



American International Group, Inc.

A Quick Look at the 6-Month Numbers

American International Group, Inc. is a widely held, publicly-traded holding company which, through its subsidiaries, is primarily engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG operates in 130 countries around the world. Its insurance activities include both General Insurance and Life Insurance and Retirement Services operations. In addition, AIG has major operations in other financial services activities such as aircraft leasing, financial guarantee businesses, derivative businesses, and asset management.

AIG was struggling because mark-to-market losses generated from mortgage-related investments and swap exposures have placed enormous pressure on AIG's ability to access capital and liquidity. A lot of this is related to the subprime crisis which has impacted many companies to different degrees. The ongoing weakness of the U.S. housing market and disruption in the credit markets, as well as global equity market volatility, had a substantial adverse effect on AIG's results in the second quarter.

The vast majority of losses are coming from the financial products segment. AIG insurance and financial services subsidiaries invest in mortgage-backed securities and collateralized debt obligations (CDOs), in which the underlying collateral is composed in whole or in part of residential mortgage loans; and AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) provides credit protection through credit default swaps on certain super senior tranches of CDOs. Additional market deterioration will cause AIG to report additional unrealized market valuation losses and impairment charges.

In addition, over the past year AIG's share price has deeply declined which has negatively impacted its market capitalization. AIG's market cap has declined by approximately \$165.0 billion (estimated on 9/16/08 close). Companies use their share price when they want to borrow funds, it's basically their currency.

Key GAAP and Statutory figures for the American International Group, Inc

AIG GAAP Results at 6 Months ended June 30, 2008 (\$000s)

○ Total Cash and Investments	\$ 742,696,000
○ Total Assets.....	\$ 1,049,876,000
○ Total Liabilities.....	\$ 960,539,000
○ Total Shareholders' Equity.....	\$ 78,088,000
○ Long-term Debt.....	\$ 163,577,000
○ Total Revenues.....	\$ 33,964,000
○ Net Income.....	\$ (13,162,000)

Source: Best's Global Insurance & Banking Database: Best's GAAP

Despite the net loss of \$13.2 billion recorded at six months that ended June, 2008; AIG still maintained a total shareholders' equity position of \$78.1 billion at that point in time. Total shareholders' equity is



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what a company has left after taking total assets and subtracting total liabilities, in effect the company's net worth.

AIG U.S. Based Property/Casualty (P/C) Statutory Results at 6 Months ended June 30, 2008 (\$000s)

- o Cash (\$604,148) and cash equivalents (\$215,696) and short-term investments (\$2,314,758)..... \$ 3,134,116
- o Total Admitted Assets..... \$125,577,954
- o Total Liabilities..... \$ 93,504,849
- o Surplus as regards policyholders..... \$ 32,073,106
- o Net Premiums Earned..... \$ 17,187,235
- o Net Income..... \$ 1,229,642

Source: [Best's Global Insurance & Banking Database: Best's Statement File - Quarterly](#)

On a statutory basis, the U.S. based P/C companies of AIG generated net income of \$1.2 billion at six months ended 2008. Policyholders' surplus equaled \$32.1 billion for the period. Policyholders' surplus is the excess of an insurance company's assets above its legal obligations to meet the benefits (liabilities) payable to its policyholders. In both P/C and L/H statutory data, the net worth in an insurance company is adjusted for the overstatement of liabilities.

AIG U.S. Based Life/Health (L/H) Statutory Results at 6 Months ended June 30, 2008 (\$000s)

- o Cash (\$1,891,889) and cash equivalents (\$23,194) and short-term investments (\$14,625,191)..... \$ 16,540,274
- o Total Admitted Assets..... \$371,489,852
- o Total Liabilities..... \$ 352,683,382
- o Capital and Surplus..... \$ 18,806,470
- o Net Premiums Written..... \$ 30,382,644
- o Net Income..... \$ (6,648,421)

Source: [Best's Global Insurance & Banking Database: Best's Statement File - Quarterly](#)

On a statutory basis, the U.S. based L/H companies of AIG generated a net loss of (\$6.6) billion at six months ended 2008. Capital and surplus equaled \$18.8 billion for the period. Capital and surplus is the excess of an insurance company's assets above its legal obligations to meet the benefits (liabilities) payable to its policyholders.

The Federal Reserve Bank of New York's decision to extend an emergency \$85 billion loan to American International Group Inc., in an effort to stabilize the global insurance giant, will leave the federal government in control of four-fifths of the company's equity.

As reported on BestWire, the deal creates a 24-month secured revolving credit facility that, according to the Fed, is intended "to assist AIG in meeting its obligations as they come due." The company will be expected to



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repay the loan by selling "certain of its businesses in an orderly manner, with the least possible disruption to the overall economy."

The loan, which will accrue interest at 850 basis points above the three-month London Interbank Offered Rate, is collateralized against the assets of AIG's primary non-regulated subsidiaries and the stock of its regulated subsidiaries. At the current LIBOR rate, that's about 11.5%. The loan will allow AIG to shore up any liquidity issues at the holding company while reviewing key assets to sell which will aid in the repayment of the loan.

The AIG Board believes that the proceeds of the asset sales will be sufficient to repay the loan in full. AIG has over one trillion in assets. At June 30, 2008 the following segments had GAAP invested assets of:

- General Insurance: \$130.8 billion
- Life Insurance & Retirement Services: \$475.4 billion
- Financial Services: \$156.0 billion
- Asset Management: \$62.0 billion
- Other: \$21.9 billion.

Source: AIG 10Q

Current AIG shareholders will see their equity diluted 79.9% by the issuance of warrants to the federal government, which also retains the right to veto dividend payments. The stock closed at \$3.75 per share on 9/16/08. 52-Week High=70.13 (10/09/07) and 52-Week Low=1.25 (09/16/08). Market Cap (Millions)=10,083.130.