AIG

TESTIMONY BY

MR. EDWARD M. LIDDY,

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,

AMERICAN INTERNATIONAL GROUP

BEFORE THE HOUSE FINANCIAL SERVICES

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE

AND GOVERNMENT-SPONSORED ENTERPRISES

WEDNESDAY, MARCH 18, 2009

THANK YOU CHAIRMAN KANJORSKI, RANKING MEMBER GARRETT, HONORABLE MEMBERS OF THE SUBCOMMITTEE. I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

MY NAME IS EDWARD LIDDY. SIX MONTHS AGO, I CAME OUT OF RETIREMENT TO HELP MY COUNTRY. I HAVE HAD THE DUTY, HONOR, AND EXTRAORDINARY CHALLENGE OF SERVING AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF AMERICAN INTERNATIONAL GROUP – AIG. I SPEAK TO YOU TODAY ON BEHALF OF 116,000 AIG EMPLOYEES AROUND THE WORLD WHO ARE UNITED AROUND THREE SIMPLE BELIEFS:

- FIRST, WHEN YOU OWE SOMEONE MONEY, YOU PAY THAT MONEY BACK.
- SECOND, WHEN YOU HAVE SHAREHOLDERS – AND TODAY THE AMERICAN TAXPAYER, THROUGH THE U.S. GOVERNMENT, IS OUR BIGGEST SHAREHOLDER – YOU ARE ACCOUNTABLE TO THEM FOR HOW YOUR BUSINESS IS RUN.
- THIRD, WHEN A FINANCIAL CALAMITY OF THE KIND THAT HIT AIG STRIKES, THE ONLY POSSIBLE RESPONSE IS TO ROLL UP YOUR SLEEVES, ACKNOWLEDGE THE MISTAKES OF THE PAST, CORRECT THOSE MISTAKES AND MOVE FORWARD – EXACTLY WHAT AIG'S EMPLOYEES HAVE BEEN DOING.

WE ARE MEETING TODAY AT A HIGH POINT OF PUBLIC ANGER. AMERICANS WANT TO KNOW HOW THE COUNTRY GOT INTO THE FINANCIAL MESS WE ARE IN, HOW WE ARE GOING TO GET OUT OF IT, AND HOW QUICKLY WE CAN GET BACK TO THE ECONOMIC GROWTH AND PROSPERITY WE ENJOYED FOR SO MANY YEARS.

I SHARE THAT ANGER. AS A BUSINESSMAN OF SOME 37 YEARS, I HAVE SEEN THE GOOD SIDE OF CAPITALISM. OVER THE LAST FEW MONTHS, IN REVIEWING HOW AIG HAD BEEN RUN IN PRIOR YEARS, I HAVE ALSO SEEN EVIDENCE OF ITS BAD SIDE.

MISTAKES WERE MADE AT AIG ON A SCALE FEW COULD HAVE EVER IMAGINED POSSIBLE. THE MOST CRITICAL OF THOSE MISTAKES WAS THAT THE COMPANY STRAYED FROM ITS CORE COMPETENCIES IN THE INSURANCE BUSINESS. THIS WAS TYPIFIED BY THE CREATION OF WHAT GREW TO BECOME AN INTERNAL HEDGE FUND, WHICH THEN BECAME SUBSTANTIALLY OVEREXPOSED TO MARKET RISK.

THOSE MISSTEPS HAVE EXACTED A VERY HIGH PRICE, NOT ONLY FOR AIG BUT FOR AMERICA'S TAXPAYERS, THE FEDERAL GOVERNMENT'S FINANCES AND THE ECONOMY AS A WHOLE.

OUR NEW MANAGEMENT TEAM CONCLUDED VERY QUICKLY THAT THE COMPANY'S OVERALL STRUCTURE IS TOO COMPLEX, TOO UNWIELDY, AND TOO OPAQUE FOR ITS COMPONENT BUSINESSES TO BE WELL-MANAGED AS ONE COMPANY. WE IMMEDIATELY TOOK STEPS TO RESTRUCTURE AIG, ALTHOUGH THE CONTINUED DETERIORATION OF WORLD MARKETS AND THE INABILITY OF BUYERS TO ACCESS CAPITAL HAVE IMPEDED OUR ABILITY TO SECURE SUFFICIENT VALUE FOR AIG ASSETS AT THIS TIME.

WE HAVE ALSO CONCLUDED – AS MANY IN THE CONGRESS HAVE AS WELL – THAT THERE MUST BE SAFEGUARDS IN PLACE AGAINST THE SYSTEMIC CONSEQUENCES OF FAILURES OF LARGE, INTER-CONNECTED FINANCIAL INSTITUTIONS.

LET ME BRIEFLY DISCUSS THE PROGRESS WE HAVE MADE OVER THE PAST SIX MONTHS WORKING WITH OUR PARTNERS FROM THE FEDERAL RESERVE AND U.S. TREASURY. I AGREED TO TAKE THE REINS AT AIG LAST SEPTEMBER, AT THE REQUEST OF THE U.S. GOVERNMENT AND AFTER THE COMPANY HAD TURNED TO THE U.S. GOVERNMENT FOR FINANCIAL SUPPORT.

THE COMPANY'S REQUEST FOR SUPPORT POSED TO THE FEDERAL RESERVE AND U.S. TREASURY A DIFFICULT DILEMMA: SHOULD THEY LET THE COMPANY FAIL, OR SHOULD THEY PROVIDE INTERIM SUPPORT GIVEN AIG'S DEEPLY EMBEDDED ROLE IN THE GLOBAL FINANCIAL SYSTEM? AS WE ALL KNOW, THE U.S. GOVERNMENT DETERMINED THAT A COLLAPSE OF AIG AND THE CONSEQUENT BLOWS TO OUR COUNTERPARTIES AND CUSTOMERS AROUND THE WORLD POSED TOO GREAT A RISK TO THE GLOBAL ECONOMY, PARTICULARLY IN THE CONTEXT OF THE NEAR OR ACTUAL FAILURE OF OTHER FINANCIAL INSTITUTIONS.

ON BEHALF OF MY COLLEAGUES, I WANT TO THANK THE FEDERAL RESERVE AND THE U.S. TREASURY FOR MAKING THAT EXTRAORDINARILY TOUGH CALL. IT HAS MEANT THAT TOGETHER WE HAVE BEEN ABLE TO PRESERVE JOBS AND BUSINESSES, AND PROTECT POLICYHOLDERS WHO RELY ON THE PROMISE OF INSURANCE TO SECURE THEIR WELL-BEING.

WE HAVE ADDRESSED OUR LIQUIDITY CRISIS AND STABILIZED THE COMPANY'S CASH POSITION.

WE ARE EXECUTING A METHODICAL, ORDERLY WIND-DOWN OF AIG FINANCIAL PRODUCTS, THE BUSINESS THAT CAUSED MANY OF THE COMPANY'S FINANCIAL PROBLEMS; WE HAVE REDUCED THE NOTIONAL VALUE OF AIG FINANCIAL PRODUCTS' DERIVATIVES BUSINESS FROM $2.7 TRILLION TO $1.6 TRILLION.

AND ALTHOUGH THE PACE OF OUR MOST IMPORTANT ASSET SALES HAS SLOWED BECAUSE OF POOR MARKET CONDITIONS, WE HAVE EXECUTED SEVERAL SALE TRANSACTIONS AND EXPECT MORE IN THE FUTURE.

THOSE ARE SIGNIFICANT STEPS. MOREOVER, WE HAVE ACHIEVED THIS PROGRESS AGAINST STIFF HEADWINDS. INSURANCE COMPANY STOCKS IN THE LAST FIVE WEEKS HAVE GONE DOWN 35 PERCENT; SINCE THE BEGINNING OF THE YEAR, 50 PERCENT; AND IN THE LAST FIVE MONTHS, 65 PERCENT. THE SAME MACRO-ECONOMIC FORCES THAT MAKE FOR ROUGH SAILING FOR AIG ARE BUFFETING OTHERS IN THE FINANCIAL SERVICES SECTOR AS WELL. AND THIS CREATES PROBLEMS FOR POTENTIAL BUYERS OF AIG ASSETS.

WE UNDERSTOOD THAT SINCE OUR RELATIONSHIP WITH THE GOVERNMENT AND TAXPAYERS HAD CHANGED, OUR BEHAVIOR AS A COMPANY NEEDED TO CHANGE. SO, ON OUR OWN INITIATIVE, WE ADOPTED A SERIES OF RESTRICTIONS ON EXECUTIVE COMPENSATION, ELIMINATED OUR FEDERAL LOBBYING ACTIVITIES, HALTED CORPORATE POLITICAL CONTRIBUTIONS, AND KEPT CONTROLS ON OUR EXPENSES.

WE ARE ALSO MOVING URGENTLY ON A BUSINESS PLAN DESIGNED TO MAXIMIZE THE VALUE OF OUR CORE BUSINESSES, SO THAT IN TURN WE CAN MAXIMIZE THE AMOUNT THAT WE REPAY TO AMERICAN TAXPAYERS.

