## Capital Resources and Liquidity

At June 30, 2008, AIG had total consolidated shareholders' equity of $78.1 billion and total consolidated borrowings of $178.6 billion. At that date, $68.6 billion of such borrowings were subsidiary borrowings not guaranteed by AIG.

In May 2008, AIG raised a total of approximately $20 billion through the sale of:

- 196,710,525 shares of AIG common stock in a public offering at a price per share of $38, for an aggregate amount of $7.47 billion;
- 78.4 million equity units in a public offering at a price per unit of $75, for an aggregate amount of $5.88 billion. The equity units consist of an ownership interest in AIG junior subordinated debentures and a stock purchase contract obligating the holder of an equity unit to purchase, and obligating AIG to sell, a variable number of shares of AIG common stock on three dates in 2011 (a minimum of 128,944,480 shares and a maximum of 154,738,080 shares, subject to anti-dilution adjustments); and
- $6.9 billion in unregistered offerings of junior subordinated debentures in three series: $4.0 billion 8.175 percent Series A-6 junior subordinated debentures, EUR 750 million 8.0 percent Series A-7 junior subordinated debentures, and GBP 900 million 8.625 percent Series A-8 junior subordinated debentures.

The equity units and junior subordinated debentures receive hybrid equity treatment from the major rating agencies under their current policies but are recorded as long-term borrowings on the consolidated balance sheet.

EXHIBIT A

*Borrowings*

**AIG's total borrowings were as follows:**

| *(in millions)* | **June 30, 2008** | December 31, 2007 |
|---|---|---|
| Borrowings issued by AIG: | | |
| Notes and bonds payable | **$ 12,960** | $ 14,588 |
| Junior subordinated debt | **12,866** | 5,809 |
| Junior subordinated debt attributable to equity units | **5,880** | — |
| Loans and mortgages payable | **893** | 729 |
| MIP matched notes and bonds payable | **14,621** | 14,267 |
| Series AIGFP matched notes and bonds payable | **998** | 874 |
| Total AIG borrowings | **48,218** | 36,267 |
| Borrowings guaranteed by AIG: | | |
| AIGFP[a] | | |
| GIAs | **18,296** | 19,908 |
| Notes and bonds payable | **28,304** | 36,676 |
| Loans and mortgages payable | **1,577** | 1,384 |
| Hybrid financial instrument liabilities[b] | **5,662** | 7,479 |
| Total AIGFP borrowings | **53,839** | 65,447 |
| AIG Funding, Inc. commercial paper | **5,765** | 4,222 |
| AIGLH notes and bonds payable | **797** | 797 |
| Liabilities connected to trust preferred stock | **1,415** | 1,435 |
| Total borrowings issued or guaranteed by AIG | **110,034** | 108,168 |
| Borrowings not guaranteed by AIG: | | |
| ILFC | | |
| Commercial paper | **4,608** | 4,483 |
| Junior subordinated debt | **999** | 999 |
| Notes and bonds payable[c] | **26,818** | 25,737 |
| Total ILFC borrowings | **32,425** | 31,219 |
| AGF | | |
| Commercial paper and extendible commercial notes | **3,912** | 3,801 |
| Junior subordinated debt | **349** | 349 |
| Notes and bonds payable | **21,204** | 22,369 |
| Total AGF borrowings | **25,465** | 26,519 |
| AIGCFG | | |
| Commercial paper | **273** | 287 |
| Loans and mortgages payable | **2,257** | 1,839 |
| Total AIGCFG borrowings | **2,530** | 2,126 |
| AIG Finance Taiwan Limited commercial paper | **3** | — |
| Other subsidiaries | **709** | 775 |
| Borrowings of consolidated investments: | | |
| A.I. Credit[d] | **500** | 321 |
| AIG Investments | **1,502** | 1,636 |
| AIG Global Real Estate Investment | **5,294** | 5,096 |
| AIG SunAmerica | **176** | 186 |
| ALICO | **—** | 3 |
| Total borrowings of consolidated investments | **7,472** | 7,242 |
| Total borrowings not guaranteed by AIG | **68,604** | 67,881 |
| Consolidated: | | |
| Total commercial paper and extendible commercial notes | **15,061** | 13,114 |
| Total long-term borrowings | **163,577** | 162,935 |
| Total borrowings | **$178,638** | $176,049 |

*(a) In 2008, AIGFP borrowings are carried at fair value.*

*(b) Represents structured notes issued by AIGFP that are accounted for using the fair value option at 2008 and 2007.*

*(c) Includes borrowings under Export Credit Facility of $2.6 billion and $2.5 billion at June 30, 2008 and December 31, 2007, respectively.*

*(d) Represents commercial paper issued by a variable interest entity secured by receivables of A.I. Credit.*

**The roll forward of long-term borrowings, excluding borrowings of consolidated investments, for the six months ended June 30, 2008 was as follows:**

