Report Pursuant to Section 129 of the
Emergency Economic Stabilization Act of 2008:
Restructuring of the Government's Financial Support to
the American International Group, Inc.
on November 10, 2008

Overview

On November 10, 2008, the Board of Governors of the Federal Reserve System (the "Board"), based on the unanimous vote of its five members, announced its approval under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343) for the Federal Reserve Bank of New York (the "Reserve Bank") to restructure the Federal Reserve's existing credit facilities for American International Group, Inc. ("AIG") and establish two new credit facilities for AIG. As discussed further below, these actions were taken in conjunction with the Department of the Treasury (the "Treasury Department") as part of the restructuring of the government's financial support to AIG. These new measures establish a more durable capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers.

Background

AIG is a large, diversified financial services company that, as of September 30, 2008, reported consolidated total assets of slightly more than $1 trillion and stockholders' equity of approximately $71 billion. AIG operates in four general business lines through a number of subsidiaries: (i) general insurance, (ii) life insurance and retirement services, (iii) financial services, and (iv) asset management. In 2007, AIG's U.S. life and health insurance businesses ranked first in the United States in terms of net premiums written ($51.3 billion) and third in terms of total assets at year-end ($364 billion). For the same period, AIG's U.S. property and casualty insurance businesses ranked second in the United States in terms of net premiums written ($35.2 billion) and third in terms of total assets at year-end ($124.5 billion). Certain of AIG's regulated insurance subsidiaries also operate a securities lending program under which the subsidiaries, with the approval of their appropriate state insurance authority, pool together and lend out high-quality, fixed-income securities owned by the insurance companies to third parties in exchange for cash collateral. As of November 5, 2008, the total value of securities lending payables was $34.2 billion.

Through a wholly-owned subsidiary, United Guaranty Corporation (UGC), AIG also provides private mortgage insurance for high loan-to-value first- and second-lien residential mortgages. For the nine months ended September 30, 2008, AIG's mortgage guaranty business had $872 million in net premiums written.

In addition to its on-balance-sheet positions, AIG is a major participant in a wide range of derivatives markets through its Financial Services division, and particularly through its AIG Financial Products business unit (AIGFP), and is a significant counterparty to a number of major national and international financial institutions. For example, as of September 30, 2008, AIGFP had sold credit default swaps (CDS) with a notional amount of $372 billion on super-senior tranches of collateralized debt obligations (CDOs). Approximately $250 billion of that notional amount represented transactions between AIG and banking organizations that are designed to provide the financial institutions with regulatory capital relief. These data represent declines of approximately $70 billion and $57 billion, respectively, from the comparable exposures as of June 30, 2008. As of September 30, 2008, AIGFP had $39 billion in borrowings outstanding, including $13.6 billion through guaranteed investment agreements. A significant portion of the guaranteed investment agreements and financial derivative transactions entered into by AIGFP include provisions that require AIGFP, upon a downgrade of AIG's long-term debt ratings, to post additional collateral or, with the consent of the counterparties, assign or repay its positions or arrange a substitute guarantee of its obligations by an obligor with higher debt ratings.

For the reasons discussed in the reports previously filed under section 129 of the Emergency Economic Stabilization Act, the Board on September 16, 2008, with the full support of the Treasury Department, authorized the Reserve Bank, pursuant to section 13(3) of the Federal Reserve Act, to establish a revolving credit facility for AIG under which the Reserve Bank could lend up to an aggregate amount of $85 billion outstanding at any time ("September Facility"). As described in the report filed under section 129 on November 3, 2008, in light of the facts and circumstances at the time, the Board determined that the potential disorderly failure of AIG could add to already significant levels of financial market fragility and lead to, among other things, substantially higher borrowing costs, reduced household wealth, and materially weaker economic performance. The September Facility was intended to assist AIG in meeting its obligations as they came due and facilitate a process under which AIG would sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy.

On October 6, 2008, the Board also authorized the Reserve Bank to engage in securities borrowing transactions with AIG[1] through which the Reserve Bank could lend up to $37.8 billion in cash to AIG in exchange for collateral in the form of investment grade debt obligations (the "Securities Borrowing Facility"). The Securities Borrowing Facility addressed the liquidity strains placed on AIG due to the ongoing withdrawal of counterparties from securities borrowing transactions and permitted AIG to use the remaining amounts of the September Facility for other uses. The Secured Borrowing Facility also was designed to help alleviate the pressure on AIG to liquidate immediately the portfolio of residential mortgage-backed securities (RMBS) that was purchased with the proceeds of the securities lending transactions. As of November 5, 2008, $19.9 billion in advances were outstanding under the Securities Borrowing Facility.[2] The reasons for and the terms of this facility were described in the report filed under section 129 on October 14, 2008.

