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AIG posts 2nd consecutive quarterly profit

By STEPHEN BERNARD

NEW YORK — AIG said Friday it was profitable for the second straight quarter as its core insurance operations continue to stabilize after the company's bailout by the government last year.

American International Group Inc. also said the amount of its government financial assistance dropped by 4 percent during the third quarter.

Its results got a lift from the increasing value of investments it still holds that soured last year and helped drive it to the brink of collapse.

While new insurance business stabilized compared with the second quarter, it is still sharply below year-ago figures as the economy remains weak and AIG struggles with its image after being bailed out by the government. A recovery in its core insurance operations is considered vital to AIG repaying the government.

CEO Robert Benmosche warned earnings will remain choppy as the company executes its restructuring plan.

"We continue to focus on stabilizing and strengthening our businesses, but expect continued volatility in reported results in the coming quarters, due in part to charges related to ongoing restructuring activities," Benmosche said in a statement.

AIG said it plans to record a $5 billion charge in the fourth quarter as it proceeds with spinning off two of its major life insurance businesses. The insurer is shedding American International Assurance Co., or AIA, and American Life Insurance Co., also known as ALICO, as it looks to repay the government.

Shares of AIG fell $3.71, or 9.5 percent, to $35.57 in late morning trading.

Len Blum, a managing partner at investment bank Westwood Capital, said "there is still tremendous risk."

AIG is still on very shaky footing because of the amount of changes it is undergoing and continued uncertainty about exactly how much it will be able to raise from selling assets, Blum said.

Blum said the market for selling big businesses like AIG is attempting remains weak because of the struggling economy.

AIG shares have been extremely volatile since the company was bailed out last year. Shares hit a low of $6.60 in March, rose as high as $55.90 in late August, helped in part by a reverse stock split, and then slipped again.

"It's a casino gamble," Blum said of the stock.

AIG was bailed out in September 2008 by the government as the financial crisis spiraled out of control. The insurer has received aid packages with a total value of more than $182 billion from the government. In return for that financial support, the government received an 80 percent stake in AIG.

The company was undermined not by its traditional insurance businesses, but instead by underwriting risky credit derivatives contracts. A collapse in the value of those contracts was the primary driver of AIG's near collapse.

Recovering financial markets and changes in accounting rules have helped AIG to write up the value of its remaining risky assets.

Blum said, however, the portfolio of risky investments could again lose value or AIG could be forced to take losses as it sells them off. AIG had $1.1 trillion in derivative contracts sitting on its books as of Sept. 30, many of which are tied to risky mortgage debt.

AIG has been working for the past year to sell assets and streamline operations in an effort to repay the government debt. AIG was able to reduce the amount of money it owes the government during the third quarter.

As of Sept. 30, AIG's outstanding assistance from the government totaled $122.31 billion, down 4 percent from the end of the second quarter.

Of that outstanding assistance, AIG owes the government $85.66 billion in loans and interest, a 2 percent decline from the end of the second quarter. The remaining $36.66 billion in outstanding assistance is tied the value of certain investments the government bought from AIG. As those investments pay off or rise in value, the government recoups more money.

The spinoffs of AIA and ALICO will help AIG reduce its outstanding assistance from the government by $25 billion. The government is taking preferred stakes in the two units as they are separated from AIG.

AIG is also relying on improvement at its core insurance subsidiaries to generate profit to repay the government.

Net premiums written in AIG's general insurance business, which was rebranded in July as Chartis, rose 2 percent from the previous quarter to $8.08 billion, providing further signs that AIG's core insurance business is stabilizing. Rising claims in the division though weakened its profitability between the second and third quarter.

Premiums written in the general insurance business fell 13 percent from the third quarter last year.

Benmosche said pricing has been stable and the company is now turning away some renewal business to maintain that pricing discipline.

New business in the life insurance and retirement services division dipped 3 percent between the second and third quarters. The division underwrote $7.85 billion in premiums and other considerations during the most recent quarter.

Life insurance premiums fell 16 percent from the year-ago period.

Net income available to common shareholders was $92 million in the three months ended Sept. 30 compared with a loss of $24.47 billion, or $181.02 per share, during the same quarter last year — the quarter when it was initially bailed out.

Including the government's portion of the profit, AIG earned $455 million, or 68 cents per share, during the latest quarter.

Adjusted earnings, which excludes the government's stake and realized investment gains and losses totaled $385 million, or $2.85 per share.

Analysts polled by Thomson Reuters, on average, forecast earnings of $1.98 per share for the quarter. Analysts estimates do not always include all charges a company might take throughout the quarter.

During the second quarter, AIG's profit available to common shareholders was $311 million. Including the government's portion, AIG earned $1.82 billion.