more productive manner.

Additional discussion and other liquidity and capital resources developments are included in Note 16 to the Consolidated Financial Statements and Liquidity and Capital Resources herein.

**Investment Highlights**

Net investment income decreased 22 percent to \$15.8 billion in 2013 compared to 2012, primarily due to gains recognized in 2012 from our previous investments in ML II, ML III and AIA.

Net investment income for our insurance operations increased by approximately \$645 million in 2013 compared to 2012, due to higher alternative investment income in 2013, driven primarily by favorable equity market performance, which was partially offset by gains recognized in 2012 from our previous investment in ML II. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities and fixed income securities with favorable risk versus return characteristics to improve yields and increase net investment income.

Net unrealized gains in our available for sale portfolio declined to approximately \$12 billion as of December 31, 2013 from approximately \$25 billion as of December 31, 2012 due to rising interest rates over the period and the realization of approximately \$2.5 billion in gains from sales of securities.

Other-than-temporary impairments were significantly lower relative to the prior year period partly driven by strong performance in our structured products portfolios due to favorable developments in the housing sector.

The overall credit rating of our fixed maturity portfolio was largely unchanged from last year. Impairments on investments in life settlements increased in 2013 compared to 2012 as a result of updated longevity assumptions in the valuation tables used to estimate future expected cash



flows.

[AIG 2013 Form 10-K](#)

62

---

Table of Contents

## ITEM 7 / EXECUTIVE SUMMARY

### Risk Management Highlights

#### Our Risk Management Process

Risk management is an integral part of managing our businesses. It is a key element of our approach to corporate governance. We have an integrated process for managing risks throughout the organization. The framework of our Enterprise Risk Management (ERM) system provides senior management with a consolidated view of our major risk positions.

Our risk management process includes:

**An enhanced risk governance structure that supports consistent and transparent decision making.** We have revised our corporate policies to ensure that accountability for the implementation and oversight of each policy is better aligned with individual corporate executives while specialized risk governance committees already in operation receive regular reporting regarding policy compliance.

**Risk committees at our corporate level as well as in each business unit that manage the development and maintenance of a risk and control culture encompassing all significant risk categories.** Our Board of Directors oversees the management of risk through the complementary functioning of the Finance and Risk Management Committee (the FRMC) and the Audit Committee, as well as through its regular interaction with other committees of the Board.

**A capital and liquidity stress testing framework to assess our aggregate exposure to our most significant risks.** We conduct enterprise-wide stress tests under a range of scenarios to better understand the resources needed to support our subsidiaries and AIG Parent.

We remain committed to adhering to the highest standards of risk management and corporate governance.

We continue to promote awareness and accountability for key risk, business decisions, and performance.

We manage risks better by applying performance metrics that enable us to assess risk more clearly and address evolving market conditions.

#### Presentation Changes

Prior period revenues and expenses were conformed to the current period presentation. These changes did not affect Net income attributable to AIG. The results of the investments in life settlements, including investment income and impairment losses, were reclassified from AIG Property Casualty operations to AIG's Other Operations. Also, as a result of the interest in AerCap to be acquired by AIG in connection with the announced agreement to sell ILFC to AerCap, ILFC operating results, which were previously presented as discontinued operations, have been classified as continuing operations in all periods. The associated assets and liabilities of ILFC continue to be classified as held-for-sale at December 31, 2013 and 2012. For further discussion, see Notes 1, 3 and 4 to the Consolidated Financial Statements.

#### Industry Trends

Our business is affected by industry and economic factors such as interest rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2013, characterized by factors such as historically low interest rates, instability in the global markets due to the negotiations over the U.S. debt ceiling, the U.S. Government shutdown and slow growth in the U.S. economy.

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Although there was a rise in interest rates in the U.S. fixed income market during the second half of 2013, interest rates remain low relative to historical levels, which has affected our industry by reducing investment returns. In

AIG 2013 Form 10-K

63

---

Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

AIG is focused on the following priorities for 2014:

Emphasis on customers;

Growth and profitability in our core insurance businesses;

Enhance the yield on our investments while maintaining focus on credit quality;

Manage our capital more efficiently by improving our capital structure and redeploying capital to areas that promote profitable growth;

Consummate the sale of our interest in ILFC;

Work with the Board of Governors of the Federal Reserve System (the FRB) in its capacity as our principal regulator; and

Pursue initiatives that continue to reduce expenses and improve efficiencies to best meet the needs of our customers, including centralizing work streams to lower-cost locations and creating a more streamlined organization.

