



March 2, 2009
tg44

U.S. Treasury and Federal Reserve Board Announce Participation in AIG Restructuring Plan

Washington, DC – The U.S. Treasury Department and the Federal Reserve Board today announced a restructuring of the government's assistance to AIG in order to stabilize this systemically important company in a manner that best protects the US taxpayer. Specifically, the government's restructuring is designed to enhance the company's capital and liquidity in order to facilitate the orderly completion of the company's global divestiture program.

The company continues to face significant challenges, driven by the rapid deterioration in certain financial markets in the last two months of the year and continued turbulence in the markets generally. The additional resources will help stabilize the company, and in doing so help to stabilize the financial system.

As significantly, the restructuring components of the government's assistance begin to separate the major non-core businesses of AIG, as well as strengthen the company's finances. The long-term solution for the company, its customers, the U.S. taxpayer, and the financial system is the orderly restructuring and refocusing of the firm. This will take time and possibly further government support, if markets do not stabilize and improve.

Given the systemic risk AIG continues to pose and the fragility of markets today, the potential cost to the economy and the taxpayer of government inaction would be extremely high. AIG provides insurance protection to more than 100,000 entities, including small businesses, municipalities, 401(k) plans, and Fortune 500 companies who together employ over 100 million Americans. AIG has over 30 million policyholders in the U.S. and is a major source of retirement insurance for, among others, teachers and non-profit organizations. The company also is a significant counterparty to a number of major financial institutions.

AIG operates in over 130 countries with over 400 regulators and the company and its regulated and unregulated subsidiaries are subject to very different resolution frameworks across their broad and diverse operations without an overarching resolution mechanism. Within the options available, the restructuring plan offers a multi-part approach which brings forward the ultimate resolution of the company, has received support from key stakeholders and the rating agencies, and provides the best possible protection for taxpayers in connection with this commitment of resources.

The steps announced today provide tangible evidence of the U.S. government's commitment to the orderly restructuring of AIG over time in the face of continuing market dislocations and economic deterioration. Orderly restructuring is essential to AIG's repayment of the support it has received from U.S. taxpayers and to preserving financial stability. The U.S. government is committed to continuing to work with AIG to maintain its ability to meet its obligations as they come due.

Treasury has stated that public ownership of financial institutions is not a policy goal and, to the extent public ownership is an outcome of Treasury actions, as it has been with AIG, it will work to replace government resources with those from the private sector to create a more focused, restructured and viable economic entity as rapidly as possible. This restructuring is aimed at accelerating this process. Key steps of the restructuring plan include:

Preferred Equity

The U.S. Treasury will exchange its existing \$40 billion cumulative perpetual preferred shares for new preferred shares with revised terms that more closely resemble common equity and thus improve the quality of AIG's equity and its financial leverage. The new terms will provide for non-cumulative dividends and limit AIG's ability to redeem the preferred stock except with the proceeds from the issuance of equity capital.

Equity Capital Commitment

The Treasury Department will create a new equity capital facility, which allows AIG to draw down up to \$30 billion as needed over time in exchange for non-cumulative preferred stock to the U.S. Treasury. This facility will further strengthen AIG's capital levels and improve its leverage.

Federal Reserve Revolving Credit Facility

The Federal Reserve will take several actions relating to the \$60 billion Revolving Credit Facility for AIG established by the Federal Reserve Bank of New York (New York Fed) in September, 2008, to further the goals described above.

Repayment by Preferred Stock Interests

The Revolving Credit Facility will be reduced in exchange for preferred interests in two special purpose vehicles created to hold all of the outstanding common stock of American Life Insurance Company (ALICO) and American International Assurance Company Ltd. (AIA), two life insurance holding company subsidiaries of AIG. AIG will retain control of ALICO and AIA, though the New York Fed will have certain governance rights to protect its interests. The valuation for the New York Fed's preferred stock interests, which may be up to approximately \$26 billion, will be a percentage of the fair market value of ALICO and AIA based on valuations acceptable to the New York Fed.

