

AMERICAN INTERNATIONAL GROUP INC
Form 8-K
May 17, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT**

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 17, 2010

AMERICAN INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

1-8787

13-2592361

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

70 Pine Street

New York, New York 10270

(Address of principal executive offices)

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

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 7.01. Regulation FD Disclosure

On March 1, 2010, American International Group, Inc. (AIG) entered into a Share Purchase Agreement with AIA Aurora LLC, an indirect wholly owned subsidiary of AIG (Aurora), Prudential plc (Prudential) and Prudential Group plc (formerly Petrohue (UK) Investments Limited), pursuant to which Prudential Group plc agreed to acquire AIA Group Limited (AIA), a wholly owned subsidiary of Aurora, for approximately \$35.5 billion in cash and securities of Prudential Group plc. On May 17, 2010, Prudential published a prospectus relating to its rights issue (the Prospectus). Prudential will also publish a listing document relating to the listing of the entire issued share capital of Prudential on The Stock Exchange of Hong Kong Limited (the Hong Kong Listing Document and together with the Prospectus, the Prudential Documents).

The Prudential Documents included certain financial information relating to AIA for the fiscal quarters ended February 28, 2010 and 2009. This information (the Prudential Data), which is reproduced below, was derived by Prudential, using assumptions developed by Prudential and not shared with AIA, from certain unaudited data extracted from AIA s management accounts (the AIA Data).

The information in the box below has been prepared by Prudential.

FIRST QUARTER 2010 RESULTS FOR THE AIA GROUP

The following information was prepared by Prudential on a basis consistent with Prudential s reporting basis for the comparable periods based on unaudited financial data extracted from AIA s management accounts.

| Sales Annual Premium | 3 months | 3 months | % change |
|----------------------------|--------------------|--------------------|-----------------|
| | to | to | |
| | 28 | 28 | |
| | February | February | |
| Equivalent (APE) | 2010 | 2009 | |
| | \$m | \$m | |
| Hong Kong | 96 | 85 | 13 |
| Singapore and Brunei | 31 | 21 | 48 |
| Thailand | 97 | 69 | 41 |
| Korea | 76 | 68 | 12 |
| China | 44 | 37 | 19 |
| Malaysia | 28 | 23 | 22 |
| Other markets | 83 | 90 | (8) |
| Group total | 455 | 393 | 16 |
| | 3 months to | 3 months to | |
| | 28 | 28 | |
| | February | February | |
| New business profit | 2010 | 2009 | % change |
| | \$m | \$m | |
| Group total pre tax | 198 | 150 | 32 |
| post tax | 141 | 107 | 32 |

| | 3 months to 28 February | 3 months to 28 February | +/- % pts |
|----------------------------|--|--|----------------------|
| Margin APE % | 2010 | 2009 | |
| Group total pre tax | 44 | 38 | +6pts |
| post tax | 31 | 27 | +4pts |

In the first quarter of 2010 new business APE sales grew by 16% over the first quarter of 2009 at actual exchange rates.

The first quarter 2010 growth was driven by strong single premium sales due to the improvement in investor sentiment as stock markets recovered. This growth was particularly strong in Singapore and Thailand where new business APE sales increased in the first quarter of 2010 by 48% and 41% respectively.

Other markets new business APE sales in the first quarter of 2010 decreased by 8%. The main contributing factor for this was a 33% decrease in APE in Australia, where the first quarter 2009 included new business in respect of two large new group schemes.

The increase in the first quarter 2010 pre tax new business margin to 44% from 38% reflects improvements in pricing and product mix over those sold during the financial year ended 30 November 2009.

EEV New Business Methodology and Assumptions

Valuation of new business

The contribution from new business has been prepared in accordance with the EEV principles and guidance issued in May 2004 by the European Insurers CFO Forum except for certain disclosure points (described in the Consulting Actuaries Report set out in the prospectus, such that they relate to the new business contribution for the 12 months to 30 November 2009).

The new business contribution represents the profits determined by applying the same operating and economic assumptions as those used for the 30 November 2009 value of in-force business. The only exception to this is for Hong Kong and Thailand where the long term returns were used for the whole projection period as opposed to grading to market yields. The impact of this difference is immaterial.

In determining the cost of required capital, the more onerous (at 30 November 2009) of the local entity reserving and regulatory capital basis and the Hong Kong basis (at 150% of regulatory capital) for branches of AIA and AIA-B has been assumed.

The new business contribution for 2010 does not allow for any excess of acquisition expenses over the unit cost assumptions. This assumption is consistent with the preparation of the new business contribution for the 12 months to 30 November 2009 as set

out in the Consulting Actuaries Report in the prospectus.