ON MARCH 2ND, WE ANNOUNCED ROBUST NEW ARRANGMENTS WITH THE FEDERAL RESERVE AND U.S. TREASURY THAT GIVE US ADDED FLEXIBILITY TO EXECUTE THAT BUSINESS PLAN. WITH THESE CHANGES, WE WILL TAKE TWO OF AIG'S INSURANCE COMPANIES – AIA AND ALICO – AND PLACE THEM IN A TRUST FOR THE BENEFIT OF THE FEDERAL RESERVE. WHEN WE DO THAT, WE WILL SUBSTANTIALLY REDUCE THE $40 BILLION IN AIG'S OUTSTANDING DEBT ON THE $60 BILLION FEDERAL RESERVE CREDIT FACILITY.

WE WILL ALSO IMPLEMENT A SECURITIZATION PROCESS THROUGH WHICH AIG WILL REALIZE TODAY THE CASH VALUE OF SOME OF OUR INSURANCE BUSINESSES. WITH THOSE TWO STEPS, PLUS CASH FROM THE SALE OF BUSINESSES, WE SHOULD BE ABLE TO EXTINGUISH OUR DEBT TO THE FEDERAL RESERVE.

WE WILL ALSO COMBINE THE COMPANY'S COMMERICIAL INSURANCE AND FOREIGN GENERAL INSURANCE UNITS, CREATING A STRONGER ENTITY THAT WE BELIEVE COULD ATTRACT SUBSTANTIAL INTEREST IN A MINORITY INVESTMENT.

IT IS OUR INTENT TO BE AS TRANSPARENT AND FORTHCOMING AS POSSIBLE. IT IS IN THAT SPIRIT THAT WE TOOK STEPS EARLIER THIS MONTH TO POST TO OUR WEB SITE AN "AIG SYSTEMIC RISK ANALYSIS". AFTER CLOSE CONSULTATION WITH THE FEDERAL RESERVE, AIG HAS ALSO DISCLOSED INFORMATION IDENTIFYING CERTAIN CREDIT DEFAULT SWAP COUNTERPARTIES, MUNICIPAL COUNTERPARTIES AND SECURITIES LENDING COUNTERPARTIES. AS WE MOVE FORWARD, WE WILL BE VIGILANT ABOUT OUR RESPONSIBILITIES TO BE ACCOUNTABLE TO, AND TRANSPARENT WITH, THE AMERICAN PEOPLE.

LET ME CLOSE WITH THESE FINAL THOUGHTS:

NO ONE KNOWS BETTER THAN I THAT AIG HAS BEEN THE RECIPIENT OF GENEROUS AMOUNTS OF GOVERNMENT FINANCIAL AID. WE HAVE BEEN THE BENEFICIARY OF THE AMERICAN PEOPLE'S FORBEARANCE AND PATIENCE. AND WE ARE ACUTELY AWARE NOT ONLY THAT WE MUST BE GOOD STEWARDS OF THE PUBLIC FUNDS WE HAVE RECEIVED, BUT THAT THE PATIENCE OF AMERICA'S TAXPAYERS IS WEARING THIN.

WHERE THAT PATIENCE IS ESPECIALLY THIN IS ON THE QUESTION OF COMPENSATION. I AM PERSONALLY MINDFUL BOTH OF THE ENVIRONMENT IN WHICH WE ARE OPERATING AND THE PRESIDENT'S CALL FOR A MORE RESTRAINED COMPENSATION SYSTEM. AT THE SAME TIME, WE ARE ESSENTIALLY OPERATING AIG ON BEHALF OF THE AMERICAN TAXPAYER SO THAT WE CAN MAXIMIZE THE AMOUNT OF MONEY WE PAY BACK TO THE GOVERNMENT.

IN ORDER TO DO THAT, WE HAVE TO CONTINUE MANAGING OUR BUSINESS AS A BUSINESS – TAKING ACCOUNT OF THE COLD REALITIES OF COMPETITION FOR CUSTOMERS, FOR REVENUES AND FOR EMPLOYEES. BECAUSE OF THIS, AND BECAUSE OF CERTAIN LEGAL OBLIGATIONS, AIG HAS RECENTLY MADE A SET OF COMPENSATION PAYMENTS, SOME OF WHICH I FIND DISTASTEFUL.

WE AT AIG WANT TO BELIEVE THAT WE ARE ALL IN THIS TOGETHER. WE HAVE BEEN WORKING SHOULDER-TO-SHOULDER WITH THE NEW YORK FEDERAL RESERVE AND U.S. TREASURY. I WANT TO ASSURE YOU THAT THE PEOPLE AT AIG TODAY ARE WORKING AS HARD AS WE CAN TO EXECUTE THE RESTRUCTURING PLAN THAT, WE BELIEVE, OFFERS AMERICA'S TAXPAYERS THE BEST POSSIBLE OUTCOME:

- REPAYMENT OF AIG'S DEBT TO THE GOVERNMENT TO THE MAXIMUM EXTENT POSSIBLE;
- CONTINUATION OF AIG'S MAIN INSURANCE UNITS AS STRONG, THRIVING BUSINESSES;
- AND THE CONTINUED PROTECTION OF POLICYHOLDERS THAT HAS ALWAYS BEEN AT THE CORE OF THE COMPANY'S MISSION.

WITH THAT, MR. CHAIRMAN, I WOULD REQUEST THAT MY REMARKS AND SEVERAL ADDITIONAL DOCUMENTS BE INCLUDED IN THE HEARING RECORD, AND I AM HAPPY TO RESPOND TO YOUR QUESTIONS. THANK YOU.

ADDENDUM TO TESTIMONY BY MR. EDWARD M. LIDDY,
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AIG

The AIG Financial Crisis: A Summary

AIG traces its roots back 90 years when an American entrepreneur named C.V. Starr founded AIG's earliest predecessor company in Shanghai. What began as a small insurance business grew to become one of the world's largest companies. By early 2007 AIG had assets of $1 trillion, $110 billion in revenues, 74 million customers and 116,000 employees in 130 countries and jurisdictions. Yet just 18 months later, AIG found itself on the brink of failure and in need of emergency government assistance.

What Happened?

Building upon its premier global life franchise and general insurance, AIG expanded into a range of financial services businesses. One of these, created in 1987, was AIG Financial Products (AIGFP), a company that provides clients with risk management solutions. Among other activities, AIGFP sold credit default swaps to other financial institutions to protect against the default of certain securities. Many of these securities at the time were given a bond rating of AAA and higher. However, in late 2007, as the U.S. residential mortgage market began to deteriorate, these securities were severely impacted. As a result, AIG recorded severe unrealized valuation losses on AIGFP's credit default swap portfolio.

At the same time, AIG incurred heavy losses in the value of its securities lending operation, which invested in high-grade residential mortgage-backed securities. Through this program, AIG made short-term loans of certain securities it owned to generate revenues. At the same time, other AIG real estate-related investments also suffered sharp value losses.

It is important to note that throughout the crisis, AIG's insurance businesses were – and continue to be – healthy. The losses that occurred as a result of AIGFP's action had no impact on AIG policyholders. AIG's insurance companies are closely regulated by New York and other states and regions worldwide. Their reserves are protected through regulations that prevent the removal of capital so that each AIG member insurance company has adequate assets to back each policy and meet all policyholder obligations.

Even though AIG had incurred virtually no actual credit losses, the severe write-downs led to downgrades in its credit ratings. In addition, AIG was forced to post billions of dollars in collateral to cover potential losses to holders of AIG credit default swaps. Meanwhile, the world capital and credit markets deteriorated rapidly, making it virtually impossible to access other sources of capital to fund these collateral requirements or meet other cash needs.

Deteriorating conditions in global financial markets only made matters worse for AIG. The collapse of respected financial institutions such as Bear Stearns and Lehman Brothers sent shockwaves through the world economy. The failure of the U.S.-sponsored mortgage companies Fannie Mae and Freddie Mac added to the financial disruption. During this time, AIG was seeking private capital solutions to its liquidity problem, exploring possible solutions with state insurance regulators in New York and Pennsylvania. However, as the market deteriorated further, AIG's share price dropped. In mid-September 2008, AIG's credit ratings were downgraded once again, triggering additional collateral calls and cash-flow issues in excess of $20 billion. Suddenly, AIG, although solvent, faced an acute liquidity crisis.

Because of its size and substantial interconnection with financial markets and institutions around the world, the federal government and financial industry immediately recognized that an uncontrolled failure of AIG would have had severe ramifications. In addition to being the world's largest insurer, AIG was providing more than $400 billion of credit protection to banks and other clients around the world through its credit default swap business. AIG also provides credit support to municipal transit systems and is a major participant in foreign exchange and interest rate markets.

Initial Investment From the U.S. Government

To stabilize AIG and prevent the potential ripple effects should it fail, the United States government extended a two-year emergency loan of $85 billion on September 16, 2008. The facility carried a rate of LIBOR (the London Interbank Offered Rate – a widely used benchmark used to set short-term interest rates) plus 8.5%, a commitment fee of 2% on the loan principal and a fee on the undrawn portion of 8.5%. Additionally, the government would be entitled to 79.9% ownership of the company and also, at the government's request, AIG agreed to elect a new Chairman and Chief Executive Officer. After consultation with the U.S. Treasury and Federal Reserve Bank of New York, AIG's Board of Directors elected Edward M. Liddy Chairman and Chief Executive Officer.

With the loan in place, Mr. Liddy devised a restructuring plan to enable AIG to sell many of its leading businesses around the world and pay back the government loan with interest. However, AIG still had to address the two principal sources of its liquidity losses: the multi-sector credit default swap portfolio and the securities lending operation.