*(in millions)*

| | Balance at December 31, 2007 | Issuances | Maturities and Repayments | Effect of Foreign Exchange | Other Changes[b] | **Balance at June 30, 2008** |
|---|---|---|---|---|---|---|
| AIG | | | | | | |
| Notes and bonds payable | $ 14,588 | $ — | $ (1,792) | $ 70 | $ 94 | **$ 12,960** |
| Junior subordinated debt | 5,809 | 6,953 | — | 104 | — | **12,866** |
| Junior subordinated debt attributable to equity units | — | 5,880 | — | — | — | **5,880** |
| Loans and mortgages payable | 729 | 306 | (140) | 14 | (16) | **893** |
| MIP matched notes and bonds payable | 14,267 | — | — | 20 | 334 | **14,621** |
| Series AIGFP matched notes and bonds payable | 874 | 214 | (95) | — | 5 | **998** |
| AIGFP[a] | | | | | | |
| GIAs | 19,908 | 2,944 | (5,039) | — | 483 | **18,296** |
| Notes and bonds payable and hybrid financial instrument liabilities | 44,155 | 33,553 | (44,951) | — | 1,209 | **33,966** |
| Loans and mortgages payable | 1,384 | 235 | (165) | — | 123 | **1,577** |
| AIGLH notes and bonds payable | 797 | — | — | — | — | **797** |
| Liabilities connected to trust preferred stock | 1,435 | — | (19) | — | (1) | **1,415** |
| ILFC notes and bonds payable | 25,737 | 2,680 | (1,884) | 286 | (1) | **26,818** |
| ILFC junior subordinated debt | 999 | — | — | — | — | **999** |
| AGF notes and bonds payable | 22,369 | 736 | (2,098) | 147 | 50 | **21,204** |
| AGF junior subordinated debt | 349 | — | — | — | — | **349** |
| AIGCFG loans and mortgages payable | 1,839 | 1,234 | (1,089) | 123 | 150 | **2,257** |
| Other subsidiaries | 775 | 23 | (102) | 10 | 3 | **709** |
| Total | $156,014 | $54,758 | $(57,374) | $ 774 | $ 2,433 | **$156,605** |

*(a) In 2008, AIGFP borrowings are carried at fair value.*

*(b) Includes the cumulative effect of the adoption of FAS 159.*

## *AIG (Parent Company)*

AIG intends to continue its customary practice of issuing debt securities from time to time to meet its financing needs and those of certain of its subsidiaries for general corporate purposes, as well as to opportunistically fund the MIP. As of June 30, 2008, approximately $7.4 billion principal amount of senior notes were outstanding under AIG's medium-term note program, of which $3.2 billion was used for AIG's general corporate purposes, $1.0 billion was used by AIGFP (referred to as "Series AIGFP" in the preceding tables) and $3.2 billion was used to fund the MIP. The maturity dates of these notes range from 2008 to 2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes.

AIG also maintains a Euro medium-term note program under which an aggregate nominal amount of up to $20.0 billion of senior notes may be outstanding at any one time. As of June 30, 2008, the equivalent of $13.1 billion of notes were outstanding under the program, of which $10.0 billion were used to fund the MIP and the remainder was used for AIG's general corporate purposes. The aggregate amount outstanding includes a $1.7 billion loss resulting from foreign exchange translation into U.S. dollars, of which $451 million loss relates to notes issued by AIG for general corporate purposes and $1.2 billion loss relates to notes issued to fund the MIP. AIG has economically hedged the currency exposure arising from its foreign currency denominated notes.

AIG maintains a shelf registration statement in Japan, providing for the issuance of up to Japanese yen 300 billion principal amount of senior notes, of which the equivalent of $470 million was outstanding as of June 30, 2008 and was used for AIG's general corporate purposes. AIG also maintains an Australian dollar debt program under which senior notes with an aggregate principal amount of up to 5 billion Australian dollars may be outstanding at any one time. Although as of June 30, 2008 there were no outstanding notes under the Australian program, AIG intends to use the program opportunistically to fund the MIP or for AIG's general corporate purposes.

In May 2008, AIG issued $5.88 billion of junior subordinated debentures which form part of the equity units sold by AIG in a public offering. In addition, AIG sold a total of $6.9 billion of junior subordinated debentures in Rule 144A/Regulation S offerings in three series: $4.0 billion 8.175 percent Series A-6 junior subordinated debentures; EUR 750 million 8.0 percent Series A-7 junior subordinated debentures; and GBP 900 million 8.625 percent Series A-8 junior subordinated debentures. AIG may redeem the A-6 debentures without penalty on or after May 15, 2038 and may redeem the A-7 and A-8 debentures on or after May 22,

2018 without penalty. After these dates, the debentures will bear interest at floating rates. AIG agreed pursuant to a replacement capital covenant that it will not repay, redeem, or purchase the Series A-6, A-7 or A-8 junior subordinated debentures on or before a specified date, unless AIG has received qualifying proceeds from the sale of replacement capital securities. The equity units and the Series A-6, A-7 and A-8 junior subordinated debentures receive hybrid equity treatment from the major rating agencies under their current policies but are recorded as long-term borrowings on the consolidated balance sheet.