The outlook for each of our businesses and management initiatives to improve growth and performance in 2014 and over the longer term is summarized below.

**AIG PROPERTY CASUALTY STRATEGIC INITIATIVES AND OUTLOOK**

**Growth and Business Mix** Grow higher value business to increase profitability and expand in attractive growth economies.

**Underwriting Excellence** Enhance risk selection and pricing to earn returns commensurate with the risk assumed.

**Claims Best Practices** Improve claims practices, analytics and tools to improve customer service, increase efficiency and lower the loss ratio.

**Operating Expense Discipline** Apply operating expense discipline and increase efficiencies by taking full advantage of our global footprint.

**Capital Efficiency** Enhance capital management through initiatives to streamline our legal entity structure, optimize our reinsurance program and improve tax efficiency.

**Investment Strategy** Execute our investment strategy, which includes increased asset diversification and yield-enhancement opportunities that meet our liquidity, capital, risk and return objectives.

[AIG 2013 Form 10-K](#)

Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

**Market Conditions and Industry Trends**

We expect that the current low interest rate environment, currency volatility, and ongoing uncertainty in global economic conditions will continue to challenge the growth of net investment income and limit growth in some markets. Due to these conditions, coupled with overcapacity in the property casualty insurance industry, we have sought to modify terms and conditions, grow profitable segments of the business, exit unprofitable business and develop advanced data analytics to improve profitability.

We have observed improving trends in certain key indicators that may offset the effect of current economic challenges. Commencing in the second quarter of 2011, we have benefitted from favorable pricing trends, particularly in our U.S. commercial business. The property casualty insurance industry is experiencing modest growth as a result of this positive rate trend and an increase in overall exposures in some markets. We also expect that expansion in certain growth economies will occur at a faster pace than in developed countries, although at levels lower than those previously expected due to revised economic assumptions.

In the U.S., our exposure to terrorism risk is mitigated by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) in addition to limited private reinsurance protections. TRIPRA is set to expire on December 31, 2014. We are closely monitoring the legislative developments related to the TRIPRA renewal or expiration, and have implemented appropriate business strategies for potential legislation outcomes, including non-renewal of the law. For additional information on TRIPRA, see Item 1A. Risk Factors Reserves and Exposures and Item 7. MD&A Enterprise Risk Management Insurance Operations Risks AIG Property Casualty Key Insurance Risks Terrorism Risk.

**Strategic Initiatives**

**Growth and Business Mix**

We continue efforts to better segment our business by industry, geography and type of coverage, to enhance our decision making about risk acceptance and pricing. For example, within workers' compensation we have observed different experience and trends based on this segmentation, which helps inform our risk appetite, pricing and loss mitigation decisions.

As part of our strategy to expand our consumer operations in growth economies, on May 29, 2013, we entered into a joint venture agreement with PICC Life, a subsidiary of PICC Group, to form an agency distribution company in China. Products under consideration to be distributed by the joint venture company include jointly developed life and retirement insurance products, existing PICC Life products, PICC P&C insurance products, AIG Property Casualty products, as well as other products aimed at meeting the needs of this developing market. We will own 24.9 percent of the joint venture company with PICC Life holding the remaining 75.1 percent. Our participation in the joint venture will be managed by AIG Property Casualty. The joint venture is planned to commence operations in 2014 subject to regulatory approval.

We continue to explore other potential life insurance and accident and health opportunities internationally.

**Underwriting Excellence**

We continue to further enhance our risk selection process and refine technical pricing and producer management, through enhanced tools and analytics. In addition, we remain focused on reducing exposure to capital intensive long-tail lines. We believe that accident year loss ratios will continue to improve due to these actions.

**Claims Best Practices**

We continue to reduce loss costs by realizing greater efficiencies in servicing customer claims, introducing improved claims analytics and services, developing knowledge of the economic drivers of losses which collectively are expected to mitigate reserve development and legal costs, and improve customer insights and pricing.

AIG 2013 Form 10-K

65

---

Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

**Operating Expense Discipline**

We continue to make strategic investments in systems, processes and talent worldwide, which are expected to create additional value and greater efficiency in the years ahead.