As the financial industry continued to falter in October and November, it became apparent that the terms of AIG's original government loan would not provide the flexibility necessary for AIG to resolve its financial challenges. A revised plan was needed to better address the company's liquidity losses and give the company more time and greater flexibility to sell assets and pay back the government. On November 10, 2008, the original government loan was restructured to include a $40 billion investment by the U.S. Treasury through the Troubled Asset Relief Program (TARP) and a five-year Federal Reserve Bank of New York credit facility with a borrowing limit of up to $60 billion. In addition, two financing entities, Maiden Lane II and Maiden Lane III, were created to acquire AIG's multi-sector credit default swap assets and AIG's securities lending assets respectively. The entities were funded primarily by the Federal Reserve Bank of New York with a smaller capital contribution by AIG. Under the terms of the agreement, the majority of any appreciation in the securities held by the entities would go to the government.

Economic and Market Conditions Worsen

The assistance provided by the U.S. government in November succeeded in addressing AIG's liquidity issues. However, economic and capital market conditions continued to deteriorate, which created significant mark to market losses for AIG in the fourth quarter of 2008. At the same time, potential buyers of AIG's businesses were facing significant financial challenges of their own, which diminished their ability to raise capital to purchase AIG assets.

As economic and capital market conditions worsened, AIG worked with the U.S. government on developing a new set of tools to help AIG achieve a comprehensive restructuring over the next several years. On March 2, 2009, AIG announced these new tools, which include exchanging the U.S. Treasury's cumulative preferred shares in AIG for preferred shares that more closely resemble common equity; a new five-year standby equity capital facility, which will allow AIG to raise up to $30 billion of capital by issuing non-cumulative preferred stock to the U.S. Treasury from time to time as needed; debt-for-equity swaps that allow AIG to tap the value of its insurance companies to repay a portion of the government credit facility; elimination of the LIBOR floor on the credit facility, which will lower AIG's interest cost; and continued access to the credit facility, although with reduced borrowing capacity.

AIG's Plans Going Forward

A comprehensive and orderly restructuring of AIG is essential to pay back support it has received from the U.S. government. The company's overall structure is too complex, too unwieldy and too opaque for its component businesses to be well managed as one entity. So AIG is now executing a strategy, in close cooperation with the Federal Reserve and U.S. Treasury, to protect the value of its component businesses, capture part of that value to pay back monies owed to the government, and position its businesses for the future as more independently run, transparent companies.

The corporate leadership team now in place has made progress executing its restructuring plan by: reducing the excessive risk from exposure to certain financial products, derivatives trading activities, and securities lending; rationalizing AIG's cost structure; selling easily separable assets; and stabilizing the company's liquidity.

The new set of tools announced on March 2, 2009 will allow AIG to redirect is restructuring plan away from relying solely on immediate sales for cash to a process that allows AIG to maximize the value of its individual business for the benefit of all stakeholders, including U.S. taxpayers. AIG expects to achieve a complete and orderly restructuring over the next several years through a process that protects policyholders, continues to reduce risk, and produces strong, focused franchises that can operate as independent entities. In the meantime, the leaders of AIG's insurance companies remain focused on running well-capitalized and competitive enterprises.

AIG is dedicated to maintaining its well-known underwriting discipline and providing value to policyholders, agents and the other business partners who are central to its success. AIG's employees, the vast majority of whom have had nothing to do with the problems that have devastated AIG and wiped out some or all of their life savings, are at the heart of this effort. They have reduced costs and sharpened their focus on AIG's customers despite very difficult conditions.

AIG also recognizes the importance of its relationship with the U.S. government. AIG has taken several steps in this regard, including restrictions on executive compensation, suspension of federal lobbying and cessation of corporate political contributions. In addition, AIG is engaged in improving transparency by working with regulators on capital adequacy, appropriate accounting treatment during times of market disruption, and risk management metrics.

Resolving the economic problems facing the U.S. and world markets will require a cooperative effort by the public and private sectors. AIG is committed to playing a constructive role in this process to ensure that it can serve shareholders and pay back taxpayers as it contributes to the U.S. and world economies.

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AIG

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AIG

Agenda

I. What does AIG do?

II. What went wrong?

III. Why was AIG rescued?

IV. How much money is at risk?

V. Where did the money go?

VI. What are the sources of value underlying the U.S. Taxpayers' investment in AIG?

VII. How will AIG repay the U.S. Government support?

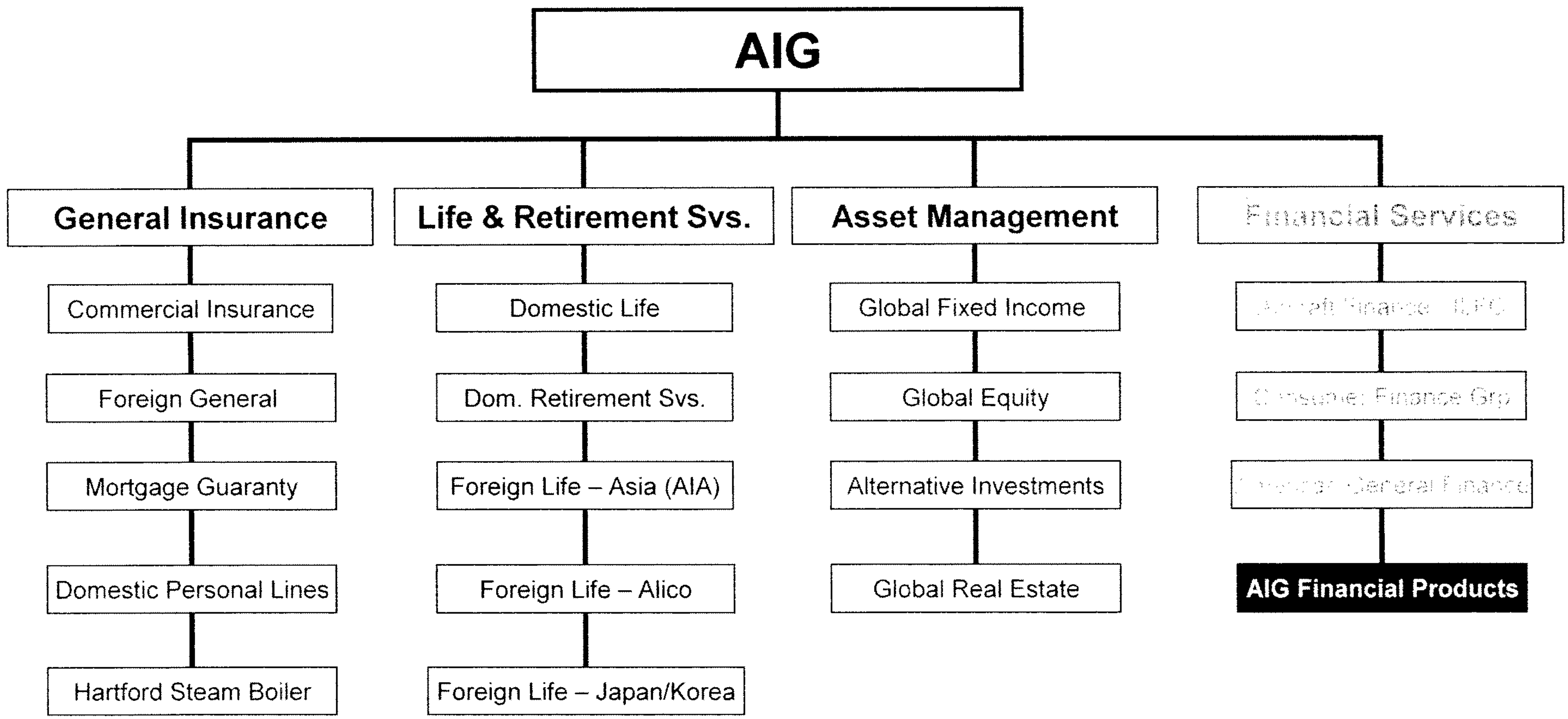
VIII. How did the U.S. Government support for AIG evolve?

IX. Why did AIG report such a large loss in the 4th quarter?

X. What is the status of AIG's Financial Products business?

What does AIG do?

Until the late-1990's, AIG was a well-respected, regulated and conservative insurance operation. Starting in the late-1990's, the Company aggressively grew its non-insurance Financial Services businesses, in particular, its derivatives and capital markets businesses. This exposed AIG to new forms of risk, greatly increased its operating leverage and increased the proportion of lightly regulated business to the total.



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What went wrong?

	I	II	III	IV
Critical Event	**AIG FP wrote Credit Default Swaps on securities tied to residential housing** **2001 - 2005**	**Credit crunch hits in Fall of 2007**	**AIG downgraded by principal Ratings Agencies** **9/15/2008**	**AIG exhausts its liquidity resources** **9/16/2008**
Results	▪ Exposed AIG to potential collateral calls for price declines in guaranteed securities and credit downgrade of AIG	▪ Indices[1] measuring High-grade and BBB-rated residential mortgage backed securities prices were down 22% and 85%, respectively, from 9/07-9/08 ▪ Required AIG to post significant collateral to counterparties of AIGFP -- $22.4 bn through 9/16/08 ▪ Put AIG's capital and liquidity position at risk and forced AIG to raise $20 bn of capital in May 2008	▪ Increased collateral posting requirements ▪ Securities Lending counterparties stopped rolling their positions, generating additional liquidity needs	▪ After failed attempts to raise capital from the private sector, AIG turned to the FRBNY for assistance

Notes: 1) ABX06-1 Index

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Why was AIG rescued?