Principal economic assumptions

The same economic assumptions have been used to determine the new business contribution for the 3 months ending 28 February 2010 and the 3 months ending 28 February 2009. This is appropriate as, given the fact that the new business is largely regular premium business, the key economic assumptions impacting the new business contribution are the long-term assumptions. These assumptions are not expected to vary significantly between 2009 and 2010.

Initial returns on fixed income assets have been based on current market yields, adjusted for the risk of default.

Long term returns for fixed income assets reflect expected returns having regard to historical returns, estimates of long term forward rates from yields available on Government bonds and current bond yields.

Where initial returns on fixed interest assets differ markedly from long term returns, returns are assumed to grade to the long term returns linearly over the estimated mean term of the existing fixed interest assets.

Equity returns have been determined by reference to the projected long term yield on 10-year government bonds plus an equity risk premium which varies by territory with a maximum risk premium of 600 basis points.

Risk discount rates are set equal to risk-free rates plus a risk margin. The risk margin reflects any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation.

The tables below summarise the principal financial assumptions at 28 February 2010 and 28 February 2009:

| | Australia | China | Hong Kong | Indonesia (USD denominated) | Indonesia (Rupiah denominated) | Korea |
|---------------------------------|------------------|--------------|------------------|------------------------------------|---------------------------------------|--------------|
| | <i>%</i> | <i>%</i> | <i>%</i> | <i>%</i> | <i>%</i> | <i>%</i> |
| New business risk discount rate | 9.0 | 10.0 | 8.0 | 12.5 | 17.0 | 10.0 |
| Government bond yield | 5.75 | 3.7 | 3.8 | 6.9 | 11.0 | 5.2 |

| | Malaysia % | New Zealand % | Philippines % | Singapore & Brunei % | Taiwan % | Thailand % | Vietnam % |
|---------------------------------|---------------|---------------------|------------------|-------------------------------|-------------|---------------|--------------|
| New business risk discount rate | 9.0 | 9.0 | 14.0 | 7.5 | 8.0 | 10.0 | 16.0 |
| Government bond yield | 4.5 | 6.3 | 7.5 | 2.9 | 1.7 | 4.2 | 9.25 |

| | AIA Group Total | |
|---|-----------------------------|--------------------------|
| | 28 February 2010 % | 28 February 2009 % |
| New business weighted risk discount rate (note) | 9.5 | 9.3 |

Note:

The weighted risk discount rates shown for the AIA Group above have been determined by weighting each country's risk discount rates by reference to the EEV basis new business result.

Approach to estimate the new business contribution for the 3 months ended 28 February 2009

The new business contribution for the 3 months ended 28 February 2009 has been estimated assuming that new business margins (as a percentage of APE) for each product group within each territory are the same as for the 12 months ended 30 November 2009. It has therefore been implicitly assumed that the mix of business within each product group has remained unchanged during the 12 months ended 30 November 2009. Should this product mix have changed during this period, the new business contribution for the 3 months ended 28 February 2009 could be materially different to that shown.

Foreign exchange rates

Foreign currency profits have been translated at average exchange rates for the period. The principal exchange rates are as follows:

| Local currency: USD\$ | Average for 3 months to 28 February 2010 | Average for 3 months to 28 February 2009 |
|-----------------------|---|---|
|-----------------------|---|---|

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| | | |
|-----------|----------|----------|
| China | 6.83 | 6.85 |
| Hong Kong | 7.75 | 7.75 |
| Korea | 1,154.30 | 1,384.60 |
| Malaysia | 3.40 | 3.59 |
| Singapore | 1.40 | 1.49 |
| Thailand | 33.14 | 35.09 |

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None of AIG, Aurora, AIA, their respective affiliates or any of their directors, officers and employees participated in the calculation of the Prudential Data or the selection of the assumptions on which they were based. None of AIG, Aurora, AIA, their respective affiliates or any of their directors, officers and employees has approved the Prudential Data or accepts responsibility for the Prudential Data for any purpose, including for purposes of any offering of securities by Prudential.

In addition to the AIA Data, AIG provided to Prudential certain unaudited information on AIA's results for the fiscal quarters ended February 28, 2010 and 2009, prepared for inclusion as a discontinued operation in AIG's unaudited consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles for the three months ended March 31, 2010, as follows:

| <i>(USD in millions)(unaudited)</i> | 2010 | 2009 |
|-------------------------------------|---------|---------|
| Total Revenues: | \$3,175 | \$2,787 |
| Pre-tax Income: | 658 | 390 |

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SIGNATURES

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

**AMERICAN INTERNATIONAL GROUP,
INC.**
(Registrant)

Date: May 17, 2010

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President and Secretary

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