

December 2009



American International Group
 AIG Financial Products Corporation
Credit Summary Report

RATING: Q3
Other Ratings as of: November 2009
Moody's: Aa3
S & P: A-

Domicile: Wilton, Connecticut
Holding Company: American International Group, Inc.
Type: Stock
Incorporated: 1987

AIG Financial Products Corporation (AIGFP) is a wholly-owned subsidiary of American International Group, Inc. (AIG). AIG is comprised of four main business segments: General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management. AIG's subsidiaries write a wide range of property and casualty insurance and life insurance products for commercial, institutional, and individual customers. Collectively, the Financial Services division supplies various services including aircraft leasing, financial products, commodities and foreign exchange trading, consumer finance, and insurance premium finance. AIG began as a small insurance business 90 years ago and by the end of 2007 had assets of approximately \$1 trillion, \$110 billion in annual revenues, 74 million customers and 116,000 employees in 130 countries. However, 2007 marked the beginning of AIG's downfall as AIGFP was forced to recognize \$11.4 billion of unrealized valuation losses on its super senior swap portfolio. As the global recession worsened and equity market sell-offs continued, AIGFP suffered further valuation losses leading to AIG recoding a \$100 billion net loss in 2008. AIG was on the verge of collapse and required extraordinary government support in the form of capital injections and credit facilities in order to stay afloat and prevent a further meltdown of the global financial system. In total, the U.S. government has authorized over \$180 billion in assistance, of which \$83.6 billion of debt and equity support requires repayment as of September 30, 2009. As a result, AIG has been in the midst of one of the largest corporate restructurings in history. The restructuring plan has focused on a comprehensive review of the cost structure, the creation of a strong more independent insurance business, the divestment of assets, and the wind down of AIGFP. Since September 2008, AIG has announced 24 separate business sales agreements and closings, has created a new holding company and several special purpose vehicles to house various insurance subsidiaries, and significantly reduced the size and volume of AIGFP's trading exposures. As of September 30, 2009, total assets have been reduced 19.5% from YE07 to \$844 billion.

AIGFP was created in 1987 as AIG built upon its premier global franchises in life and general insurance by expanding into a range of financial services businesses. AIGFP acted as principal in standard and customized interest rate, currency, equity, and credit products with top tier corporations, financial institutions, governments, agencies, institutional investors, and high net worth individuals throughout the world. In 1998, AIGFP began to sell credit default swaps to other financial institutions to protect against the default of certain securities. As the U.S. residential mortgage market began to deteriorate in late 2007, AIGFP was providing over \$400 billion of protection through credit default swaps when the valuation of these securities declined severely. As a result, by August 2008, AIG recorded unrealized market valuation losses related to AIGFP's credit default swap portfolio and securities lending business totaling \$20.5 billion and was forced to post \$16.5 billion in collateral. Credit markets continued to deteriorate rapidly, making it virtually impossible for AIG to access capital. In September, 2008, AIG's credit ratings were downgraded by S&P, Fitch and Moody's, triggering additional collateral calls and cash requirements in excess of \$20 billion. Although AIG remained solvent, liquidity had completely disappeared.

Acknowledging the importance of AIG to the global economy, the Federal Reserve Bank of New York (FRBNY) extended AIG a two-year emergency secured loan of up to \$85 billion on September 16, 2008. The management team of AIG then developed a plan to sell many of AIG's leading businesses around the world to pay back the FRBNY loan. With the restructuring plan in place, AIG still needed to address the liquidity issues around the multi-sector credit default swap portfolio and the securities lending program. On November 10, 2008, AIG and the FRBNY announced a plan to address the liquidity issues and provide more time and flexibility to sell assets and repay the government loan. The plan included the creation by the FRBNY of two financing entities, Maiden Lane II and Maiden Lane III, to acquire AIG's securities lending assets and the multi-sector collateralized debt obligations that were guaranteed by AIGFP's credit default swaps. The entities were funded primarily by the FRBNY, with a subordinated capital contribution by AIG. Additionally, the U.S. Treasury purchased, through the Troubled Asset Relief Program (TARP), \$40 billion of newly issued AIG perpetual preferred shares. The proceeds were used to pay down a portion of the FRBNY loan.

The creation of the Maiden Lane entities along with the government's equity injection significantly relieved AIG's liquidity pressures; however, asset valuations continued to decline and AIG's losses increased through the end of 2008. AIG reported a realized investment loss of \$21.6 billion and a net loss of \$62 billion in the fourth quarter while compiling a loss for the year of \$100 billion. On March 2, 2009, AIG announced some changes to the restructuring plan. The changes include the creation of a general insurance holding company named AIU Holdings, composed of its Commercial Insurance Group, Foreign General unit, and other property and casualty operations. Additionally, AIG created two separate special purpose vehicles (SPV) where American Life Insurance Company and American International Assurance Company were placed. The FRBNY will receive preferred and common interests in the SPV's which will reduce the amount owed by AIG under the credit facilities by \$25 billion. Following the announced changes, the U.S. Treasury made an additional five-year standby equity capital commitment of \$30 billion, of which \$3.2 billion had been drawn as of October 2, 2009. The federal government's total outstanding assistance to AIG is approximately \$121 billion and the government maintains a 77.9% controlling equity interest in the company.

Following six consecutive quarterly losses, AIG returned to profitability in the second and third quarters of 2009 with net income of \$1.8 billion and \$455 million respectively. Improving market conditions have resulted in positive valuation changes in the Maiden Lane interests and reduced other-than-temporary impairments. Insurance operations are beginning to show signs of stabilization while the risk profile of AIGFP continues to be reduced. Since December 31, 2008, AIGFP has reduced the notional amount of its derivative exposure by 28% to \$1.1 trillion, with the number of trade positions being reduced 43% to 20,000. Through the first nine months of 2009, AIGFP reported operating income of \$97 million compared to a loss of \$23.3 billion over the same time frame of the previous year. Results have benefited from the global market turnaround in the form of \$1.1 billion of unrealized valuation gains on the CDS portfolio and an additional \$2.4 billion of favorable credit valuation adjustments.

American International Group

AIG Financial Products Corporation

Strengths:

- Extraordinary support provided by the U.S. Treasury and the FRBNY
- A strong insurance franchise that is diversified both geographically and by product line

Weaknesses:

- Potential loss of key employees and customer attrition
 - Difficulty with the continued disposition of assets
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BNY MELLON CASH INVESTMENT STRATEGIES

► A BNY MELLON ASSET MANAGEMENT COMPANYSM

525 Market Street, 35th Floor · San Francisco, CA 94105

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