The actions taken by the Federal Reserve in September and October 2008 helped address the immediate liquidity needs of AIG. These actions provided AIG access to credit to meet its obligations as they came due and, thus, helped prevent a disorderly failure of AIG, which would have posed substantial risks to both financial stability and the broader economy.

Markets continue to be fragile and stressed, and liquidity pressures are very high. Many asset classes continue to be illiquid or trade at severe discounts to their intrinsic value. Since the various Federal Reserve facilities were authorized, AIG continued to be negatively affected by the decline in value of mortgage-related

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[1] Certain of AIG's regulated insurance subsidiaries operate a securities lending program under which the subsidiaries, with the approval of their appropriate state insurance authority, pool together and lend out high-quality, fixed-income securities owned by the insurance companies to third parties in exchange for cash. The Board authorized the Reserve Bank to engage in securities borrowing transactions with these regulated insurance companies, either directly or through the pool established by such companies to conduct their securities lending program.

[2] On October 7, 2008, the Board announced the creation of a Commercial Paper Funding Facility (the "CPFF") to complement the Federal Reserve's existing credit facilities to help provide liquidity to term funding markets. The CPFF involves the purchase, through a special purpose vehicle with financing from the Federal Reserve, of three-month unsecured and asset-backed commercial paper directly from eligible issuers. On October 27, 2008, four AIG affiliates applied for participation in the CPFF, on the same terms and conditions as other non-AIG participants. AIG has stated that, as of November 5, 2008, these entities had borrowed a total of approximately $15.2 billion under the CPFF. The proceeds of participation in the CPFF allowed AIG to make voluntary prepayments of credit extended under the September Facility.

assets, particularly the RMBS acquired in connection with the securities borrowing program operated by its insurance subsidiaries and the CDS protection that AIGFP has written on multi-sector CDOs. These exposures together accounted for approximately $19 billion of the $24.5 billion in losses recently announced by the company for the third quarter of 2008.

In addition, the size and terms of the emergency credit provided under the September Facility increased the company's leverage and lowered the company's interest coverage ratio, two key metrics used by the credit rating agencies in assessing the financial strength of an issuer. As of November 5, 2008, AIG had approximately $61 billion outstanding under the September Facility, and $19.9 billion in advances outstanding under the Securities Borrowing Facility.

The continued market turbulence has made it difficult for the company to quickly realize the value of its operating assets through sales within the time frame contemplated by the September Facility. Moreover, illiquidity in the markets for various assets, as well as the continuing decline in the valuation of many financial assets, including CDOs and RMBS, increased the strain on AIG from investments and derivatives transactions based on these asset types.

In light of these and all other facts, the Board on November 10, 2008, acting in conjunction with the Treasury Department, announced the restructuring of the Federal Reserve's credit facilities for AIG in order to keep the company strong and facilitate its ability to complete its restructuring process successfully. As noted above, these new measures establish a more durable capital structure, resolve liquidity issues, facilitate AIG's execution of its plan to sell certain of its businesses in an orderly manner, promote market stability, and protect the interests of the U.S. government and taxpayers.

In authorizing the September Facility, the Board found that the disorderly potential failure of AIG posed significant systemic consequences in light of fragile market conditions at that time. Subsequently, market conditions worsened steadily, which has led to heightened systemic risk concerns throughout the financial system. While some of the risks that would be posed by a failure of AIG have decreased somewhat over that time period,[3] counterparties around the world

[3] For example, money market mutual funds no longer have material exposures to AIG's unsecured commercial paper, and AIG's counterparties on guaranteed investment agreements and financial derivatives have smaller exposures as a result of additional collateral posted by AIG.

continue to have significant exposure to AIG and market conditions continue to be fragile and sensitive to the potential disorderly failure of AIG.

Capital Investment by the Treasury Department

In conjunction with the actions authorized by the Board, the Treasury Department announced that it will acquire $40 billion in newly-issued Senior Preferred Stock of AIG, using funding from the Troubled Asset Relief Program ("TARP") established by the Emergency Economic Stabilization Act of 2008. This investment constitutes an important part of the restructuring actions by providing new equity capital to AIG, a tool that was not available to the U.S. government at the time the Federal Reserve established the September Facility and the Securities Borrowing Facility.[4]

Board's Authorizations

In conjunction with the Treasury Department's investment authorization, the Board announced that it had authorized the Reserve Bank, pursuant to section 13(3) of the Federal Reserve Act, to take the following actions with respect to AIG:

1. Restructure the September Facility;

2. Extend up to $22.5 billion in secured credit to a newly formed limited liability company for the purpose of partially funding the acquisition by the vehicle from AIG of approximately $23.5 billion (market value) in RMBS purchased by AIG with the cash collateral received through the securities lending operations of AIG's regulated insurance subsidiaries; and

3. Extend up to $30 billion in secured credit to a separate, newly formed limited liability company for the purpose of partially funding the acquisition by the vehicle from the current counterparties of AIGFP of up to $35 billion (market value) in multi-sector CDOs protected by CDS written by AIGFP.

