

---

# **AIG and AIG Commercial Insurance: Overview and Financial Update**

November 13, 2008

*Rob Schimek  
EVP & CFO, AIG Property Casualty Group*



# ***Comprehensive Solution Announced for AIG on 11/10/08***

---

## ***Three Common Concerns Have Now Been Addressed:***

1. Concerns about the Fed facility
  - Is it large enough to meet AIG's liquidity needs?
  - Won't the maturity date of the loan force a fire sale of assets?
  - Will the sales of assets be sufficient to repay the loan?
  - Isn't the interest rate too high?
2. Concerns about the "growing" level of indebtedness
  - What is the actual amount of indebtedness?
    - \$85 billion facility
    - \$37 billion securities lending facility
    - \$20 billion commercial paper facility
3. Concerns about how the root cause problems will be addressed
  - Collateral and losses on CDS
  - Securities lending

## ***Solutions for the FRBNY Credit Facility***

---

1. \$40 billion preferred equity investment from the US Treasury
  - Proceeds used to pay down a portion of the FRBNY credit facility
  - Perpetual equity
  - 10% coupon with cumulative dividends
2. Interest rate reduced to LIBOR plus 3% from prior rate of LIBOR plus 8.5% on amount borrowed.
3. Fee on undrawn commitments is reduced to 0.75% from prior fee of 8.5%
4. Loan term extended from 2 to 5 years
5. \$60 billion total commitment following perpetual preferred shares
  - Down from the prior \$85 billion level

***PROVIDES EFFECTIVE SOLUTIONS FOR THE PRIOR CONCERNS!***

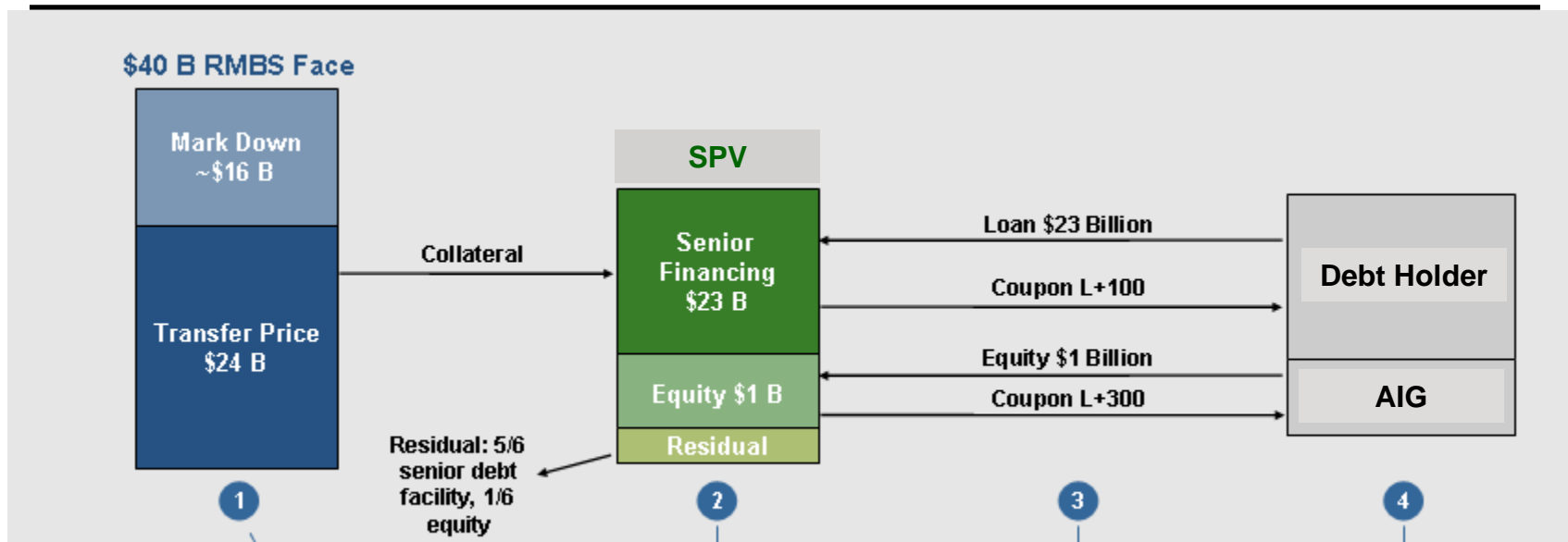
# Solutions for the Root Causes

---

- Domestic Securities Lending Solution:
  - Special Purpose Vehicle
  - Removed from AIG's balance sheet (AIG no longer consolidates)
    - Significant reduction in volatility
  - Limits AIG's downside risk
  - Allows AIG to participate in possible future upside (1/6<sup>th</sup> of upside)
  - Ends the drain on AIG's liquidity
- Multi-Sector CDO Solution
  - Similar concept as securities lending solution