**Capital Efficiency**

We continue to execute capital management initiatives by enhancing broad-based risk tolerance guidelines for our operating units, implementing underwriting strategies to increase return on equity by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. In addition, we remain focused on enhancing our global reinsurance strategy to improve overall capital efficiency, but with periodic income statement volatility.

We continue to streamline our legal entity structure to enhance transparency with regulators and optimize capital and tax efficiency. In 2013, we completed a series of legal entity and branch restructuring transactions resulting in a simpler legal ownership structure with fewer ownership tiers and cross ownership. These legal entity restructuring initiatives enhanced our dividend capacity, reduced required capital, and provided tax benefits. Additionally, the restructurings are allowing us to simplify our reinsurance arrangements which further facilitate increased capital optimization. As of February 2014, through branch incorporations, legal entity mergers, and reinsurance changes, we established three key insurance operating units: one insurance pool in the United States with 12 direct writing entities; one pan-European insurance entity in the United Kingdom with 25 branches throughout Europe; and one Japan insurance holding company directly owning all of our operating units in that country. Key highlights include:

Continued integration of our Japan operations including the 2013 conversion of the AIUI Insurance Company Japan branch to a subsidiary and a plan to effect a similar conversion of the American Home Assurance Japan Branch in 2014, subject to regulatory approval. On July 16, 2013, we announced the planned merger of AIU Insurance Company Ltd. and Fuji, scheduled to take place in 2015 or later, subject to regulatory approvals. The merger is consistent with our growth strategy for the Japan market, and is intended to combine the expertise and experience of these companies to meet our customers' and partners' needs and provide products and services that will target higher levels of customer satisfaction in a cost-effective manner.

Simplification of the ownership structure of the Admitted and Surplus Lines Pool members, allowing for the combination of our Admitted Lines and Surplus Lines pools, which became effective January 1, 2014. We also transferred the majority of the existing intercompany reinsurance to the pools. In addition, we transferred the majority of the existing intercompany reinsurance held by one of our Bermuda entities to the Admitted Lines pool.

We paid dividends of approximately \$1.8 billion to AIG during 2013 as a result of these activities.

Our overall legal entity restructuring is expected to be substantially completed in 2014 (2015 or later for Japan) subject to regulatory approvals in the relevant jurisdictions.

See Segment Results AIG Property Casualty Operations AIG Property Casualty Results AIG Property Casualty Net Investment Income and Net Realized Capital Gains (Losses) and Note 6 to the Consolidated Financial Statements for additional information.

**AIG 2013 Form 10-K**





Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

**AIG LIFE AND RETIREMENT STRATEGIC INITIATIVES AND OUTLOOK**

**Product Diversity and Capacity for Growth** Continue to expand our comprehensive portfolio with superior, differentiated product solutions that meet consumer needs for financial and retirement security, using our scale and capital strength to pursue growth opportunities.

**Integrated Distribution** Grow assets under management by leveraging our extensive distribution organization of over 300,000 financial professionals and expanding relationships with key distribution partners to effectively market our diverse product offerings across multiple channels under a more unified branding strategy.

**Investment Portfolio** Maintain a diversified, high quality portfolio of fixed maturity securities that largely match the duration characteristics of liabilities with assets of comparable duration, and pursue yield-enhancement opportunities that meet our liquidity, risk and return objectives.

**Operational Initiatives** Continue to streamline our life insurance and annuity operations and systems into a lower-cost, more agile model that provides superior service and ease of doing business.

**Effective Risk and Capital Management** Deliver solid earnings through disciplined pricing and diversification of risk and increase capital efficiency within our life insurance entities to enhance return on equity.

**Market Conditions and Industry Trends**

Baby boomers reaching retirement age expect to live longer in retirement and place less reliance on traditional pensions and government retirement benefits than previous generations. These demographic trends, combined with strong equity markets and low volatility, provide a favorable environment for sales of individual variable annuities, and have contributed to growth in separate account assets under management in both our Retirement Income Solutions and Group Retirement product lines. Opportunities to continue growing our position in the individual variable annuities market are being provided by an increasing demographic of Americans approaching retirement and seeking guaranteed income features, combined with changes in the competitive landscape.