Securitization of Life Insurance Cash Flows

The New York Fed is authorized to make new loans under section 13(3) of the Federal Reserve Act of up to an aggregate amount of approximately \$8.5 billion to special purpose vehicles (SPVs) established by domestic life insurance subsidiaries of AIG. The SPVs would repay the loans from the net cash flows they receive from designated blocks of existing life insurance policies held by the parent insurance companies. The proceeds of the New York Fed loans would pay down an equivalent amount of outstanding debt under the Revolving Credit Facility. The amounts lent, the size of the haircuts taken by the New York Fed, and other terms of the loans would be determined based on valuations acceptable to the New York Fed.

Restructuring of Other Terms

After the transactions described above, the total amount available under the Facility will be reduced from \$60 billion to no less than \$25 billion. In addition, the interest rate on the Facility, which is three-month LIBOR plus 300 basis points, will be modified by removing the existing floor (3.5 percent) on the LIBOR rate. The Facility will continue to be secured by a lien on a substantial portion of AIG's assets, including the businesses AIG plans to retain. The other material terms of the Facility remain unchanged.

Issuance of Preferred Stock

As required by the credit agreement governing the Revolving Credit Facility, AIG has agreed to issue on March 4, 2009, shares of convertible preferred stock representing an approximately 77.9% equity interest in AIG to an independent trust for the sole benefit of the United States Treasury.

AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act, including the most stringent limitations on executive compensation as required under the newest amendments to the Emergency Economic Stabilization Act. Additionally, AIG must continue to maintain and enforce newly adopted restrictions put in place by the new management on corporate expenses and lobbying as well as corporate governance requirements.

###

Term Sheet
March 2, 2009

Exchange of Series D Fixed Rate Cumulative Perpetual Preferred Stock for Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock

The Series D Fixed Rate Cumulative Perpetual Preferred Stock (the “**Series D Preferred Stock**”) of American International Group, Inc. (“**AIG**”) issued to the United States Department of the Treasury (“**UST**”) on November 25, 2008 shall be exchanged for Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock (the “**Series E Preferred Stock**”) of AIG, with the following changes to the terms of the Series D Preferred Stock:

Dividends: Holders of Series E Preferred Stock will be entitled to receive, only when, as and if declared by the Board of Directors of AIG or a duly authorized committee thereof, non-cumulative cash dividends on the liquidation preference at a rate of 10% per annum. Declared dividends will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Dividends will be payable when, as and if declared by the Board of Directors of AIG.

Dividends on the Series E Preferred Stock will not be cumulative and holders of Series E Preferred Stock will not be entitled to receive any dividends not declared by the Board of Directors of AIG or a duly authorized committee thereof and no interest, or sum of money in lieu of interest, will be payable in respect of any dividend not so declared.

Exchange Ratio: The aggregate liquidation preference of the Series E Preferred Stock will be equal to the sum of the aggregate liquidation preference of the Series D Preferred Stock and the amount of the accrued and unpaid dividends under the Series D Preferred Stock.

Voting: If dividends on the Series E Preferred Stock are not paid in full for four dividend periods, whether or not consecutive, the Series E Preferred Stock will have the right to elect the greater of two directors and a number of directors (rounded upward) equal to 20% of the total number of directors after giving effect to such election. The right to elect directors will end, and such two directors shall resign, if such directors were elected, when full dividends have been paid for four consecutive dividend periods following commencement of such right.

Replacement Capital Covenant:

AIG will enter into a Replacement Capital Covenant in favor of the holders of covered debt pursuant to which AIG will agree that prior to the third anniversary of the issuance of the Series E Preferred Stock it will not repay, redeem or purchase, and no subsidiary of AIG will purchase, all or any part of the Series E Preferred Stock except with the proceeds obtained from the issuance by AIG or any such subsidiary of certain replacement capital securities.

Replacement Capital Intention:

AIG intends that commencing on the third anniversary of the issuance of the Series E Preferred Stock it will not repay, redeem or purchase, nor will any subsidiary of AIG purchase, all or any part of the Series E Preferred Stock

except with the proceeds from the issuance by AIG or any such subsidiary of securities for which AIG will receive equity credit, at the time of sale or issuance, that is, in the aggregate, equal to or greater than the equity credit attributed to the Series E Preferred Stock redeemed at the time of such early redemption.