*Solves root cause issues for the vast majority of AIG's liquidity issues!*

## Securities Lending Solution - Illustrative Example FOR DISCUSSION PURPOSES ONLY



### 1. Transfer price?

- AIG marks as confirmed by 3<sup>rd</sup> party, \$24B at 9/30/08

### 2. Size of equity vs. debt?

- Equity: \$1 Billion
- Loan: \$23 Billion
- Residual: 5/6 to Senior, 1/6 to equity

### 3. Terms of debt and equity?

- Equity: L+300
- Debt: L+100,
- Debt full turbo paydown
- Residual cash flows: 5/6 to debt, 1/6 to equity

### 4. Origin of equity?

- AIG

### Proposed Structure

# AIG Commercial Insurance – Regulation and Structure

---

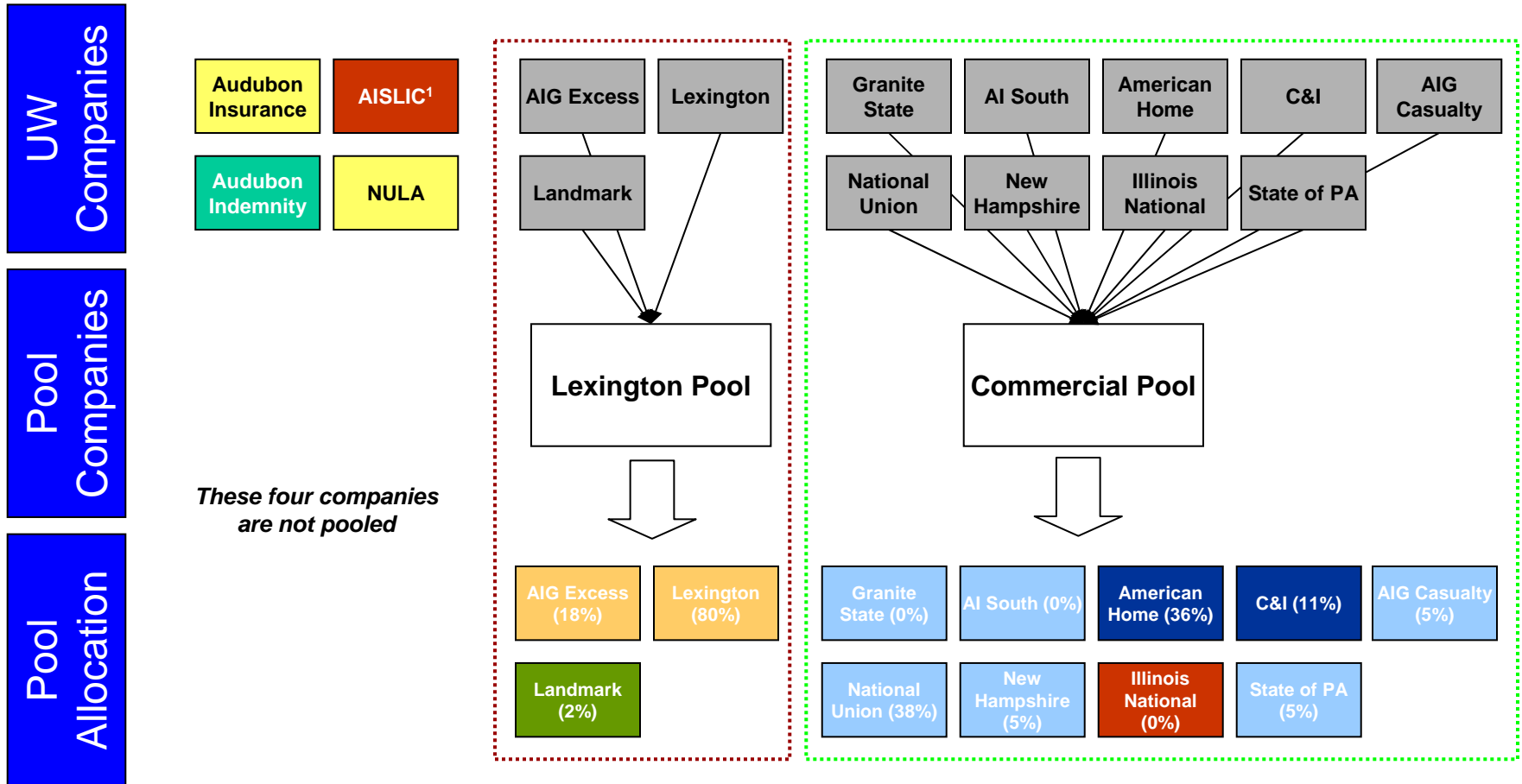
- **16 Legal Entities**

- Each company is a stand-alone legal entity, which retains its own assets and surplus for the protection of policyholders
- Each legal entity has a primary regulator
  - Regulators' primary motivation is protection of policyholders
  - Key Regulators: New York, Pennsylvania, Delaware and Illinois
  - Each legal entity is audited on a stand-alone basis annually by Pricewaterhouse Coopers LLP
  - Regular financial examinations performed by state insurance regulators