The interest rate environment has a significant impact on the life and annuity industry. Low long-term interest rates put pressure on long-term investment returns, negatively affect sales of interest rate sensitive products such as fixed annuities, and reduce future profits on certain existing fixed rate products. Low interest rates may also affect future investment margins, and may affect the recoverability and amortization rate of DAC assets in our variable annuity, fixed annuity and universal life businesses. While long-term interest rates remain low relative to historical levels, the increase in rates since the second half of 2013 has caused demand for fixed annuities products to improve, and continued stable or modestly rising interest rates provide favorable market conditions for our fixed annuity sales and future profitability.

We will continue to actively manage renewal crediting rates and use a disciplined approach to pricing new sales of interest rate sensitive products, including minimum rate guarantees. Also, as market conditions change, we manage our asset and liability interest rate exposures and strategic asset allocation to emphasize lower or higher durations in our investment portfolio.

The life insurance marketplace continues to be highly competitive and driven by price and service, with key players in this market acquiring an increasing market share. Industry sales of universal life have slowed, particularly sales of guaranteed universal life products, which was expected following the implementation of regulatory changes that increased minimum reserving requirements for these guaranteed products.

AIG 2013 Form 10-K

Table of Contents

## ITEM 7 / EXECUTIVE SUMMARY

### Strategic Initiatives

#### Product Diversity and Capacity for Growth

We expect to continue to expand our comprehensive portfolio of products by developing superior, differentiated product solutions that meet consumer needs for financial and retirement security while incorporating volatility risk controls. Our scale and capital base provide competitive advantages that enable us to pursue market opportunities for growth.

AIG Life and Retirement has been able to meet the demand for guaranteed products and grow sales while managing risk. We offer competitive products with strong de-risking features, such as volatility control funds, rider fees indexed to a market volatility index and required minimum allocations to fixed accounts, and we employ a dynamic risk hedging program. In addition to individual variable annuities, our Retirement Income Solutions product line is expanding our offerings of index annuities, including those with guarantee features, to provide additional solutions for consumers approaching retirement.

Sales of our fixed annuities are expected to benefit in 2014 from anticipated increasing interest rates and steepening of the yield curve, as these market conditions make fixed annuity products more attractive compared to alternatives such as bank deposits. Our Fixed Annuities product line is also introducing new delayed-income annuities, products that are experiencing significant growth in the marketplace as they provide both flexibility and a guaranteed income stream to consumers approaching retirement.

Our Institutional Markets product line is expected to continue contributing to growth in assets under management with stable value wraps and utilizing a disciplined approach to growth and diversification of our business by pursuing select opportunities in areas such as the terminal funding and pension buyout business.

In the highly competitive life insurance marketplace, we are continuing to execute our strategy of leveraging our scale advantage, utilizing our expertise in risk selection and disciplined approach to pricing new business, and creating differentiated product offerings based on consumer-focused research.

#### Integrated Distribution Strategy

We intend to expand relationships with key distribution partners to fully realize the benefits of our diverse product offerings across multiple channels, and implement a more uniform branding strategy. Our focus on ease of doing business for consumers and producers includes enhancements to our Group Retirement platform and services and other initiatives to improve the recruitment, training and productivity of our affiliated distribution partners, which are expected to enhance sales and service through these channels.

#### Investment Portfolio

Our investment strategy for AIG Life and Retirement is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset-liability matching and available investment opportunities. Our objective is to maintain a diversified, high quality portfolio of fixed maturity securities having weighted average durations that are matched to the duration and cash flow profile of our liabilities, to the extent practicable.

#### Operational Initiatives

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

We are continuing to invest in initiatives to enable a simpler and more agile low-cost operating model that provides superior service and will position our operating platforms to accommodate significant future growth. For example, our One Life initiative is focused on leveraging our most efficient systems environments and increased automation of our underwriting processes.

### Effective Risk and Capital Management

We intend to continue to enhance profitability and capital efficiency within our insurance entities through disciplined pricing and effective management of risk. Volatility risk controls within our product design and our comprehensive dynamic hedging program are critical tools for managing volatility for products where we have significant exposure to

### AIG 2013 Form 10-K

Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

equity market volatility and changes in interest rates. Additionally, our scale and the breadth of our product offerings provide diversification of risk across our product portfolio.

See Results of Operations Segment Results AIG Life and Retirement Results for additional information.

**OTHER OPERATIONS STRATEGIC INITIATIVES AND OUTLOOK**

**Mortgage Guaranty (UGC)**

**Risk Selection** Ensure the high quality of our new business through disciplined underwriting and our multi-variant risk-based pricing model.