Additional details concerning each of these authorizations are provided below.

[4] Additional information concerning the terms of the Treasury Department's investment is available in the Treasury Department's "TARP AIG SSFI Investment Summary of Senior Preferred Terms," http://www.treasury.gov/press/releases/reports/111008aigtermsheet.pdf.

The foregoing restructuring removes from AIG's balance sheet certain assets and exposures that have caused substantial liquidity drains on the company and generated significant losses that have eroded AIG's capital base. In addition, the modifications of the September Facility are more consistent with the stabilized condition and prospects of AIG following completion of the restructuring package of actions. Furthermore, the foregoing modifications and especially the extension of the September Facility's term should improve the ability of AIG to repay advances under the September Facility by providing AIG additional time to execute its large and global divestiture program—the primary source of funding for repayment of Federal Reserve lending.

Terms of the Restructuring

1. September Facility Restructuring

The September Facility is restructured in various ways to enhance AIG's ability to repay the credit extended in full while having adequate time to effect its asset disposition plan in a manner most likely to achieve favorable returns for the sale of its various businesses. First, the maturity of the loan under the September Facility was increased from two years to five years (i.e., until September 22, 2013). Second, the interest rates applicable to drawn and undrawn amounts of funding under the September Facility were reduced. The interest rate payable on outstanding advances under the September Facility was reduced from 3-month LIBOR plus 850 basis points to 3-month LIBOR plus 300 basis points. The interest rate payable on available but undrawn amounts of funding under the September Facility was reduced from 850 basis points to 75 basis points. Third, the maximum amount of credit permitted to be outstanding under the September Facility was reduced from $85 billion to $60 billion. This reduction will be effected upon the completion of the Treasury Department's investment of $40 billion from the TARP, the proceeds of which will pay down the September Facility.

Other important terms of the September Facility, however, remain unchanged. AIG remains unconditionally obligated to repay the unpaid principal amount of all advances, together with accrued and unpaid interest thereon and any unpaid fees on the maturity date. Also, all outstanding balances under the September Facility are secured by the pledge of a substantial portion of the assets of AIG and its primary non-regulated subsidiaries, including AIG's ownership interest in its regulated U.S. and foreign subsidiaries.[5] In addition, upon the receipt of shareholder approval, additional collateral will be pledged by AIG to secure the September Facility. Furthermore, AIG's obligations to the Reserve Bank continue to be guaranteed by each of AIG's domestic, nonregulated subsidiaries that have more than $50 million in assets.[6] These guarantees themselves are separately secured by assets pledged to the Reserve Bank by the relevant guarantor. Additional subsidiaries of AIG may be added as guarantors over time by signing a short supplemental agreement.

Finally, the Reserve Bank's agreement to provide advances under the September Facility continue to be specifically conditioned on the Reserve Bank being satisfied in its sole discretion with the nature and value of the collateral securing AIG's obligations at the time of the advance, and on the Reserve Bank being reasonably satisfied in all respects with the corporate governance of AIG. Reserve Bank representatives are in regular contact with AIG's senior management and attend all AIG board of directors meetings, including committee meetings, as an observer. The Reserve Bank also has staff on-site at AIG to monitor the company's funding, cash flows, use of proceeds and progress in pursuing its global divestiture plan. Control and management of the daily business and operations of AIG and its subsidiaries continue to be vested in the new chairman and chief executive officer of AIG and his management team. These and other provisions protect the interests of the Federal Reserve, the Treasury Department, and taxpayers in having full repayment by AIG of all of its Federal Reserve borrowing without incurring any losses.

2. RMBS LLC

On October 8, 2008, the Board announced that it had authorized the creation of the Securities Borrowing Facility for AIG to address the immediate liquidity needs caused by the ongoing withdrawal of AIG's securities lending counterparties. AIG remained, however, exposed to further declines in the value of the RMBS portfolio (par value approximately $40 billion) purchased with the proceeds of these securities lending transactions. AIG has already experienced approximately $16.5 billion in mark-to-market losses on these RMBS as of September 30, 2008, and the market for these securities is illiquid.

