

# Key Points of Interest

U.S. Treasury and Federal Reserve AIG Actions • 3Q08 Results • Agency Ratings



November 11, 2008

On November 10, 2008, AIG announced agreements with the U.S. Treasury and the Federal Reserve to establish a durable capital structure for AIG, and facilities designed to resolve the liquidity issues AIG has experienced in its credit default swap portfolio and its U.S. securities lending program. The company also announced third quarter 2008 results. The FAQ below reviews both announcements along with information relevant to clients.

## U.S. TREASURY, FEDERAL RESERVE AND AIG AGREEMENTS

### Q. How do these agreements benefit AIG?

A. AIG's agreement is designed to accomplish a number of objectives, including:

- Creating a more durable capital structure for AIG with new equity capital and substantially reduced debt. Under the new plan, the U.S. Treasury will purchase \$40 billion of newly issued AIG preferred stock, with a 10% coupon.
- Lowering AIG's cost of capital will allow an orderly restructure of AIG's business. The size of the existing credit facility from the Federal Reserve Bank of New York (FRBNY) will be amended to reduce the capacity from \$85 billion to \$60 billion. Its term will be extended from 2 years to 5 years, and the interest rate and fee on undrawn portions will be reduced.
- Addressing Securities Lending and Multi-Sector Collateralized Debt Obligations (CDOs). The agreement creates two new financing entities in partnership with the Federal Reserve, designed to address liquidity issues related to Securities Lending and multi-sector CDS.

- a. The first new financing entity will acquire substantially all of the Residential Mortgage Backed Securities (RMBS) from AIG's Securities Lending program. As a result of this transaction, AIG's remaining exposure to losses from its U.S. securities lending program will be limited to declines in market value prior to closing and \$1 billion of funding.
- b. The second financing entity will purchase Multi-Sector CDOs on which AIG has written CDS contracts. CDS contracts will be terminated on Multi-Sector CDOs that are purchased.

### Q. How do these agreements benefit taxpayers?

A. The plan benefits taxpayers on top of the over \$2 billion in fees and interest paid

to date on the existing bridge loan, by giving them both an attractive current return on their investment and the potential for appreciation of assets purchased from AIG and in AIG common stock. These benefits include:

- a. A 10% annual dividend on preferred stock;
- b. Interest on the revised 5-year debt facility at LIBOR + 3.0%;
- c. Fee on the undrawn portion of revised 5-year debt facility at 0.75%;
- d. A majority of potential upside on RMBS and CDOs owned by financing entities; and
- e. Potential appreciation on AIG common shares/warrants.

### Q. So, what's next for AIG in this process?

A. AIG still has a lot of work to do to execute this plan and ultimately transition to a restructured and recapitalized AIG, but today's agreements puts the company in a improved position to succeed and emerge as a focused, profitable global insurance company - a critical objective to AIG's millions of policyholders, thousands of employees, agents, brokers and sales representatives who rely on AIG for their financial security.

## AIG REPORTS THIRD QUARTER 2008 RESULTS

### Q. What did AIG report for the third quarter of 2008?

A. On November 10, 2008, AIG reported a net loss for the third quarter of 2008 of \$24.47 billion or \$9.05 per diluted share compared to 2007 third quarter net income of \$3.09 billion or \$1.19 per diluted share. Third quarter 2008 adjusted net loss was \$9.24 billion or \$3.42 per diluted share, compared to adjusted net income of \$3.49 or \$1.35 per diluted share for the third quarter of 2007.

### Q. What key factors contributed to AIG's third quarter 2008 results?

A. AIG's results in the third quarter were negatively affected by financial dislocation

in global markets, catastrophic losses, and charges related to ongoing restructuring activities. While AIG's quarterly earnings reflect a confluence of unprecedented events, it does not reflect the core earnings power of its insurance businesses, including VALIC.

### Q. Were there any performance highlights during the quarter?

A. The strength of AIG's global franchise allowed the company to continue to write significant amounts of new business this quarter. Despite financial market turmoil, continuing price competition in property/casualty, and all the negative publicity about AIG, consolidated premiums and other considerations were still \$21 billion, up almost 7% from last year.

## IMPACT ON VALIC

### Q. How did the ratings agencies respond following this morning's announcements?

A. The following independent ratings agencies have reported:

1. A.M. Best Company has affirmed the financial strength ratings and issuer credit ratings of the insurance subsidiaries of AIG. A.M. Best removed the ratings from "under review" and assigned a negative outlook. Regarding the ratings affirmations of AIG's domestic life and retirement services subsidiaries, A.M. Best stated, the "ratings reflect the individual financial strength and operating performance of the operating subsidiaries organized under AIG's domestic life and retirement services operations. The ratings recognize the life and retirements services estimated modest statutory after-tax adjusted capitalization and its diverse product portfolio."
2. S&P, Moody's and Fitch Ratings, Inc. affirmed various AIG ratings.

