AIG Commercial Insurance

The Federal government's agreement with AIG

- On September 22, AIG signed a definitive agreement with the Federal Reserve Bank of New York for a two-year, $85 billion revolving credit facility.
- Under the agreement, AIG will issue a new series of Convertible Preferred Stock to a trust for the benefit of the US Treasury. The Preferred Stock will vote with the common stock on all matters, and will hold approximately 79.9% of the total voting power.
- AIG's insurance subsidiaries will operate in the normal course of business under the agreement.
- AIG will repay the credit facility with funds from the sale of certain assets and by issuing debt or equity.
- There are no plans to sell AIG's domestic and international commercial property casualty businesses.
- AIG is already developing a plan to sell assets, repay the facility and emerge a smaller but profitable company.
- AIG will host an investor webcast to discuss this plan on Friday, October 3.
- In addition, Edward M. Liddy was named AIG's new Chairman and Chief Executive Officer. Ed has extensive experience in property casualty insurance, including serving as Chairman of The Allstate Corporation.

AIG's challenges were never about the strength of AIG Commercial Insurance (AIGCI) subsidiaries.

- AIGCI's ability to underwrite business and pay claims is undiminished, maintaining separate and independent capital from its parent.
- AIGCI's financial position is protected by regulators, ensuring policyholder interests are paramount.
- It had been widely reported that AIG's insurance company subsidiaries were prepared to loan the parent $20 billion to help meet its liquidity needs. A loan was never contemplated.
- Although the New York and Pennsylvania insurance departments were prepared to allow AIG to exchange certain liquid investment holdings of the insurance companies for high-valued, less liquid holdings of the parent company, this transaction was never executed.
- The regulators' consideration of this option demonstrates their confidence in the financial strength of AIGCI's subsidiaries.

AIGCI's risk appetite and competitive advantages are an enduring part of the organization.

- AIGCI subsidiaries, including Lexington, National Union and American Home, are well capitalized.
- At June 30 2008, AIGCI's subsidiaries had statutory surplus of $26.7 billion, a 51% increase from 2005.
- AIGCI has ample resources to pay policyholder claims, paying $75 million in claims every business day.
- As a result of the surplus increase, AIGCI's premium-to-surplus ratio—a key indicator of an insurance company's financial leverage—is less than 1:1. By comparison, that ratio was 1.3:1 at the end of 2005.
- AIGCI's six month net income was $1.9 billion, and invested assets exceeded $70 billion at June 30, 2008.
- Many state insurance departments have acknowledged that AIG's insurance companies are financially sound, with substantially more in assets than they need to pay all valid present and projected claims.
- As a result of the Federal government's support, S&P has revised AIGCI's financial strength ratings from CreditWatch "negative" to "developing". Fitch revised its ratings from "negative" to "evolving".
- Moody's and AM Best have not changed their ratings, which remain "excellent".

AIG Commercial Insurance companies include: AIG Casualty Company, American Home Assurance Company, American International South Insurance Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Co., National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company, The Insurance Company of the State of Pennsylvania, AIG Excess Liability Insurance Company Ltd., American International Specialty Lines Insurance Company, Landmark Insurance Company, Lexington Insurance Company, AIG Commercial Insurance Company of Canada, National Union Fire Insurance Company of Vermont, AIG Excess Liability Insurance International Limited

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