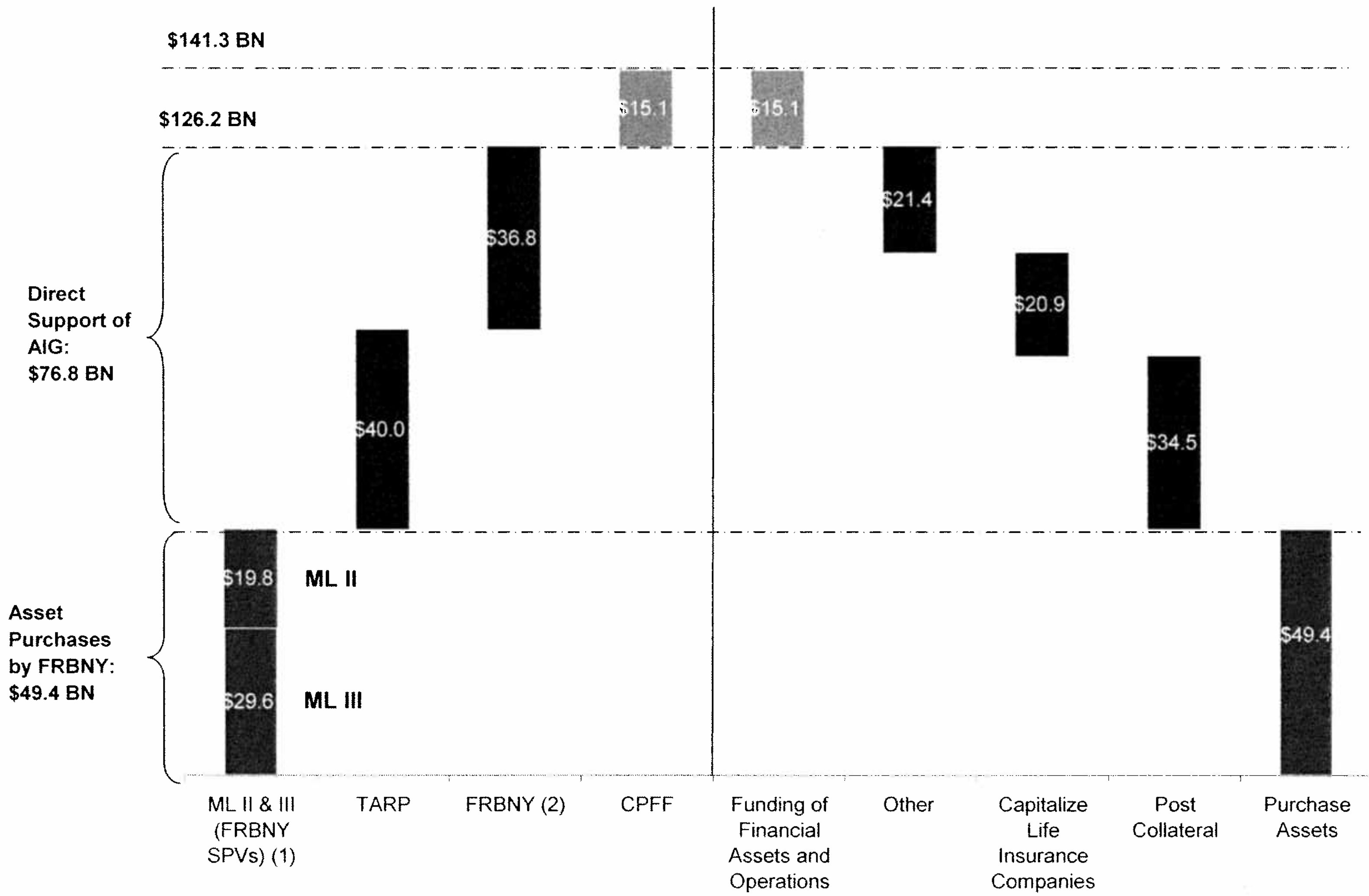
AIG was the world's premier financial institution serving institutional and retail clients globally, and trading on capital markets and through other institutions around the world.

Systemic Risk	The FRBNY and the U.S. Treasury recognized that the risk to the U.S. and global financial systems from the contagion of an AIG failure was too great for the system to handle
Market Fragility	The failure of Bear Stearns and Lehman Brothers, coupled with the nationalization of Fannie Mae and Freddie Mac, had created significant disruptions in the capital markets and added momentum to the downward spiral in asset prices
Protect Policy Holders	AIG has written more than 81 million life insurance policies to individuals worldwide, with a face value of $1.9 trillion. The Company paid over $12 billion in claims in 2008 alone. Increased surrender activity or a "run-on-the-bank" could impair the capital supporting policy holders, forcing more asset sales at lower prices and reinforcing the declining asset value spiral. Should this contagion spread to the $19 trillion of face value policies in the U.S., the outcome would be catastrophic.

AIG's rescue was as much about Main Street as it was about Wall Street

How much money is at risk and where did it go?

Total From 9/16/08-12/31/08

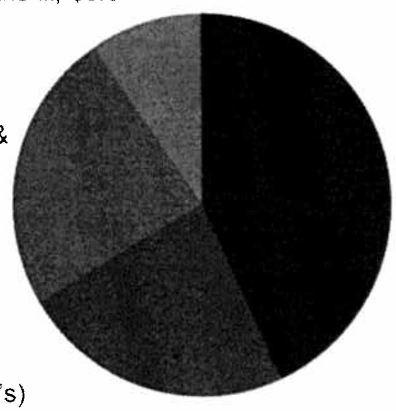


Notes: 1) $29.6 includes payments under shortfall agreements 2) excludes accrued compounding interest and fees through 12/31/08 of $3.6 bn

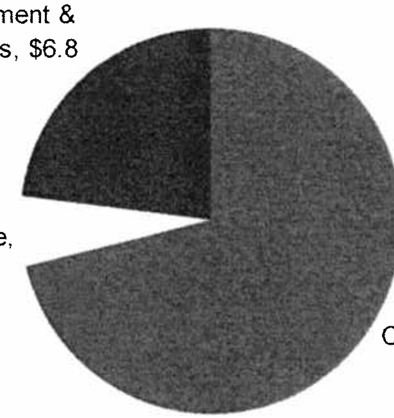
Where did the money go?

Direct Support to AIG from 9/16/08-12/31/08

AIG FP Related: $52.0 bn



Other AIG Related: $29.4 bn



($ billions)	
AIG FP Related	$52.0
Other AIG Related	29.4
Sub Total	**$81.4**
Less: Repayments	(4.6)
Total Direct Support for AIG	**$76.8**

Sources of Funding

($ billions)		
TARP		**$40.0**
FRBNY Drawn		**36.8**
Total Direct Support for AIG		**$76.8**
FRBNY Not Drawn	23.2	
Total FRBNY Commitment	60.0	

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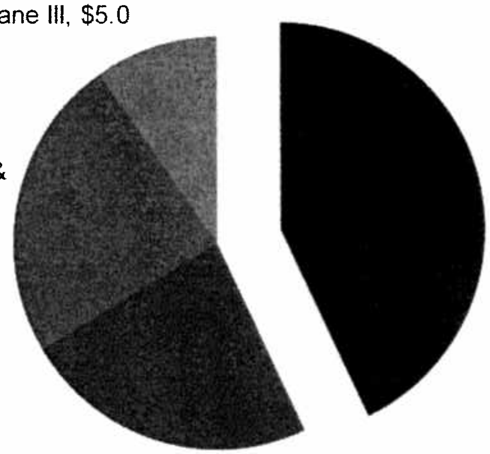
Where did the money go? – Meet contractual obligations to counterparties [1]

Direct Support to AIG from 9/16/08-12/31/08

AIG FP Related: $52.0 bn



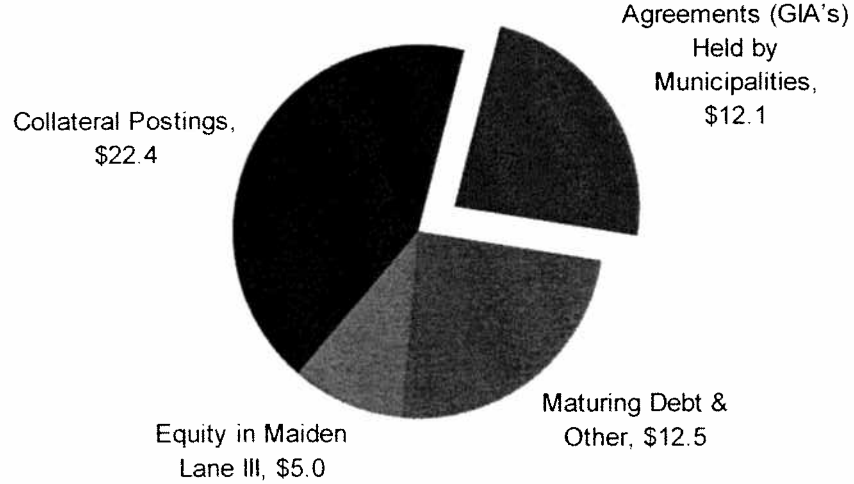
Counterparty	Amount Posted ($ bn)
Societe Generale	$4.1
Deutsche Bank	2.6
Goldman Sachs	2.5
Merrill Lynch	1.8
Calyon	1.1
Barclays	0.9
UBS	0.8
DZ Bank	0.7
Wachovia	0.7
Rabobank	0.5
KFW	0.5
JPMorgan	0.4
Banco Santander	0.3
Danske	0.2
Reconstruction Finance Corp	0.2
HSBC Bank	0.2
Morgan Stanley	0.2
Bank of America	0.2
Bank of Montreal	0.2
Royal Bank of Scotland	0.2
Top 20 CDS Total	**$18.3**
Other	4.1
Total Collateral Postings	**$22.4**

Note 1) The collateral amounts reflected in Schedule A represent funds provided by AIG to the counterparties indicated after September 16, 2008, the date on which AIG began receiving government assistance. The counterparties received additional collateral from AIG prior to this date, and AIG's SEC report relating to ML III reflects the aggregate amount of collateral that counterparties were entitled to retain pursuant to the terms of the ML III transaction.

