

Client Update: March, 2009

American International Group

On March 2, 2009, American International Group, Inc., in partnership with the U.S. Department of Treasury and the Federal Reserve, announced several actions to improve the company's capital structure, protect and enhance the value of its key businesses, and position these franchises to be more independently run in the future.

As part of AIG's extensive restructuring program, the company announced its plans for forming a separate General Insurance holding company to be called AIU Holdings, Inc. The formation of AIU Holdings, Inc. is predicted to enhance the value of key businesses and position the property and casualty companies to run more transparently and independently. In conjunction with the below described restructuring initiatives, the major rating agencies (A.M. Best, Moody's, and S&P) all reaffirmed their current ratings of AIG.

Our summary of this announcement and the implications for our clients can be found below. Frank Crystal & Company is constantly evaluating current market developments and the impact these developments may have on our clients' insurance needs. We will continue to provide you with additional analysis as details are released.

RESTRUCTURING OF AIG

According to a press release issued by AIG, the following are key actions in AIG's restructuring:

- **Improved terms of existing U.S. Treasury preferred investment:** The terms of the U.S. Treasury's preferred stock investment in AIG will be modified to make these preferred securities more closely resemble common equity and improve AIG's financial leverage.
- **New standby equity capital facility:** The U.S. Treasury will provide AIG with a new five-year 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.

- **Repayment of the FRBNY credit facility:** AIG will transfer to the Federal Reserve Bank of New York (FRBNY) (or to a trust for the benefit of the FRBNY) preferred interests in American Life Insurance Company (ALICO) and American International Assurance Company, Ltd. (AIA) in return for a reduction in the outstanding balance of up to \$26 billion of the FRBNY senior secured credit facility. AIG also expects to transfer to the FRBNY securitization notes of up to \$8.5 billion representing embedded value of certain of its U.S. life insurance businesses in return for a further reduction in its outstanding FRBNY credit facility balance. Securitization is a capital management strategy and will not affect the day-to-day operations, sales activities, or customers of these businesses.

- **Reduced cost of FRBNY credit facility:** The FRBNY will remove the London Interbank Offered Rate (LIBOR) floor on the senior secured credit facility. This will save AIG an estimated \$1 billion in interest costs per year, based on the current level of LIBOR and the current facility balance.

- **Maintain availability of FRBNY credit facility:** AIG will continue to have access to the FRBNY credit facility. Following the repayment of the outstanding amount on the facility with the preferred interests and securitization notes, the total amount available to AIG under the facility will remain at least \$25 billion.

- **AIG will pay down the federal loan,** valued at about \$38.9 billion on Dec. 31, partly by turning over its two largest international life insurance units, which will be put in trusts. The company will also give the government rights to the cash flow from tens of thousands of life insurance policies.

"AIG's underlying businesses remain strong, well-capitalized, and competitive. Moreover, policy holders, regulators, agents and business partners around the globe can be confident that policies written by any AIG company are sound," said Edward M. Liddy, Chairman and Chief Executive Officer of AIG.

AIU HOLDING, INC. – KEY POINTS

According to a press release issued by AIG, the following are key actions in the Formation of AIU Holdings, Inc.:

- AIG will form a new unit, AIU Holdings, Inc., that will serve as a holding company for all domestic and international property & casualty insurance operations.
- AIU Holdings, Inc. will have a separate board of directors, management team and brand, and it is being formed in anticipation of the sale of a minority stake and, potentially, an initial public offering of shares.
- Kristian P. Moore, currently President and CEO, AIG Property Casualty Group, will be President of AIU Holdings, Inc. John Q. Doyle, currently President and CEO, AIG Commercial Insurance, will assist in the formation of AIU Holding, Inc. by assuming additional responsibility for the Domestic Personal Lines Division.
- When formed, AIU Holdings will be a leading franchise with more than 44,000 employees and 500 products and services serving 40 million commercial and individual customers in 130 countries.
- The companies comprising AIU Holdings, Inc. has approximately \$43 billion in equity at December 31, 2008.

“The Commercial Insurance performed well in the fourth quarter, particularly given the current economic and investment environment. Commercial Insurance statutory policyholder surplus increased by 1.1 percent in the fourth quarter and remains greater than all of our US peers. Surplus has grown 50 percent from December 31, 2005 to December 31, 2008. As detailed in AIG’s earnings release, Commercial Insurance also recorded \$4.4 billion in net premiums written in the fourth quarter 2008 and approximately \$21.1 billion for the full year,” said John Q. Doyle President and CEO of AIG Commercial Insurance.

THE FRANK CRYSTAL COMMITMENT

We are carefully monitoring the insurance marketplace and will continue to keep you apprised of any further developments as respects AIG and the broader insurance sector. We are prepared to take action should conditions at any of the AIG companies compromise your interests as a policyholder.

In the meantime, we encourage you to contact your service team at Frank Crystal should you have any further questions or wish to discuss your specific policy circumstances.

Frank Crystal & Company routinely monitors the ratings and financial conditions of all insurance carriers with which we do business, including member companies of American International Group, Inc. (AIG). This update has been prepared solely as respects the concerns and considerations of our clients and AIG policyholders.

♦♦♦

ABOUT FRANK CRYSTAL & COMPANY

As the alternative in insurance brokerage, Frank Crystal & Company provides industry-leading insurance services, solutions, and counsel to corporations as well as individuals. The company provides a highly consultative approach, leveraging its insurance advisory, claims management, risk control engineering, and administrative expertise to the benefit of its clients.

Headquartered in New York City, with 450 employees nationwide and regional offices in Houston, Los Angeles, Miami, Palm Beach, Philadelphia, Portland, San Francisco, Seattle, Southampton, and Washington, DC, Frank Crystal chooses and values its employees for their integrity, ability to provide outstanding customer service, and commitment to the relentless pursuit of value-added insurance solutions and results.

♦♦♦

© March 2009 Frank Crystal & Co., Inc.

All Rights Reserved.

This publication has been prepared as a service to our clients and business associates. It provides a general overview of the developments in the insurance marketplace, not an exhaustive treatment of the subjects covered nor legal, professional or insurance advice. Persons in need of specific insurance information are invited to contact the insurance advisors at Frank Crystal & Company. While the information contained within this publication has been compiled from reliable sources, Frank Crystal & Company does not assume responsibility for its accuracy and does not assume liability for any error, deficiency, or losses allegedly resulting from the use of this publication. This publication is designed to provide general insurance market information and should solely be used as such.