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[5] In the case of foreign subsidiaries, the equity interest the Reserve Bank will accept as collateral is limited to 66 percent ownership in order to avoid adverse tax consequences for AIG or its subsidiaries.

[6] Regulated subsidiaries, such as insurance companies, typically are not permitted to provide such guarantees.

In order to reduce the stress and need for continued collateral calls associated with the securities lending program, the Board authorized the establishment of a new facility under which certain AIG insurance subsidiaries will transfer RMBS with a par value of approximately $40 billion and a fair market value as of September 30, 2008, of up to $23.5 billion to a newly-formed limited liability company (the "RMBS LLC"). The RMBS LLC will be financed by AIG with a $1 billion subordinated AIG note, and by the Reserve Bank through a senior Reserve Bank note of approximately $22.5 billion. The aggregate proceeds of the subordinated and senior notes will be used to purchase the RMBS portfolio from AIG, at market value as of October 31, 2008. Proceeds to the insurance company subsidiaries, together with other AIG funds, will be used to return all cash collateral posted by securities borrowers, including approximately $19.9 billion to be returned to the Reserve Bank. After all collateral is returned, AIG will repay in full all of its obligations under the Securities Borrowing Facility. The Securities Borrowing Facility will then be terminated, because it will no longer be necessary once the RMBS LLC is established and functional.

The Reserve Bank senior loan will have a maturity of six years (subject to extension by the Reserve Bank) and will accrue interest at a rate of 1-month LIBOR plus 100 basis points. The Reserve Bank's senior note will be fully secured by the entire portfolio of RMBS acquired by the RMBS LLC, which RMBS are in turn secured primarily by interests in subprime and Alt-A residential mortgages. The RMBS LLC is to be managed by a financial advisor, hired by the Reserve Bank, so that the RMBS LLC's assets can be managed with a view toward maximizing repayment of its obligations with minimum disruption to financial markets.

AIG's subordinated note is to accrue interest at a rate of 1-month LIBOR plus 300 basis points. AIG will receive no payments until the principal and interest on the Reserve Bank's senior note is fully repaid. After both the senior debt and the subordinated debt positions are fully repaid, any residual returns will be apportioned between the Reserve Bank and AIG in the approximate ratios of 5/6 and 1/6, respectively.

3. CDO LLC

AIGFP has written CDS in favor of third-party counterparties related to super-senior multi-sector cash CDOs (the "reference obligations"). These CDS required AIGFP to post collateral with the counterparties to secure its obligations based on fair value deterioration and ratings downgrades of the reference obligations and downgrades of AIG's ratings. As of November 5, AIGFP had posted or agreed to post collateral on all of its super-senior CDS in an aggregate net amount of approximately $37.3 billion. Further declines in the mark-to-market values would require AIG to post further collateral, creating significant potential liquidity drains on AIG.

To address these issues, the Board authorized the Reserve Bank to lend to a new special purpose vehicle (the "CDO LLC") that will offer to purchase the reference obligations from the CDS counterparties, who will concurrently with such purchase terminate the related CDS. The CDO LLC will be funded by a subordinated AIG note in an amount of up to $5 billion, and by a senior Reserve Bank note that will not exceed the remaining amount needed to fund the acquisition of the CDOs, but in any event no more than $30 billion. To the extent that the market value of the CDOs is less than $35 billion, the senior Reserve Bank note will be in a lower amount. Separately, AIG will pay the costs associated with the unwind of the related CDS and bear the risk of declines in market value of the CDOs through October 31, 2008. After the closing date, AIGFP will not be subject to any further collateral calls related to the terminated CDS.

Under the CDO LLC, the Reserve Bank's senior note will be fully secured by the CDOs, the value of which will not exceed $35 billion. The CDOs themselves are secured by subprime and Alt-A residential RMBS and other asset-backed securities. The Reserve Bank's senior note will have a maturity of six years (subject to extension by the Reserve Bank) and is to accrue interest at a rate of 1-month LIBOR plus 100 basis points. AIG's subordinated note is to accrue interest at a rate of 1 month LIBOR plus 300 basis points. AIG will receive no payments until the principal and interest on the Reserve Bank's senior note is fully repaid. After both the senior debt and the subordinated debt positions are fully repaid, any residual returns will be apportioned between the Reserve Bank and AIG in the approximate ratios of 2/3 and 1/3, respectively. Like the RMBS LLC, the CDO LLC is to be managed by a financial advisor, hired by the Reserve Bank, so that the CDO LLC's assets can be managed with a view toward maximizing repayment of its obligations with minimum disruption to financial markets.