Where did the money go?– Support over 600 municipalities

Direct Support to AIG from 9/16/08-12/31/08

AIG FP Related: $52.0 bn



State	Amount ($ bn)
California	$1.02
Virginia	1.01
Hawaii	0.77
Ohio	0.49
Georgia	0.41
Colorado	0.36
Illinois	0.35
Massachusetts	0.34
Kentucky	0.29
Oregon	0.27
Delaware	0.26
New York	0.21
New Jersey	0.21
Mississippi	0.18
Washington	0.17
Pennsylvania	0.15
Florida	0.15
Rhode Island	0.14
Arizona	0.12
Texas	0.10
Top 20 Total	**$7.00**
Other	5.10
Total Guaranteed Investment Agreements	**$12.10**

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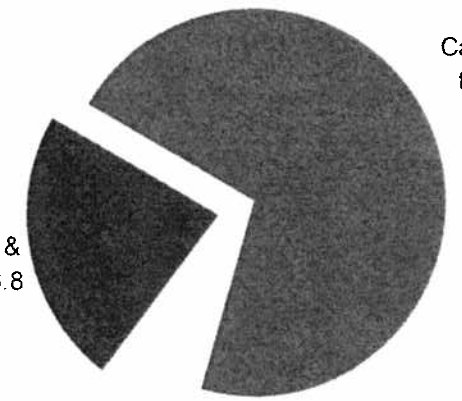
Where did the money go? – Protect life policy holders

Direct Support to AIG from 9/16/08-12/31/08

Other AIG Related: $29.4 bn



Entities	Amount
Domestic Life and Retirement Services	$17.2
Foreign Life Companies	3.7
Total	**$ 20.9**

Direct Uses	Amount
Securities Lending	$16.2
Other	4.7
Total	**$20.9**

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Where did the money go? – Maiden Lane III

($ billions)

Institution (Counterparty may differ)	Maiden Lane III Payments Made to Counterparties	Maiden Lane III Payments Made to AIGFP
Deutsche Bank	$2.8	
Landesbank Baden-Wuerttemberg	0.1	
Wachovia	0.8	
Calyon	1.2	
Rabobank	0.3	
Goldman Sachs	5.6	
Société Générale	6.9	
Merrill Lynch	3.1	
Bank of America	0.5	
The Royal Bank of Scotland	0.5	
HSBC Bank USA	0.0*	
Deutsche Zentral-Genossenschaftsbank	1.0	
Dresdner Bank AG	0.4	
UBS	2.5	
Barclays	0.6	
Bank of Montreal	0.9	
Other payments to AIGFP under Shortfall Agreement		$2.5
Total	**$27.1**	**$2.5**

* Amount rounds to zero

What are the sources of value underlying the U.S. Taxpayers' investment in AIG?

Maiden Lane II (RMBS)

$39.3 bn par value
RMBS

% Performing	100%
Avg Purchase Price	50.4% Par
Senior Note (FRBNY)	19.5
Equity (AIG)	1.0
Total Purchase Price	**$20.5**

Maiden Lane III (CDO)

$62.1 bn par value
CDO

% Performing	100%
Avg Purchase Price	47.7% Par
Senior Note (FRBNY)	24.3
Equity (AIG)	5.0
Total Purchase Price	**$29.3**

Sources of AIG's Value

($ billions)	2008
Total Assets	$860.4
Insurance Premiums and Net Investment Income	$95.7
Pre-Tax Operating Income (1)	
Global Commercial Ins (2)	$2.1
Domestic Life and Retirement Svcs	$1.5
Foreign Life and Retirement Svcs	$5.4

Customers (Globally)	74 million
Customers (U.S.)	30 million

- #1 in Domestic Term Life and Ordinary Life
- #1 Retirement Services provider to primary and secondary education
- #1 Foreign Life insurer in Japan, with significant cash in Japan for all insurers
- Largest U.S. underwriter of commercial and industrial insurance
- Largest foreign-owned P&C insurance franchise in Japan and mainland China
- Largest life insurer in Southeast Asia
- Largest investor (including all of AIG's investments) in corporate bonds in the U.S.
- Highest fleet value of any aircraft lessor and Boeing's largest client
- Top 5 largest institutional asset managers in the world

Notes: 1) excludes realized capital gains / losses 2) Includes Commercial Insurance and Foreign General business units

AIG

How will AIG repay the U.S. Government support?

AIG has undertaken a massive restructuring that will effectively break up the Company and unlock value to repay taxpayers. There are four principal mechanisms for accomplishing this.

Sales of Businesses for Cash and Securities	▪ Principally for smaller AIG units ▪ Easier to finance, less capital-intensive businesses
Debt for Equity Swaps	▪ Allows AIG to move large, highly-valued foreign life businesses out from under the holding company – preserves and maximizes value ▪ FRBNY will receive preferred interests in SPVs that will own these businesses in exchange for reducing debt owed to FRBNY ▪ Ultimately these businesses will be monetized through sales or IPOs
Securitizations	▪ Allows AIG to capture the embedded value of its domestic life insurance companies while avoiding distressed sales ▪ FRBNY receives senior notes backed by cash flows from underlying policies ▪ These securities will be rated and marketable when markets improve
IPOs	▪ Attractive alternative path to monetization of larger, unique, highly valued businesses ▪ Execution could take several years to ultimate exit ▪ Likely to generate more attractive valuations

AIG

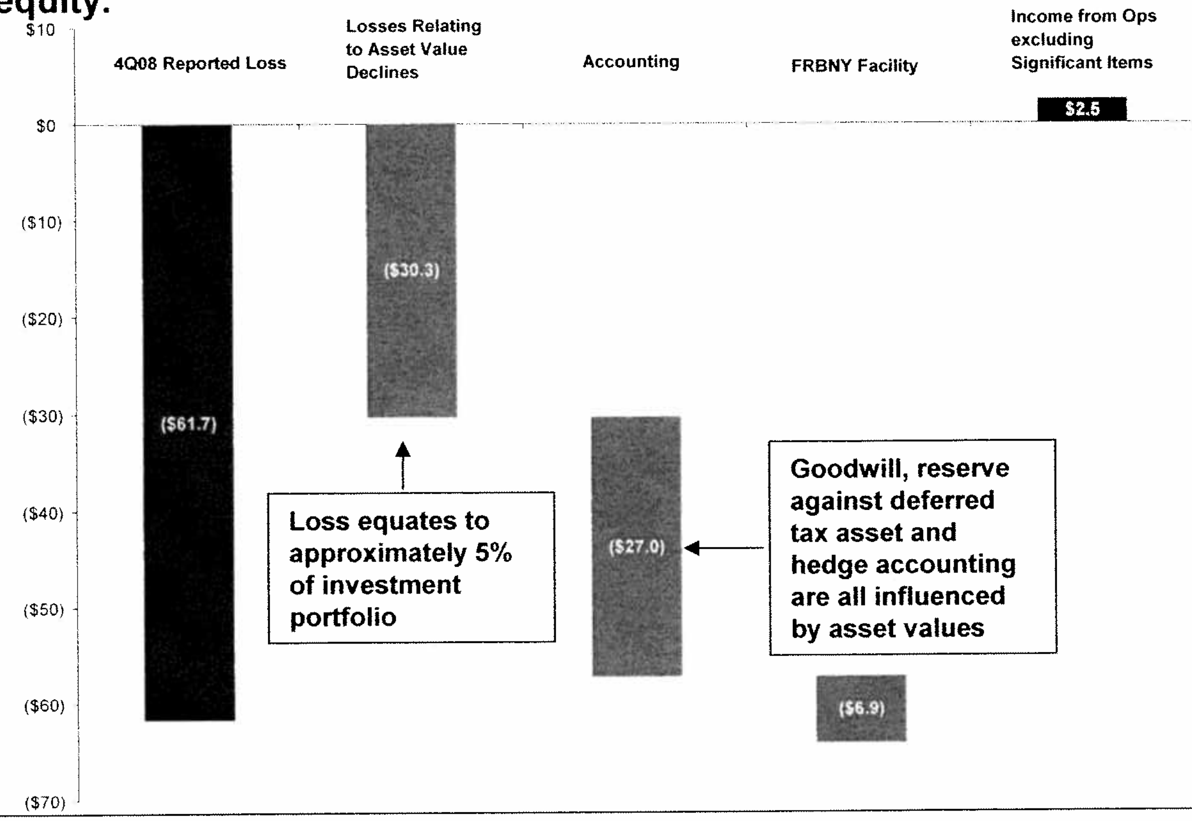
How did the U.S. Government support for AIG evolve?