Executive Compensation:

Until such time as no obligation of AIG arising from financial assistance provided under the Troubled Asset Relief Program remains outstanding (excluding any period during which the federal government only holds warrants to purchase common stock of AIG), AIG shall comply in all respects with Section 111 of the Emergency Economic Stabilization Act of 2008, as amended, as implemented by any guidance or regulations issued and/or to be issued thereunder including any amendments to the guidelines implementing the Programs of Systemically Significant Failing Institutions.

Issuance of Additional Preferred Stock

Issuer: AIG

Initial Holder: UST

Security: Shares of Series F Preferred Stock to be issued from time to time at the request of AIG.¹

Issue Price: Upon each drawdown the aggregate liquidation preference of the shares of the Series F Preferred Stock will increase by either an amount equal to the amount of such drawdown or by the aggregate liquidation preference of the shares of the Series F Preferred Stock issued on the closing date of such drawdown.

Capacity: Up to \$30 billion aggregate liquidation preference.

Duration of Facility: 5 years beginning on commencement date of the facility.

Warrants: The UST will receive a warrant (“**Warrant**”) to purchase a number of shares of common stock of AIG (“**Common Stock**”) equal to 1% of the issued and outstanding shares of Common Stock on the commencement date of the facility. The initial exercise price for the Warrant shall be \$2.50 per share of Common Stock (representing the par value of the Common Stock on the commencement date of the facility), subject to customary anti-dilution adjustments; provided that the initial exercise price per share of Common

¹ The terms of the Series F Preferred Stock will be same as the terms of the Series E Preferred Stock except that the Series F Preferred Stock will not be subject to the Replacement Capital Covenant or the Replacement Capital Intention.

Stock shall be adjusted to the par value per share of the Common Stock following the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the Series C Perpetual, Convertible, Participating Preferred Stock of AIG. The Warrant shall be net share settled or, if consented to by AIG and the UST, settled on a full physical basis.

**Conditions to
Commencement:**

On the commencement date of the facility AIG shall:

- make representations and warranties essentially in the form as set forth in the following sections of the Series D Preferred Stock Securities Purchase Agreement: Section 2.2(a) (With respect to the incorporation and good standing of AIG), 2.2(b) (Capitalization), 2.2(c) (Preferred Stock), 2.2(d) (The Warrant and Warrant Shares) and 2.2(e)(i) (Authorization, Enforceability); and
- deliver written opinions from counsel to AIG (which may be internal counsel) comparable to those delivered at the closing of the Series D Preferred Stock offering.

**Executive
Compensation:**

Until such time as no obligation of AIG arising from financial assistance provided under the Troubled Asset Relief Program remains outstanding (excluding any period during which the federal government only holds warrants to purchase common stock of AIG), AIG shall comply in all respects with Section 111 of the Emergency Economic Stabilization Act of 2008, as amended, as implemented by any guidance or regulations issued and/or to be issued thereunder including any amendments to the guidelines implementing the Programs of Systemically Significant Failing Institutions.

**Conditions to Closing of
Each Drawdown:**

As a condition to the closing of each drawdown:

- AIG shall not be the debtor in a pending case under Title 11, United States Code;
- the AIG Credit Facility Trust (or any successor entity established for the benefit of the United States Treasury) shall "beneficially own" more than 50% of the voting power of the aggregate voting power of AIG's voting securities at the time of such drawdown. "Beneficially owns" is as defined in Rule 13d-3 under the Securities Exchange Act of 1934;
- AIG shall deliver a certificate signed on behalf of AIG by a senior executive officer certifying to the effect that the representations and warranties made on the commencement date are true and correct in all material respects on and as of such closing date; and
- AIG shall deliver certificates in proper form or, with the prior consent of UST, evidence of shares in book-entry form, evidencing the shares of the Series F Preferred Stock to be issued on such closing date to UST or its designee(s).