

## AIG posts 27% decline in third-quarter profit

by AP-News

NEW YORK (AP) — American International Group (AIG), the world's largest insurer, said Wednesday its third-quarter profit dropped 27%, hurt by tight credit and the ailing U.S. housing market. Shares fell \$1.40, or 2.4%, to \$56.50 in after-hours trading, when the report was released. They had plunged almost 7% to close at \$57.90 in regular trading Wednesday.

AIG's \$872.3 billion-investment portfolio lost \$864 million, its credit-swap portfolio lost \$352 million and its mortgage-insurance business lost \$215 million.

Those declines dampened the insurer's net income, which fell to \$3.09 billion, or \$1.19 a share, in the July to September period, from \$4.22 billion, or \$1.61 a share, in the same period last year.

Adjusted to exclude certain items, earnings totaled \$3.49 billion, or \$1.35 a share, versus \$4.02 billion, or \$1.53 a share, last year.

Revenue edged up to \$29.84 billion from \$29.25 billion.

The results fell short of estimates. Analysts surveyed by Thomson Financial projected, on average, profit of \$1.62 a share on revenue of \$29.91 billion. The estimates usually exclude one-time items.

Back in August, AIG called exposure to subprime debt "minimal," and said Wednesday that despite some losses due to mortgage-backed bonds, its exposure to the debt remains "high quality," with "substantial protection."

"While U.S. residential mortgage and credit market conditions adversely affected our results, our active and strong risk management processes helped contain the exposure," said AIG President and Chief Executive Officer Martin J. Sullivan in a statement.

AIG's investment portfolio does include some collateralized debt obligations, instruments that bundle up different types of debt. But the exposure is smaller than that of banks such as Citigroup and Merrill Lynch, which have written down big losses on their CDO investments. Late Wednesday, Morgan Stanley said it might have to write down \$2.5 billion to \$6 billion in the fourth quarter because of troubles in the credit market.

Donald Light, senior analyst with financial research and consulting firm Celent, called AIG's report "disappointing, but not disastrous" in a research note.

He said that although AIG saw subprime and credit market-related losses and a 19.1% decline in operating income in the life and retirement services unit, there was also solid growth of about 5% in the general insurance unit's premiums and only moderate deterioration in underwriting.

In its mortgage insurance unit, AIG paid claims of \$445 million, more than quadruple the \$91 million they paid in the third quarter of last year. For every dollar collected in mortgage insurance premiums, they spent \$2.14 administering claims.

AIG's lending business, which saw its delinquency rate rise to 2.22% from 1.59% a year ago, set aside \$214 million to cover unpaid mortgage loans.

Before releasing its results, AIG was the biggest loser Wednesday among the 30 companies that make up the Dow Jones industrial average, and just last week, it briefly touched a two-year low.

Maurice "Hank" Greenberg, AIG's former chief executive, said in a regulatory filing Friday he is considering "strategic alternatives" to boost the value of his AIG stake. Investors speculated he might want to bid for the company or parts of the company, or force AIG to spin off one of its businesses.

Greenberg was ousted in 2005, when then-New York State Attorney General Eliot Spitzer accused him of fraudulent accounting. The 82-year-old holds a 14% stake in AIG through his firm C.V. Starr, and said in last week's filing he plans to hold discussions with other major shareholders.

Going forward, AIG could possibly end up booking charges completely separate from the subprime crisis.

Police in Brazil cracking down on tax evasion have detained 19 people allegedly tied to a money-laundering scheme that involves AIG and two Swiss banks. The scheme allegedly helped large Brazilian companies evade taxes by laundering money through AIG, the Swiss banks, and black market money changers.

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