AIG was the first insurance-based financial institution to require Federal assistance. As such, existing regulatory policies and tools were not designed to fix the underlying causes of AIG's distress, requiring several modifications in November 2008 and again in March 2009.

	Rescue 1	Rescue 2	Rescue 3
Date:	September 16, 2008	November 10, 2008	March 2, 2009
Problem:	▪ Severe liquidity crisis brought on by: - Falling asset prices - Ratings downgrade ▪ AIG was unable to tap the capital markets and did not have access to the funding programs that banks were able to utilize	▪ Excessive leverage from FRBNY debt ▪ Continued bleeding from AIG Financial Products CDS portfolio	▪ Large 4th quarter loss driven by asset value decline eroding capital ▪ Lack of success selling quality businesses into a distressed market
Solution:	▪ $85bn Senior Secured lending facility - 2 year term	▪ $40bn TARP Preferred Capital injection ▪ Reduction in FRBNY line and extension of term to 5 years ▪ ML II and ML III	▪ Debt for Equity Swaps ▪ Securitizations ▪ $30bn of standby TARP capacity
Other Terms:	▪ U.S. Treasury received 77.9% ownership of AIG	▪ AIG gives up 5/6 and 2/3 of upside on MLII and MLIII	▪ Improved terms of FRBNY facility ▪ Modified TARP preferred to achieve better capital treatment
Comments:	▪ Did not solve AIGFP or Securities Lending problems ▪ Did not prevent further capital erosion from asset value declines	▪ Mitigated AIGFP multi-sector CDO risks and Securities Lending risks ▪ AIG remained exposed to declines in asset valuations	▪ Stabilized AIG's balance sheet by providing access to additional capital and reduces financial leverage ▪ AIG remains exposed to declines in asset valuations

Why did AIG report such a large loss in the 4th quarter?

AIG is a very large company - the largest insurance company in the US and one of the largest in the world. Much of AIG's loss was due to declines in asset values in its $637 billion investment portfolio. Mark to market accounting rules require declines in market values of investments to be reflected either as a loss on the income statement or a direct reduction in shareholders equity.



- During 2008, major U.S. Life insurers lost $118 bn of their combined market caps during the year, largely attributable to asset value declines that caused losses in their investment portfolio
- Since 1/1/09 these companies' shares are down 79% on average

What is the status of AIG's Financial Products business?

AIG has been actively de-risking and running off its Financial Products business.

	Sept 30	Dec 31	Current
Number of trade positions	44,000	36,000	29,000
Notional of derivatives outstanding ($ Trillion)	$1.8 Tr	$1.6 Tr	$1.4 Tr
Exposure to change in volatility (Gross Vega in $ Billion)*	$1.30 Bn	$1.25 Bn	$0.80 Bn
Number of businesses (risk books)	22	21	17
Number of employees	428	375	365

Number of trade positions

- Reduced client trades by 30% since year-end 2008
- Number of long-dated trades (>50 years) reduced from 70 to 12
- Additional 15% naturally maturing in 2009

Notional of derivatives outstanding ($ Trillion)

- Multi-sector CDO Notional reduced by 85% via Maiden Lane III
- 40% of Regulatory Capital Notional effectively terminated or called over the past year

Exposure to change in volatility (Gross Vega in $ Billion)*

- Interest Rates – down 30%
- Equity – down 35%
- Commodities – down 50%
- Foreign Exchange – down 50%

Number of businesses (risk books)

- 5 books almost completely wound down, including Commodities Index, Infrastructure Investments, exotic Foreign Exchange/Rates

Number of employees

- FP will close two locations, Tokyo and Hong Kong in 2009

* The Gross Vega is calculated as the sum of all the individual position's absolute vegas as if each position is not hedged. Although FP's books are almost completely hedged on a net Vega basis, the Gross Vega measure will help monitor how well the volatility risk is being eliminated, not just hedging that risk. The interest rate option vega denotes the change in value due to a 0.1% increase in normal volatility. For other derivatives (i.e., Equity, Commodity and FX option), vega denotes the change in value due to a 1% increase in lognormal volatility.

AIG

Appendix

AIG

Who were AIG's counterparties? – Securities Lending

9/18/08-12/12/08

($ billions)

Institution	Payments to Counterparties by U.S. Securities Lending
Barclays	$7.0
Deutsche Bank	6.4
BNP Paribas	4.9
Goldman Sachs	4.8
Bank of America	4.5
HSBC	3.3
Citigroup	2.3
Dresdner Kleinwort	2.2
Merrill Lynch	1.9
UBS	1.7
ING	1.5
Morgan Stanley	1.0
Societe Generale	0.9
AIG International Inc.	0.6
Credit Suisse	0.4
Paloma Securities	0.2
Citadel	0.2
Total	**$43.7***

Sources of Funding

Maiden Lane II	$19.5
FRBNY Senior Secured Facility	17.2
AIG Funded	7.0
Total Related to Securities Lending	$43.7

* Amounts may not total due to rounding

AIG

DRAFT – March 6, 2009

AIG: Is the Risk Systemic?

AIG

What is Systemic Risk?

- *Systemic risk* is the risk imposed by *inter-linkages* and *interdependencies* in a system or market, which could potentially bankrupt or bring down the entire system or market if one player is eliminated, or a cluster of failures occurs at once.
- Systemic financial risk occurs when contingency plans that are developed individually to address selected risks are collectively incompatible. It is the quintessential "knee bone is connected to the thigh bone…" where every element that once appeared independent is connected with every other element.
- AIG's business model – a sprawl of $1 trillion of insurance and financial services businesses, whose AAA credit was used to backstop a $2 trillion dollar financial products trading business – has many inherent risks that are correlated with one another. As the global economy has experienced multi-sector failures, AIG's vast business has been weakened by these multi-sector failures.
- AIG's original problem – an over-reliance on U.S. residential mortgage-backed securities (RMBS) in its investment portfolios – has now been deepened by weakness in the commercial mortgage-backed securities market, the global real estate market, the global equities market, slowing business and consumer spending activity and the concomitant demand for higher liquidity by regulators and customers around the world.
- Systemic risk afflicts all life insurance and investment firms around the world. Thus, what happens to AIG has the potential to trigger a cascading set of further failures which cannot be stopped except by extraordinary means.

AIG

Risk Assessment Summary

- In the fall of 2008, the Federal Reserve and Department of the Treasury determined that the systemic risk of a failure of AIG was so great that they should provide a support program by injecting liquidity and equity capital into AIG.

- To repay the debt and reduce the degree of financial risk to the firm, AIG has instituted a wind-down of its Financial Products business and a massive divestiture process to sell businesses, despite the increasingly difficult M&A and credit environment.

- The previously provided solution addressed short-term liquidity needs and AIG's over-concentration in the RMBS market. But AIG still faces massive investment losses and credit downgrades. Without additional federal tools being deployed in the AIG situation, AIG will not be able to repay its obligations. Despite adequate current security against the U.S. government's investment, that investment may not be recovered.

- AIG operates in more than 130 countries around the world, whose customers, regulators, and governments have thus far refrained from liquidating or seizing assets based largely on the support given to AIG by the U.S. government.

- The failure of AIG would cause turmoil in the U.S. economy and global markets, and have multiple and potentially catastrophic unforeseen consequences.

- The inability of AIG to immediately secure additional assistance from the Federal Reserve and the Department of the Treasury threatens not only AIG's sales process, but also consumer and business confidence around the world.

AIG

How Big is the Systemic Risk in Insurance ?

- While the term "insurance" is used, AIG and its industry brethren sell and service not just the traditional property and casualty and death benefit life insurance policies, but accident and health coverage, pension and retirement policies, and a variety of wealth accumulation vehicles, such as annuities.
- The systemic risk is principally centered in the "life insurance" business because it is this subsector that has the greatest variety of investments and obligations that are subject to loss of value of the underlying investments.
- The life insurance industry employs approximately 2.3 million people in the U.S. who sell individual and group policies. There are over $19 trillion of face value "life" policies in force in the U.S. and 375 million policies.
- Over the past decade, the voluntary termination rate on individual policies declined remarkably (to six percent by 2007) as consumers could obtain liquidity from numerous other sources.
- A significant rise in surrender rates – inspired by consumers' needs for cash or because of rumored or real failure of insurance companies – could be disastrous. Because of widespread loss of liquidity, the industry would struggle to raise adequate cash to meet surrender requests. A "run on the bank" in the life and retirement business would have sweeping impacts across the economy in the U.S. In countries around the world with higher savings rates than the U.S., the failure of insurance companies like AIG would be a catastrophe.

AIG

Impact on U.S. Government's Efforts to Stabilize Economy

- If AIG were to fail notwithstanding the previous substantial government support, it is likely to have a cascading impact on a number of U.S. life insurers already weakened by credit losses. State insurance guarantee funds would be quickly dissipated, leading to even greater runs on the insurance industry.

- Given AIG's insurance companies' relative size compared to other U.S. insurance companies, there is no ability for an "arranged marriage" of AIG's largest units with other U.S. insurance companies.

- In addition, the government's unwillingness to support AIG could lead to a crisis of confidence here and abroad over other large financial institutions, particularly those that have thus far remained viable because of government support programs.

