

# BREAKING NEWS



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## AIG Restructuring and Hartford Ratings Information

*The Council of Insurance Agents & Brokers* has released the following information:

This morning, AIG announced that it has reached an agreement with the Treasury Department and the Federal Reserve Board to restructure the federal government assistance to AIG. This action was taken in advance of AIG's reporting of a \$62 billion loss for the fourth quarter 2008 this morning. The company's insurance operations are essentially being split into three parts: a new property/casualty holding company and two special purpose vehicles that will hold the assets of its two major life insurance subsidiaries. Several sources are reporting that the major ratings agencies were briefed on the restructuring in advance of its release and have made a commitment not to downgrade AIG, which would have required AIG to post approximately \$8 billion in collateral payments and could have triggered the loss of numerous corporate insurance contracts.

Below is a summary of the information released on AIG's restructuring. This situation is truly unique. Because we have never seen an event like this in the insurance industry, we're still analyzing the ultimate effects that this restructuring will bring. We will continue to provide you with information and analysis on this situation as going forward.

As mentioned above, AIG will form a new unit, AIU Holdings, Inc., that will act as a General Insurance holding company for all its property/casualty operations. The unit will include its Commercial Insurance Group, Foreign General Unit and other property/casualty operations. According to the news release, this company will have a separate board of directors, management team and brand "distinct" from AIG. The unit is being formed in anticipation of the sale of a minority stake and possibly a initial public offering of shares. Kristian P. Moor will become President of the unit, and

Nicholas C. Walsh will be Vice Chairman. John Q. Doyle will assume additional responsibilities for the Domestic Personal Lines Division. There do not appear to be additional effects on the property/casualty subsidiaries at this time.

As a part of the agreement, on March 4 AIG will exchange the perpetual preferred shares that Treasury currently holds for new preferred shares that do not require dividend payments. AIG's ability to redeem these shares will be limited to the use of equity capital. After this exchange, Treasury will hold a 77.9 percent interest in AIG, to be held in trust for Treasury's benefit. Treasury also will create a new equity capital facility that permits AIG to access up to \$30 billion in exchange for non-cumulative preferred stock. This capital is made available under the Troubled Asset Relief Program.

In addition, the Federal Reserve will reduce the amount of the Revolving Credit Facility created by the New York Fed in September 2008 in exchange for preferred interests in two special purpose vehicles that have been created and that will essentially hold all of the outstanding common shares of two life insurance holding company subsidiaries of AIG, American Life Insurance Company (ALICO) and American International Assurance Co, Ltd (AIA). There is some difficulty in placing a value on these two units at this time because of market conditions. These interests will be valued at up to approximately \$26 billion, but will be valued a percentage of the fair market value of the two companies.

While AIG will maintain control of these two companies, the New York Fed will gain certain governance rights to protect its interests. The two companies will also become independent operations, and will still explore a range of options from sale of the companies to public share offerings.

The New York Fed may also make new loans of up to \$8.5 billion to these SPVs. The SPVs would repay these loans from the cash flows they receive from designated blocks of insurance policies held by ALICO and AIA.

After these transactions, the amount available under the original Revolving Credit facility will be no less than \$25 billion. The interest rate charges to AIG on the Revolving Credit Subsidiary facility will also be reduced.

Finally, AIG must comply with the executive compensation and corporate governance requirements of the Emergency Economic Stabilization Act, which include limits on executive compensation. They must also continue to follow restrictions put into place by management on lobbying and corporate expenses.

As noted above, several sources are reporting that the major ratings agencies have approved of this

restructuring plan and have agreed not to lower AIG's ratings at this time.

### **Other Breaking News**

A.M. Best Downgrades Ratings of The Hartford Financial Services Group, Inc. and Its Subsidiaries A.M. Best Co. has downgraded the financial strength ratings (FSR) to A (Excellent) from A+ (Superior) and the issuer credit ratings (ICR) to "a+" from "aa-" of the key life/health (Hartford Life) insurance subsidiaries of The Hartford Financial Services Group, Inc. (The Hartford) (Hartford, CT) [NYSE: HIG]. Concurrently, A.M. Best has downgraded the ICR to "bbb+" from "a-" of Hartford Life, Inc. The outlook for these ratings is negative.

Additionally, Standard & Poor's lowered The Hartford's ratings from A+ to AA- with negative implications.

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