**Innovation** Develop and enhance products, technology, and processes while addressing the needs of stakeholders in the mortgage industry.

**Ease of Use** Reduce complexity in the mortgage insurance process.

**Expense Management** Streamline our processes through the use of technology and shared services.

**Market Conditions and Industry Trends**

Interest rate increases in late 2013 reduced the refinancing activity that drove much of the increased volume in the mortgage loan industry during the year. As a result, UGC anticipates a decrease in new insurance written during 2014 compared to 2013. However, the majority of UGC's new business written during 2013 was originated from home purchases as opposed to refinancing, and we expect the growth in home purchase lending in 2014 to partially offset the decline in refinancing activity. UGC believes the increase in home purchases will be driven by increased buyer confidence arising from home price appreciation and interest rates remaining at low levels relative to historical levels.

Although increasing interest rates may have an unfavorable impact on new mortgage loan volumes, UGC expects that increasing interest rates will have a favorable impact on the persistency of business written over the last several quarters since refinancing of mortgage loans would be unattractive to homeowners who originated mortgages at the historically low interest rates prevalent during the last several periods. We expect that this higher persistency will continue to benefit our results throughout 2014 and into 2015.

UGC expects cure rates to improve as a result of home value appreciation since such appreciation will encourage homeowners with delinquent mortgages to sell and purchase another home, or to refinance their existing mortgages. We believe the combination of higher persistency and improving cure rates, partially offset by changes in new mortgage loan volumes, will continue to strengthen UGC's operating results throughout 2014.

**Strategic Initiatives**

**Risk Selection**

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

During 2014, UGC expects to continue to be a leading provider of mortgage insurance and will differentiate itself from its competitors by providing superior products to our customers and utilizing its proprietary risk-based pricing strategy. This pricing strategy provides UGC's customers with mortgage insurance products that are priced commensurate with the underwriting risk, which we believe will result in an appropriately priced, high-quality book of business. UGC plans to continue to execute this strategy in 2014. The business generated under this strategy, which was initiated during 2009, accounts for approximately 53 percent of net premiums earned in 2013.

AIG 2013 Form 10-K

69

---

Table of Contents

**ITEM 7 / EXECUTIVE SUMMARY**

**Global Capital Markets**

AIG Markets acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services for AIG entities. The derivative portfolio of AIG Markets consists primarily of interest rate and currency derivatives.

The remaining derivatives portfolio of AIGFP consists primarily of hedges of the assets and liabilities of the DIB and a portion of the legacy hedges for AIG and its subsidiaries. AIGFP's derivative portfolio consists primarily of interest rate, currency, credit, commodity and equity derivatives. Additionally, AIGFP has a credit default swap portfolio that is being managed for economic benefit and with limited risk. The AIGFP portfolio continues to be wound down and is managed consistent with our risk management objectives. Although the portfolio may experience periodic fair value volatility, it consists predominantly of transactions that we believe are of low complexity, low risk or currently not economically appropriate to unwind based on a cost versus benefit analysis.

**Direct Investment Book**

The DIB consists of a portfolio of assets and liabilities held directly by AIG Parent in the MIP and certain non-derivative assets and liabilities of AIGFP. The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all of its liabilities as they come due, even under stress scenarios, and to maximize returns consistent with our risk management objectives.

The DIB's assets consist primarily of cash, short-term investments, fixed maturity securities issued by corporations, U.S. government and government sponsored entities and mortgage and asset backed securities. The value of these assets is impacted by macro-economic trends in U.S. and core European markets, including corporate credit spreads, commercial and residential real estate markets, and to a lesser extent, interest rates and foreign exchange rates, among other factors. The majority of these assets are carried at fair value with changes in fair value recognized through earnings. The DIB's liabilities consist primarily of notes and other borrowings supported by assets as well as other short-term financing obligations. The DIB has both liabilities that are held at cost and liabilities that are held at fair value. The liabilities held at fair value vary in price based on changes in AIG's credit spreads with changes in fair value reflected in earnings. Changes in the fundamental drivers of the fair value of DIB assets and liabilities will create earnings volatility for the DIB on a period-to-period comparative basis.

**AIG 2013 Form 10-K**

[Table of Contents](#)**ITEM 7 / RESULTS OF OPERATIONS****Results of Operations**

The following section provides a comparative discussion of our Results of Operations on a reported basis for the three-year period ended December 31, 2013. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment discussion. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of this MD&A.