- This loss of confidence is likely to be particularly acute in countries that have large investments in U.S. companies and securities and whose citizens may suffer significant losses as a result of the failure of AIG's foreign insurance subsidiaries.

- This could lead directly to a decrease in the attractiveness of U.S. government securities and a consequent increase in borrowing costs for the U.S. government and related issuing entities.

AIG

Impact on U.S. Government's Efforts to Stabilize Economy

- Moreover, permitting AIG to fail would be even more serious today than in September, especially in view of the support of the U.S. government. Public confidence in financial institutions is at a nadir and it is questionable whether the economy could tolerate another shock to the system that a failure of AIG would produce.

- The extent and interconnectedness of AIG's business is far-reaching and encompasses customers across the globe ranging from governmental agencies, corporations and consumer to counterparties. A failure of AIG could create a chain reaction of enormous proportion.

- While some of these potential consequences are inherently judgmental and, to an extent, speculative, if there is one conclusion that can be unquestionably drawn from the failure of Lehman, it is that the adverse consequences of the failure of a major financial institution cannot be foreseen.

- Just as the government was unable to predict that the failure of Lehman would lead to the collapse of the Reserve Fund, followed by much of the money market industry, the government would be even less capable of predicting the fallout from the collapse of a much larger, more global and more consumer-oriented institution such as AIG.

AIG

AIG's Global Impact

Domestic General

- Largest U.S. underwriter of commercial and industrial insurance
- #1 U.S. underwriter of Directors & Officers, Employment Practices Liability, Professional Liability, Workers' Comp, Surplus Lines, Environmental, Aviation and many other lines

Foreign General

- Most extensive international property-casualty network
- Largest foreign owned property-casualty insurance franchise in Japan, mainland China, Hong Kong, Korea and Thailand
- Largest U.S. based general insurer in Europe

Financial Services

- Highest fleet value of any aircraft lessor
- 2nd largest consumer finance branch network in U.S.

Domestic Life & Retirement Services

- #1 retirement services provider to primary and secondary education, #3 healthcare groups, #3 higher education
- #1 in term life and total issued insurance
- Largest issuer of fixed annuities

Foreign Life & Retirement Services

- Most geographically diversified life insurance organization
- Leading foreign life insurer in Hong Kong, Thailand, Singapore, Malaysia, the Philippines, and China
- # 1 foreign life insurer in Japan

Asset Management

- Second largest investor (including all of AIG's investments) in corporate bonds in the U.S.
- Top five largest institutional asset managers in the world
- Largest independent broker-dealer organization in the U.S.

AIG

General Impact on Economy

A failure of AIG would have a devastating impact on the U.S. and global economy. The economic effects may include:

- Potential unemployment for a large portion of the 116,000 employees, including 50,000 employees in all 50 states and the District of Columbia (generating annual U.S. salaries totaling $3.5 billion)

- Adverse impact on AIG's 74 million customers worldwide, including 30 million U.S. customers in its general insurance, life insurance and retirement services, and financial services businesses

- **The immediate damage to credit markets worldwide from an AIG failure would dwarf the Lehman fallout. Possible outcomes for which the Treasury would need to be prepared to respond:**
  - Fall in the foreign exchange value of the dollar
  - Increase in Treasury borrowing costs
  - Doubts about the ability of the U.S. to support its banking system

AIG

Life Insurance Policyholders: “Run on The Bank”

- **AIG has written more than 81 million life insurance policies to individuals worldwide**
  - Face value: $1.9 trillion
  - Claims paid in 2008: more than $12 billion

- **If AIG fails, policyholders are likely to seek to “cash in” policies, placing enormous strain on the insurance system, as well as bond and equity markets as assets are liquidated to pay policyholders**
  - Surrender of insurance policies at above-normal actuarial rates could impair current policyholders as capital, along with state guarantee funds, might be insufficient to pay all policyholder claims
  - Third-party sellers of AIG products would face an unmanageable spike in customer redemption demands, damaging consumer confidence
  - Forced sales of assets would be required to cover withdrawals

- **Existing AIG policyholders could be unable to obtain insurance coverage from other insurance companies**
  - Potential dramatic increases in policy costs and/or significant decline in available products (e.g. fixed annuities)
  - Some life policyholders may no longer be insurable at commensurate rates or as a result of adverse health situations since purchase of original policy

AIG

Impact on Retirement Savings

- **AIG Retirement Services**
  - 6.9 million customers – including many retired Americans
    - Total account value: approximately $134 billion
    - Many policyholders are middle-class Americans earning around $50,000-60,000 a year
    - Income from AIG's 403(b) plans is often the beneficiary's primary source of retirement income
  - Products include defined contribution retirement accounts, such as 403(b) (VALIC), deferred fixed annuities (AIG Annuity), variable annuities and brokerage accounts
  - AIG Annuity: #1 ranked seller of fixed annuities through financial institutions
  - VALIC: #1 or #3 ranked across non-profit sectors (#1 in K-12 teachers, #3 in higher education and #3 in healthcare)

- **Consequences of Failure**
  - A failure of AIG's life insurance companies would be one of the largest failures in the history of life insurance, putting applicable retirement savings significantly at risk and causing a loss of confidence in the private retirement savings market in the U.S.
  - Failure would produce an immediate "run on the bank," which would likely lead to state seizures of local operations, causing a potential lock-up in customers' retirement accounts and payment of monthly/quarterly annuity checks
  - Seizure by state regulators would have an adverse impact on state guarantee funds, which are unfunded, resulting in assessments against other insurance companies
  - Such assessments in an already weak market could lead affected industry players to sell assets, resulting in further downward pressure on fixed income markets
  - Under current market conditions and because of the capital intensive nature of the fixed annuity business, capacity may not be picked up by peers
  - Given the foregoing, there is a risk of undermining the confidence in the private retirement savings market in the United States

AIG Consumer Finance Impact

- An AIG failure could lead to the failure of American General Finance (AGF), America's second largest "Main Street" lender
  - AGF:
    - Has prudently helped American consumers and small businesses for more than 85 years
    - Is serving more than 2 million American families with more than $24 billion of loans through 1,400+ offices in 40 states
    - Supports more than 20,000 retail merchants
    - Employs approximately 8,000 people
    - Serves communities in small / medium sized cities that are underserved by U.S. megabanks
  - A failure of AGF could:
    - Eliminate $12 billion to $15 billion in U.S. consumer lending over the next 3 years that is not provided by banks
    - Trigger a default (and related litigation) on more than $23 billion of AGF debt held by U.S. and European investors

- Also, AIG Consumer Finance Group, Inc. (AIGCFG) operates in Latin America, Europe and Asia
  - In September, there were significant "runs on the bank" in various Asian and European countries
  - Bank runs resulting from the failure of AIG or AIGCFG may lead to systemic risk in certain countries in which it operates

AIG

Extensive Business Disruption

- **AIG Commercial Insurance (AIGCI):**
  - Largest property casualty insurance operation in the United States
  - Underwrites more than 450 insurance products and services across 83 industries
  - Protects and insures approximately 180,000 entities employing over 106 million people in the U.S.
  - Nearly 1/3 of all people in the United States are employed by an entity that is protected by insurance coverage through AIG Commercial Insurance
  - Protects 20 million commercial and individual policyholders & certificate-holders
  - Paid approximately $18.3 billion in U.S. claims in 2008

- **Worldwide, AIG writes insurance for:**
  - 94% of the Fortune 500 – Global, with annual premiums of over $10.5 billion
  - 97% of the Fortune 500, with annual premiums of nearly $9 billion
  - 97% of the Fortune 1000, with annual premiums of over $10.2 billion
  - 81% of the Forbes 2000, with annual premiums of nearly $15 billion
  - 90% of the Financial Times 500 – Europe, with annual premiums of $6 billion
  - 77% of the Financial Times 500 – U.K., with annual premiums of $2 billion

AIG

Extensive Business Disruption (cont.)

- **AIGCI covers a wide range of business and non-profit organizations, including:**
  - **15,000** farms and agricultural businesses
  - **30,000** commercial and residential contractors, including almost every major U.S. infrastructure project
  - **5,000** schools; school boards; elementary, secondary and higher education facilities; libraries; museums; and art galleries
  - **23,000** non-profit and social service organizations
  - **2,600** energy and environmental organizations, including power utilities, superfund sites, oil and gas exploration businesses, alternative energy concerns and electric utilities
  - **21,000** healthcare providers, including doctors, medical facilities, hospitals, and nursing homes.
  - **7,000** real estate businesses including real estate agencies, commercial and retail buildings and mobile homes
  - **9,800** transportation and travel concerns, including airlines, buses, trains, cargo ships, hotels, taxi cab companies and trucking companies
  - **550** public entities including local governments, water authorities, airport authorities, housing departments, community development administrations and police and fire departments

AIG

Extensive Business Disruption (cont.)