- **Two Underwriting Pools** – Shares underwriting risk across the pool participants and makes the financial strength of the entire pool relevant to our policyholders

- Commercial Pool
  - Largest pool participants are National Union & American Home
- Surplus Lines Pool

# Commercial Insurance Pooling Arrangement



## State Domiciled



(%) indicates participation is respective pools

# AIG Commercial Insurance's Statutory Financial Strength

- Surplus increased 49% from 2005 to September 30 '08, to \$26.4 billion.
- Despite a challenging Q3 2008 environment, surplus changed by only 1% since June 30, 2008.
- AIGCI's risk-based capital (RBC) ratios indicate that CI is highly capitalized according to NAIC guidelines.
- Strong regulatory oversight by multiple regulators protect AIGCI policyholders:
  - Dividend restrictions
  - Limited affiliated transactions
  - Financial examinations
  - Annual PwC audits
- Financial Strength ratings continue to be “Excellent”

AIG CI Statutory Financials <sup>1</sup>	3Q YTD 08	2007	2006	2005	Change '05 vs. '07	
					Amount	%
Net Written Premium	\$18,826	\$26,174	\$26,319	\$23,573	\$2,601	11.0%
Net Income	\$1,331	\$5,460	\$3,949	\$245	\$5,215	2128.5%
Loss Ratio	77.4	67.3	69.5	90.4	-23.1	-25.6%
Expense Ratio	23.1	20.4	20.8	19.5	1.0	5.0%
Combined Ratio	100.5	87.7	90.3	109.9	-22.2	-20.2%
Policyholder Surplus	\$26,361	\$27,484	\$22,474	\$17,686	\$9,798	55.4%
Risk Based Capital Ratio <sup>2</sup>	452%	448%	385%	276%		
NWP : PHS	<1.0	<1.0	<1.2	1.3		



<sup>1</sup> – Includes only financial data from entities owned as of 11/12/08. Excludes AIU (\$1.3B surplus as of 12/31/07) and AIP (\$0.03B surplus as of 12/31/06) entities that were transferred out of AIG CI during this period.

<sup>2</sup> – Estimated RBC for consolidation of the 16 AIG CI legal entities as of 11/12/08 (excluding AIUI and AIP for all years, as noted above).

# AIG Commercial Insurance – Financial Strength

---

- ***Financially Sound Companies***

- Strong policyholder surplus in each of the 16 Companies

- Surplus (Admitted assets in excess of liabilities) of \$26.4 billion at September 30, 2008
- Each Company exceeds the minimum risk based capital (“RBC”) requirements set forth by the insurance regulators
- Each Company’s capital level and RBC level has *improved significantly* over the past few years, including throughout the recent poor performance of the US housing market

- AIG CI’s key State Insurance Regulators (NY, PA, DE, IL) have issued press releases regarding their views of the AIG insurance companies:

- <http://www.ins.state.ny.us/press/2008/p0809222.htm>
- <http://www.ins.state.pa.us/ins/cwp/view.asp?Q=549447&A=11>
- [http://www.delawareinsurance.gov/departments/news/091608-Press-AIG\\_Statement.shtml](http://www.delawareinsurance.gov/departments/news/091608-Press-AIG_Statement.shtml)

# AIG Commercial Insurance – Risk Management

---

- **AIG CI's philosophy** - risk is generally taken on the liability side of the balance sheet and not compounded by risks on the asset side
  - regulations protect the policyholders
    - The Commercial Insurance Companies hold more than \$70 billion in invested assets
    - Municipal Bonds represent approximately 73% of the invested assets
    - Structured investment products represent approximately 3% of AIG CI's total invested assets
    - AIG CI does not own stock investments in AIG, Inc.
- **Fixed Income Portfolio Credit Quality at September 30, 2008**
  - AAA 48.0%
  - AA 46.1%
  - A 4.7%
  
  - <=BBB/NR 1.2%

---

THE DATA CONTAINED IN THIS PRESENTATION ARE FOR GENERAL INFORMATIONAL PURPOSES ONLY. THE ADVICE OF A PROFESSIONAL INSURANCE BROKER AND COUNSEL SHOULD ALWAYS BE OBTAINED BEFORE PURCHASING ANY INSURANCE PRODUCT OR SERVICE. THE INFORMATION CONTAINED HEREIN HAS BEEN COMPILED FROM SOURCES BELIEVED TO BE RELIABLE. NO WARRANTY, GUARANTEE, OR REPRESENTATION, EITHER EXPRESSED OR IMPLIED, IS MADE AS TO THE CORRECTNESS OR SUFFICIENCY OF ANY REPRESENTATION CONTAINED HEREIN.

•Copyright © 2008.