The following table presents our consolidated results of operations:

<b>Years Ended December 31,</b>				<b>Percentage Change</b>	
<b>(in millions)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2013 vs.</b>	<b>2012 vs.</b>
				<b>2012</b>	<b>2011</b>
<b>Revenues:</b>					
Premiums	\$ 37,350	\$ 38,047	\$ 39,026	(2)%	(3)%
Policy fees	2,535	2,349	2,309	8	2
Net investment income	15,810	20,343	14,755	(22)	38
Net realized capital gains	1,744	930	691	88	35
Aircraft leasing revenue	4,420	4,504	4,508	(2)	
Other income	6,819	4,848	3,816	41	27
<b>Total revenues</b>	<b>68,678</b>	<b>71,021</b>	<b>65,105</b>	<b>(3)</b>	<b>9</b>
<b>Benefits, claims and expenses:</b>					
Policyholder benefits and claims incurred	29,503	32,036	33,523	(8)	(4)
Interest credited to policyholder account balances	3,892	4,340	4,432	(10)	(2)
Amortization of deferred policy acquisition costs	5,157	5,709	5,486	(10)	4
Other acquisition and insurance expenses	9,166	9,235	8,458	(1)	9
Interest expense	2,142	2,319	2,444	(8)	(5)
Aircraft leasing expenses	4,549	4,138	5,401	10	(23)
Loss on extinguishment of debt	651	32	2,908	NM	(99)
Net loss on sale of properties and divested businesses	48	6,736	74	(99)	NM
Other expenses	4,202	3,585	3,280	17	9
<b>Total benefits, claims and expenses</b>	<b>59,310</b>	<b>68,130</b>	<b>66,006</b>	<b>(13)</b>	<b>3</b>
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>9,368</b>	<b>2,891</b>	<b>(901)</b>	<b>224</b>	<b>NM</b>
<b>Income tax expense (benefit)</b>	<b>360</b>	<b>(808)</b>	<b>(19,764)</b>	<b>NM</b>	<b>96</b>
<b>Income from continuing operations</b>	<b>9,008</b>	<b>3,699</b>	<b>18,863</b>	<b>144</b>	<b>(80)</b>



<b>Income from discontinued operations, net of income tax expense (benefit)</b>	<b>84</b>	1	2,467	NM	(100)
<b>Net income</b>	<b>9,092</b>	3,700	21,330	146	(83)
<b>Less: Net income attributable to noncontrolling interests</b>	<b>7</b>	262	708	(97)	(63)
<b>Net income attributable to AIG</b>	<b>\$ 9,085</b>	\$ 3,438	\$ 20,622	164%	(83)%

AIG 2013 Form 10-K

71

Table of Contents

**ITEM 7 / RESULTS OF OPERATIONS**

Income from continuing operations before income tax expense was \$9.4 billion in 2013 compared to \$2.9 billion in 2012, and reflected the following:

pre-tax income from insurance operations of \$5.1 billion, \$6.5 billion and \$213 million from AIG Property Casualty, AIG Life and Retirement and Mortgage Guaranty in 2013, respectively, compared to pre-tax income of \$2.0 billion, \$3.8 billion and \$15 million for these operations in 2012. Net investment income, excluding gains recognized in 2012 from our previous investments in ML II, ML III and AIA, improved in 2013 compared to 2012 due to higher returns on alternative investments, primarily due to the performance of equity markets. In addition, 2013 includes income from legal settlements related to the financial crisis of \$1.0 billion. Included in 2012 pre-tax income for AIG Property Casualty were catastrophe losses of \$2.7 billion, largely arising from Storm Sandy and severe losses of \$326 million. See Note 3 to the Consolidated Financial Statements for further information;

For the fourth consecutive year we posted a full year profit.

Our total AIG Property Casualty accident year loss ratio, as adjusted, improved each year during the past four years.

loss on extinguishment of debt of \$651 million in 2013 resulting from redemptions and repurchases of, and cash tender offers for, certain debt securities; and

We enhanced spread income and actively managed through the low interest rate environment.

net investment income in 2012 reflected an increase in fair value of AIG's interests in AIA ordinary shares and ML III of \$2.1 billion and \$2.9 billion, respectively.

Our investment portfolio performance, excluding gains recognized in 2012 from our previous investments in ML II, ML III and AIA, improved due to higher returns on alternative investments, driven primarily by equity market gains.