- **Consequences of a failure of AIGCI include:**
  - AIGCI would immediately write less business and many businesses would cancel their existing policies, causing a substantial impact on cash flow
  - In the event of negative cash flow, AIGCI would start liquidating its investment securities, including its municipal bonds holdings (AIGCI is the second largest U.S. investor in municipal bonds)
  - As clients turn to other carriers, the loss of AIGCI's capacity in the marketplace would significantly drive up the cost of securing property-casualty insurance
    - Given AIGCI's higher tolerance for insuring riskier businesses, premium raises would be especially substantial in riskier industries, including financial services and automotive, and in riskier lines of business, such as property and terrorism
    - Price increases could lead to smaller businesses "self-insuring" for some risks
  - AIGCI is the primary U.S. incorporated insurer offering comprehensive global policies for multinationals; these businesses would therefore turn to foreign-owned competitors to meet their significant and complex insurance needs
  - Residual market facilities (insurers of last resort) would see significant increases in new business, resulting in further financial strain on states and other insurers (who would be assessed)

AIG

Extensive Business Disruption (cont.)

- **American International Underwriters (AIU) is a leader in providing commercial insurance worldwide:**
  - AIU has a presence in approximately 85 countries, and has the unique ability to provide multi-national coverage to U.S. and foreign companies all over the world
  - In personal lines (PL), AIU insures 36 million households worldwide
  - AIU is a leader in financial lines (FL):
    - Covering 70% of the top 50 international banks
    - Leading underwriter of directors and officers (D&O) insurance for large corporations globally
    - Providing significant capacity for U.S. exposures in the London market
  - The AIU Lloyd's Ascot syndicate provides significant capacity in U.S. catastrophic excess coverage (Cat Excess)
  - Combined with Cat Excess, AIU is the largest capacity provider in the world to the top 50 global banks
  - AIU insures the U.S. military, the U.N., U.S. and foreign embassies, and important commercial and other organizations worldwide, including the Panama Canal, oil rigs, trucking, marine cargo and Doctors without Borders
  - AIU's Defense Base Act program provides coverage to contractors in support of the rebuilding of the infrastructure in Iraq and Afghanistan
  - AIU has over 20,000 employees and over 70,000 agents globally

AIG

Extensive Business Disruption (cont.)

- **Consequences of a failure of AIU include:**
  - Increased financial stress on airlines in view of AIU's leadership position in aviation insurance:
    - AIU was a leader in putting planes back in the air after 9/11 by developing new capacity. This helped to restart the economy and stabilize personal and business travel.
    - AIU currently insures 20% of the global aviation market. If AIU exits the market, there would be an immediate move by remaining carriers to rapidly increase rates. Airlines are already under severe financial stress and this would add to their difficulties.
  - Major disruption in accident and health (A&H) insurance markets worldwide, particularly in Asia Pacific where AIU is a market leader in major economies (including Japan, Korea and China).
  - Significant loss of capacity in commercial D&O and FL D&O:
    - AIU's total exposure is close to $500B. Commercial D&O is estimated to be $450B and FL D&O and personal lines are approximately $33B.
    - Without AIU's capacity in FL, there would be a shortfall in capacity, which would cause a tightening of terms and conditions and a resulting large premium increase. Many of the largest global banks would be unable, at any price, to replace AIU's capacity and expertise.
    - The commercial D&O market would be less accessible since insurers would opportunistically increase pricing.
    - It would be difficult to replicate AIU's international network that allows AIU to issue D&O underlyer polices for multinational customers in 85 countries, leaving many multinational customers exposed in local countries.
  - A failure of AIU may disrupt international trade:
    - AIU is one of the top 3 suppliers of coverage for ocean cargo, the vessels that transport goods and the ports that receive and handle those goods.
    - AIU provides product liability coverage to exporters (e.g., AIU is the number 1 provider of export product liability coverage in China).

AIG

Impact on Global Capital Markets

- **An AIG failure could have similar or worse consequences on the global financial markets as that of the Lehman bankruptcy.** Similarities include:
  - **The large size of their derivatives books:** AIG Financial Products Corp. (AIGFP) has approximately $1.6 trillion in notional derivatives exposures
    - Unwinding of the portfolio in an AIG failure would likely cause enormous downward pressure on valuations across a wide range of associated asset classes
  - **The large number of counterparties** involved in a wind-down of the derivatives books.
    - Counterparties include top banks, sovereign wealth funds, money managers and hedge funds
    - Total client base: more than 1,500 major corporations, governments, and institutional investors would be affected

- **Widespread impact of ratings downgrades**
    - Certain AIGFP contracts include a ratings downgrade as an "event of default;" <u>all</u> AIGFP contracts include bankruptcy as an "event of default," providing a termination right to each counterparty
    - Downward pressure on values of underlying assets resulting from terminations of and the calls pursuant to the underlying and associated contracts

- **Spotlight: U.S. Municipal Market**
  - **2nd largest holder of U.S. municipal bonds:** AIG's commercial insurance (AIGCI) business has more than $70 billion of invested assets, 73% in U.S. municipal bonds. A forced sale of AIGCI's investment portfolio would significantly stress the U.S. municipal bond market

AIG

Direct and Indirect Impact of AIGFP failure

	▪ Effect of FP Failure	▪ Parties affected
AIG FP / AIG debt (issued securities)	– Inability to repay a significant portion of $30 billion of AIGFP issuances, including commercial paper issuances – Signal to markets that debt of other entities with government support at risk	– Institutional Investors – Retail Investors – Entities with government support
Benefit Responsive Options ("BROs")	– Failure to provide a wrap on $38 billion of stable value funds could result in millions of lost value on money market positions potentially "breaking the buck" – Massive retail investor withdrawals may occur on stable value funds and damage confidence in 401(k) plans – May in turn prompt sponsors to make individual investors whole	– Retail Investors – Pension Funds – Large Mutual Fund Complexes
Credit Protection on Corporate Arbitrage and CDOs / CLOs	– Credit protection on ~$63 billion in CDOs / CLOs may be eliminated – Major U.S. banks would lose hedges on correlation books – consequent higher CDS spreads for major corporates will raise funding costs across economy – Widening spreads and illiquidity in CDO and CLO market could lead to dramatic further write-downs	– Major banks – Corporate Borrowers – Institutional Investors
Regulatory Capital	– European Banks could need to raise additional ~$10 billion in equity capital rapidly – could result in multiple downgrades resulting in catastrophic market disruptions	– Major European Banks • e.g. RBS, SocGen, BNP, Banco Santander, Danske, Rabobank, Credit Logemont, Calyon
Other Derivatives (Rates, FX, Equities, Commodities)	– Forced client terminations will result in massive spread widening and significant unhedged positions – Disrupted markets could cause large losses for dealer / bank counterparties as they attempt to replace lost positions with AIGFP – Risk in individual unhedged portfolios could jump by 20-30x from current levels	– Corporations – Supra-nationals • e.g. World Bank/IFC, IBRD, EIB – Dealers
Guaranteed Investment Contracts ("GICs") / Leases	– Failure to collateralize $2 billion in GICs / Leases would lead to downgrades, and further disruption to the municipal bond markets	– Municipalities

AIG

Impact of Failure of ILFC

- International Lease Finance Corporation (ILFC) is the largest aircraft lessor in the world, with more than 950 aircraft

- ILFC's role in U.S. Economy:
  - Since 1978, ILFC has purchased more new Boeing aircraft (approximately 670 units) than any other airline or leasing company
  - ILFC is the largest commercial customer of General Electric (engines), Honeywell, Rockwell Int'l (avionics) and United Technologies (engines/APU)
  - ILFC is the largest buyer of U.S. made engines and components for new Airbus aircraft
  - ILFC has 102 new jets on order from Boeing as of December 2008, with a value of $12.5 billion, for deliveries in 2009 and beyond
  - ILFC's new Boeing planes are primarily for export, helping U.S. balance of payments, via long term leases to foreign airlines
- A failure of ILFC may lead to:
  - Loss by Boeing of its largest customer, including $12.5 billion of forward order book, which may result in reduction in Boeing's 183,000 strong workforce
  - ILFC may be forced to liquidate its 1,000-plane aircraft portfolio at distressed prices, severely impacting the already weak aircraft industry
  - Losses to U.S. banks and U.S. institutional holders of ILFC debt (currently $30 billon+)
  - Less taxable income due to distressed sale prices (current potential taxable gain of $13.1 billion)

AIG

Seizure of foreign assets

- **An AIG failure would likely result in the immediate seizure of certain insurance businesses of AIG by domestic and foreign regulators.**
  - The seizure by one regulator in a given region (*e.g.,* Asia) would almost certainly have a domino effect and lead to the seizure of insurance businesses in multiple jurisdictions across the region
  - Once these assets were effectively nationalized they would be out of the reach of the U.S.
  - Given the substantial "footprint" of AIG's insurance presence in these regions, the consequence of a seizure would significantly impair, if not cripple, the entire insurance industry within certain regions
  - Even if there is not an immediate seizure of the insurance businesses, there will be significant policy cancellations which will likely lead to seizures

- Seizure of foreign assets could lead to:
  - Loss of assets to repay the Federal Reserve
  - Collapse of AIG's public debt
  - Loss of value of the U.S.Treasury's Preferred Shares

AIG Conclusion

- Insurance is the oxygen of the free enterprise system. Without the promise of protection against life's adversities, the fundamentals of capitalism are undermined.

- The failure of the world's largest insurer at a time of major global financial and economic instability will exacerbate the challenge of reigniting consumer confidence.

- Since life insurance has changed greatly in character over the last two decades – from just a basic provision of death and disability benefits to a vehicle for retirement savings and wealth accumulation – the effects of disrupting the industry are wide-ranging and significant.

- There is a legitimate public policy rationale for regulatory reform of the industry, and the federal government's continuing role in AIG's destiny would be consistent with such a policy direction.