### Q. Why are financial strength ratings important?

A. Independent ratings agencies provide opinions on an organization's ability to meet its financial obligations to its contract holders, creditors and shareholders, based

on a thorough review of the organization and its financial condition. Financial strength ratings reflect the ratings agencies' opinions of an insurer's ability to meet its obligations. Financial strength is important—you want the company that stands behind the insurance guarantees in an annuity to be there when you need it—when you're ready to take income or when your heirs need the funds that are due to them. Our ratings are competitive with those of our industry peers. VALIC's current ratings are below.

**Q. Is my money safe with VALIC?**

A. First, it's important to understand how the design of an annuity protects your investment. When you invest in a variable annuity, assets in the variable investment options are invested in underlying portfolios (subaccounts) regulated by the SEC and managed by professional money managers. These assets are held in a separate account. The separate account assets are owned by the insurance company for the exclusive benefit of the clients and their beneficiaries. State insurance laws provide that the separate account assets are not chargeable with the liabilities arising out of any other business conducted by the insurance company. This is intended to ensure that the separate account is not subject to claims from any person or entity other than a contract owner, plan participant or beneficiary.

If you choose to invest in a guaranteed fixed investment option, the fixed options guarantee a return of the premiums plus a specified fixed rate of return. Guarantees are backed by the general account of the issuing life insurance company, which supports its obligations.

Living and death benefit guarantees are also supported by the strength of an insurer's general account. The general account is exposed to risks typically associated with a portfolio of fixed income securities, namely, interest rate, option, liquidity and credit risk.

**NOTE:** Variable annuities are long-term investments designed for retirement. An investment in a variable annuity involves investment risk, including loss of principal. Variable annuity investment options fluctuate with market conditions. The contract, when redeemed, may be worth more or less than the total amount invested.

If you are invested in VALIC's group mutual fund product, your accounts are held by qualified financial custodians for the exclusive benefit of retirement plan participants and their beneficiaries. Under

Federal law, mutual fund assets are owned by the shareholders of the funds (participants) and are not subject to claims by creditors, such as AIG or VALIC.

The fixed account portions of your accounts are invested in a VALIC fixed contract that is part of VALIC's general account, guaranteeing fixed rate earnings and a guarantee of principal. A general account is the insurance company's account that receives the annuity premiums and invests them according to state insurance regulations. The general account guarantees and supports only the obligations of that

benefits, are fulfilled. These regulations, which include conservative investment requirements, are intended to help minimize the risk to client assets in the general account and maximize the insurer's ability to pay claims from that account.

It is important to note that the guarantees within a fixed annuity contract are backed by the issuing life company's general account, which supports the obligations of that life company.

State insurance departments will also have involvement and oversight in any sale of an insurance company that they regulate. VALIC

**AIG's state-regulated insurance entities "are all financially sound — or, in insurance regulatory terms, "solvent" — and fully able to pay claims presented by policyholders and claimants."**

*National Association of Insurance Commissioners  
September 16, 2008*

insurance company, and not any obligations of a parent company.

**Q. How is my annuity protected by state insurance regulations?**

A. Guarantees in your annuity are as strong as the general account of the insurance company. State insurance regulations surrounding general account management and investing are substantial, intended to preserve the solvency of the insurance company general account. The purpose of such regulations is to assure that the contractual obligations to policyowners, such as the guarantees inherent in living and death

is domiciled in Texas and is regulated by the state's insurance department. The insurance department's primary concern in any sale will be the preservation of owners' contracts.

**Q. Is my policy insured by the FDIC?**

A. No. The FDIC insures bank accounts, such as checking, savings, trust, certificates of deposit (CDs), IRAs and money market deposit accounts. All of these bank accounts generally are insured by the FDIC up to the legal limit of \$100,000.

The FDIC does not insure products such as mutual funds, annuities, life insurance policies, stocks and bonds.

**VALIC Financial Strength Ratings**

*as of 11/10/2008*

Agency	Rating	Descriptor	Definition
Standard & Poor's <sup>1</sup>	A+	Strong	"An insurer rated 'A' has STRONG financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings."
Moody's Investors Service <sup>2</sup>	Aa3	Excellent	"Insurance companies rated Aa offer excellent financial security. Together with Aaa group, they constitute what are generally known as high-grade companies."
Fitch Ratings <sup>3</sup>	AA-	Very Strong	"Denote a very low expectation of ceased or interrupted payments. They indicate very strong capacity to meet policyholder and contract obligations on a timely basis. This capacity is not significantly vulnerable to foreseeable events."
A.M. Best Company <sup>4</sup>	A	Excellent	"Assigned to companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations."

<sup>1</sup> Credit watch negative

<sup>2</sup> On review for possible further downgrade

<sup>3</sup> Rating watch evolving

<sup>4</sup> Negative outlook

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