

AIG RESULTS AND RESTRUCTURING - MARCH 2nd 2009

EXECUTIVE SUMMARY

On March 2nd 2009 AIG released its full year 2008 results and details of a re-structuring plan designed to enhance the company's capital and liquidity in order to facilitate the orderly completion of the company's global divestiture program.

The restructuring plan has been endorsed by the main agencies. S&P today affirmed its insurer financial strength ratings on AIG's insurance subsidiaries at 'A+' with a negative outlook. Fitch and Moody's also affirmed their ratings at AA- and Aa3 respectively.

RESULTS

- Shareholders' equity has fallen from \$95.8 billion at December 2007 to \$52.7 billion at December 2008.
- AIG reported a fourth quarter loss of \$61.7 billion and a full year loss of \$99.3 billion with the Financial Services Division representing 37.5% of this amount and General Insurance 5.2%. AIG's results in the fourth quarter continued to be negatively affected by severe credit market deterioration, particularly in commercial mortgage backed securities, and charges related to ongoing restructuring-related activities. The two largest drivers of the loss were realised capital losses of \$18.6 billion within the life operation, and realised & other than temporary impairments of \$17.6 billion in the financial services operation.
- Net Premium written within the general insurance operations for the full year 2008 was \$45.2 billion as opposed to \$47.1 billion in 2007, a decrease of 3.9%. The fourth quarter saw a decline of 16.3%, which appears to be predominantly due to a restructuring of the cat programme within the commercial insurance operation. Overall AIG reports that retention levels have improved in the early part of 2009 as compared to the fourth quarter of 2008 within commercial insurance and, during the early 2009 renewal period, business retention was strong in Foreign General's top three regions.
- The combined ratio for the AIG Property/Casualty Group for 2008 was 109.1% as opposed to 90.2% in 2007.

RESTRUCTURING

The restructuring plan, which has been endorsed by the main agencies, has the following key components:

- The U.S. Treasury will exchange its existing \$40 billion cumulative perpetual preferred shares for new preferred shares with revised terms that more closely resemble common equity, improving the quality of the capital and AIG financial leverage.
- The Treasury Department will create a new equity capital facility, which allows AIG to draw down up to \$30 billion as needed over time in exchange for non-cumulative preferred stock to the U.S. Treasury. This facility will further strengthen AIG's capital levels and improve its leverage.
- The \$60 billion Revolving Credit Facility will be reduced in exchange for preferred interests in two special purpose vehicles created to hold all of the outstanding common stock of American

Life Insurance Company (ALICO) and American International Assurance Company Ltd. (AIA), two life insurance holding company subsidiaries of AIG. AIG will retain control of ALICO and AIA, though the New York Fed will have certain governance rights to protect its interests

- The New York Fed is authorised to make new loans under section 13(3) of the Federal Reserve Act of up to an aggregate amount of approximately \$8.5 billion to special purpose vehicles (SPVs) established by domestic life insurance subsidiaries of AIG
- As required by the credit agreement governing the Revolving Credit Facility, AIG has agreed to issue on March 4th 2009, shares of convertible preferred stock representing an approximately 77.9% equity interest in AIG to an independent trust for the sole benefit of the United States Treasury.

After the transactions described above, the total amount available under the Facility will be reduced from \$60 billion to no less than \$25 billion. In addition, the interest rate on the Facility, which is three-month LIBOR plus 300 basis points, will be modified by removing the existing floor (3.5 percent) on the LIBOR rate. The Facility will continue to be secured by a lien on a substantial portion of AIG's assets, including the businesses AIG plans to retain. The other material terms of the Facility remain unchanged. At December 31st 2008, AIG had outstanding borrowings under the Fed Facility of \$36.8 billion, with a remaining borrowing capacity of \$23.2 billion, and accrued compounding interest and fees totalled \$3.6 billion.

"Given the systemic risk AIG continues to pose and the fragility of markets today, the potential cost to the economy and the taxpayer of government inaction would be extremely high," said a joint statement from the Treasury Department and Federal Reserve."