For the year ended December 31, 2013, the effective tax rate on income from continuing operations was 3.8 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of \$2.8 billion related to a decrease in AIG Life and Retirement's capital loss carryforward valuation allowance, \$396 million related to a decrease in certain other valuation allowances associated with foreign jurisdictions and \$298 million associated with tax exempt interest income. These items were partially offset by charges of \$632 million related to uncertain tax positions.

For the year ended December 31, 2012, the effective tax rate on income from continuing operations was (27.9) percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to decreases in AIG Life and Retirement's capital loss carryforward valuation allowance of \$1.9 billion related to the actual and projected gains from AIG Life and Retirement's available-for-sale securities, and tax effects associated with tax exempt interest income of \$302 million. These items were partially offset by changes in uncertain tax positions of \$446 million.

Income from continuing operations before income tax expense was \$2.9 billion in 2012 compared to \$(0.9) billion in 2011 and reflected the following:

pre-tax income from insurance operations of \$2.0 billion, \$3.8 billion and \$15 million from AIG Property Casualty, AIG Life and Retirement and Mortgage Guaranty in 2012, respectively, compared to pre-tax income (loss) of \$2.1 billion, \$3.0 billion and \$(77)

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

million for these operations in 2011. Included in 2012 pre-tax income for AIG Property Casualty were catastrophe losses of \$2.7 billion, largely arising from Storm Sandy, and severe losses of \$326 million. Included in 2011 pre-tax income for AIG Property Casualty were catastrophe losses of \$3.3 billion, largely arising from Hurricane Irene, U.S. tornadoes and the Great Tohoku Earthquake & Tsunami in Japan (the Tohoku Catastrophe) and severe losses of \$296 million. See Note 3 to the Consolidated Financial Statements for further information;

AIG 2013 Form 10-K

Table of Contents**ITEM 7 / RESULTS OF OPERATIONS**

increases in fair value of AIG's interest in AIA ordinary shares of \$2.1 billion and \$1.3 billion in 2012 and 2011, respectively. The increase in fair value in 2012 included a gain on sale of AIA ordinary shares of approximately \$0.8 billion;

an increase in fair value of AIG's interest in ML III of \$2.9 billion in 2012, compared to a decrease in fair value of \$646 million in 2011;

an increase in estimated litigation liability of approximately \$783 million for 2012 based on developments in several actions;

litigation settlement income of \$210 million in 2012 from settlements with three financial institutions who participated in the creation, offering and sale of RMBS from which AIG and its subsidiaries suffered losses either directly on their own account or in connection with their participation in AIG's securities lending program; and

a \$3.3 billion net loss in 2011, primarily consisting of the accelerated amortization of the remaining prepaid commitment fee asset resulting from the termination of the credit facility provided by the FRBNY (the FRBNY Credit Facility) in 2011. This was partially offset by a \$484 million gain on extinguishment of debt due to the exchange of subordinated debt.

For the year ended December 31, 2011, the effective tax rate on loss from continuing operations was not meaningful, due to the significant effect of releasing approximately \$18.4 billion of the deferred tax asset valuation allowance. Other factors that contributed to the difference from the statutory rate included tax benefits of \$454 million associated with tax exempt interest income, \$386 million associated with the effect of foreign operations, and \$224 million related to our investment in subsidiaries and partnerships.

**The following table presents a reconciliation of net income attributable to AIG to after-tax operating income (loss) attributable to AIG:**

**Years Ended December 31,**  
**(in millions)**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Net income attributable to AIG</b>	<b>\$ 9,085</b>	<b>\$ 3,438</b>	<b>\$ 20,622</b>
Income from discontinued operations	(84)	(1)	(2,448)
Loss from divested businesses, including Aircraft Leasing	117	4,039	663
Uncertain tax positions and other tax adjustments	791	543	
Legal reserves (settlements) related to legacy crisis matters	(460)	353	13
Deferred income tax valuation allowance releases	(3,237)	(1,911)	(18,307)
Amortization of FRBNY prepaid commitment fee asset			2,358
Changes in fair value of AIG Life and Retirement fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	105	(24)	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	1,132	781	202
AIG Property Casualty other (income) expense net	47		
Loss on extinguishment of debt	423	21	(480)
Net realized capital gains	(1,157)	(586)	(453)
Non-qualifying derivative hedging gains, excluding net realized capital gains		(18)	(84)
<b>After-tax operating income attributable to AIG</b>	<b>\$ 6,762</b>	<b>\$ 6,635</b>	<b>\$ 2,086</b>

After-tax operating income attributable to AIG increased in 2013 compared to 2012 primarily due to increases in income from insurance operations, discussed above, lower income tax expense and noncontrolling interests, partially offset by fair value gains on AIG's previously held

## Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

interests in AIA ordinary shares, ML II, and ML III.

After-tax operating income attributable to AIG increased in 2012 compared to 2011 primarily due to increases in income from insurance operations and in the fair value gains on AIG's interests in AIA ordinary shares and AIG's interest in ML III, discussed above. This was partially offset by an increase in income tax expense in 2012 compared to an income tax benefit in 2011.

For the year ended December 31, 2013, the effective tax rate on pre-tax operating income was 28.9 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

AIG 2013 Form 10-K

73

---

Table of Contents**ITEM 7 / RESULTS OF OPERATIONS**

For the year ended December 31, 2012, the effective tax rate on pre-tax operating income was 31.6 percent. The significant factors that contributed to the difference from the statutory rate was primarily due to tax exempt interest income and other permanent tax items.

For the year ended December 31, 2011, the effective tax rate on pre-tax operating income was (9.6) percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income, tax benefits associated with noncontrolling interests, and the impact of discrete tax benefits.

We report the results of our operations through two reportable segments: AIG Property Casualty and AIG Life and Retirement. The Other Operations category consists of businesses and items not allocated to our reportable segments.

The following table summarizes the operations of each reportable segment and Other Operations. See also Note 3 to the Consolidated Financial Statements.

<b>Years Ended December 31,</b>				<b>Percentage Change</b>	
<b>(in millions)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2013 vs. 2012</b>	<b>2012 vs. 2011</b>
Total revenues:					
AIG Property Casualty	\$ <b>39,709</b>	\$ 39,954	\$ 40,977	(1)%	(2)%
AIG Life and Retirement	<b>20,590</b>	17,645	16,163	17	9
Total reportable segments	<b>60,299</b>	57,599	57,140	5	1
Other Operations	<b>8,893</b>	14,563	8,526	(39)	71
Consolidation and eliminations	<b>(514)</b>	(1,141)	(561)	55	(103)
Total revenues	\$ <b>68,678</b>	\$ 71,021	\$ 65,105	(3)	9
Pre-tax income (loss):					
AIG Property Casualty	\$ <b>5,133</b>	\$ 2,023	\$ 2,100	154	(4)
AIG Life and Retirement	<b>6,505</b>	3,780	2,956	72	28
Total reportable segments	<b>11,638</b>	5,803	5,056	101	15
Other Operations:					
Mortgage Guaranty	<b>213</b>	15	(77)	NM	NM
Global Capital Markets	<b>625</b>	553	(7)	13	NM
Direct Investment book	<b>1,544</b>	1,632	622	(5)	162
Retained interests		4,957	486	NM	NM
Corporate & Other	<b>(4,706)</b>	(10,186)	(6,007)	54	(70)
Aircraft Leasing	<b>(129)</b>	339	(1,005)	NM	NM
Consolidation and eliminations	<b>4</b>			NM	NM
Other Operations	<b>(2,449)</b>	(2,690)	(5,988)	9	55
Consolidation and eliminations	<b>179</b>	(222)	31	NM	NM

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-K

Total pre-tax income (loss)	\$ 9,368	\$ 2,891	\$ (901)	224	NM
Pre-tax operating income (loss):					
AIG Property Casualty	\$ 4,812	\$ 1,793	\$ 1,148	168	56
AIG Life and Retirement	5,095	4,160	3,277	22	27
Total reportable segments	9,907	5,953	4,425	66	35
Other Operations:					
Mortgage Guaranty	205	9	(97)	NM	NM
Global Capital Markets	625	557	(11)	12	NM
Direct Investment book	1,448	1,215	604	19	101
Retained interests		4,957	486	NM	NM
Corporate & Other	(2,793)	(2,591)	(2,686)	(8)	4
Consolidation and eliminations	4			NM	NM
Other Operations	(511)	4,147	(1,704)	NM	NM
Consolidations, eliminations and other adjustments	165	(18)	(181)	NM	90