In October 2007, AIG borrowed a total of $500 million on an unsecured basis pursuant to a loan agreement with a third-party bank. The entire amount of the loan remained outstanding at June 30, 2008 and will mature in October 2008.

### *AIGFP*

AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings, as well as the issuance of Series AIGFP notes by AIG, to invest in a diversified portfolio of securities and derivative transactions. The borrowings may also be temporarily invested in securities purchased under agreements to resell. AIGFP's notes and bonds include structured debt instruments whose payment terms are linked to one or more financial or other indices (such as an equity index or commodity index or another measure that is not considered to be clearly and closely related to the debt instrument). These notes contain embedded derivatives that otherwise would be required to be accounted for separately under FAS 133. Upon AIG's adoption of FAS 155 in 2006, AIGFP elected the fair value option for these notes. The notes that are accounted for using the fair value option are reported separately under hybrid financial instrument liabilities. AIG guarantees the obligations of AIGFP under AIGFP's notes and bonds and GIA borrowings. See Liquidity herein.

AIGFP has a Euro medium-term note program under which an aggregate nominal amount of up to $20.0 billion of notes may be outstanding at any one time. As of June 30, 2008, $4.3 billion of notes were outstanding under the program. The notes issued under this program are guaranteed by AIG and are included in AIGFP's notes and bonds payable in the table of total borrowings.

### *AIG Funding*

AIG Funding, Inc. (AIG Funding) issues commercial paper that is guaranteed by AIG to help fulfill the short-term cash requirements of AIG and its subsidiaries. The level of issuances of AIG Funding's commercial paper, including the guarantee by AIG, is subject to the approval of AIG's Board of Directors or the Finance Committee of the Board if it exceeds certain pre-approved limits.

As backup for the commercial paper program and for other general corporate purposes, AIG and AIG Funding maintain revolving credit facilities, which, as of June 30, 2008, had an aggregate of $9.2 billion available to be drawn and which are summarized below under Revolving Credit Facilities. In July 2008, AIG and AIG Funding renewed their 364-day syndicated revolving credit facility.

### *ILFC*

ILFC fulfills its short-term cash requirements through operating cash flows and the issuance of commercial paper. The issuance of commercial paper is subject to the approval of ILFC's Board of Directors and is not guaranteed by AIG. ILFC maintains syndicated revolving credit facilities which, as of June 30, 2008, totaled $6.5 billion and which are summarized below under Revolving Credit Facilities. These facilities are used as back up for ILFC's maturing debt and other obligations.

As a well-known seasoned issuer, ILFC has filed an automatic shelf registration statement with the SEC allowing ILFC immediate access to the U.S. public debt markets. At June 30, 2008, $6.8 billion of debt securities had been issued under this registration statement and $6.1 billion had been issued under a prior registration statement. In addition, ILFC has a Euro medium-term note program for $7.0 billion, under which $3.8 billion in notes were outstanding at June 30, 2008. Notes issued under the Euro medium-term note program are included in ILFC notes and bonds payable in the preceding table of borrowings. The cumulative foreign exchange adjustment loss for the foreign currency denominated debt was $1.3 billion at June 30, 2008 and $969 million at December 31, 2007. ILFC has substantially eliminated the currency exposure arising from foreign currency denominated notes by economically hedging the note exposure.

ILFC had a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At June 30, 2008, ILFC had $504 million outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility.

In May 2004, ILFC entered into a similarly structured Export Credit Facility for up to a maximum of $2.6 billion for Airbus aircraft to be delivered through May 31, 2005. The facility was subsequently increased to $3.6 billion and extended to include aircraft to be delivered through May 31, 2009. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a six-month forward-looking calendar, and the interest rate is determined through a bid process. The interest rates are either LIBOR based with spreads ranging from

0.01 percent to 0.28 percent or at fixed rates ranging from 4.2 percent to 4.7 percent. At June 30, 2008, ILFC had $2.1 billion outstanding under this facility. The debt is collateralized by a pledge of shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. Borrowings with respect to these facilities are included in ILFC's notes and bonds payable in the preceding table of borrowings.

From time to time, ILFC enters into funded financing agreements. As of June 30, 2008, ILFC had a total of $1.1 billion outstanding, which has varying maturities through February 2012. The interest rates are LIBOR-based, with spreads ranging from 0.30 percent to 1.625 percent.

The proceeds of ILFC's debt financing are primarily used to purchase flight equipment, including progress payments during the construction phase. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. AIG does not guarantee the debt obligations of ILFC. See also Liquidity herein.

### *AGF*

AGF fulfills most of its short-term cash borrowing requirements through the issuance of commercial paper. The issuance of commercial paper is subject to the approval of AGF's Board of Directors and is not guaranteed by AIG. AGF maintains committed syndicated revolving credit facilities which, as of June 30, 2008, totaled $4.8 billion and which are summarized below under Revolving Credit Facilities. The facilities can be used for general corporate purposes and to provide backup for AGF's commercial paper programs. In July 2008, AGF renewed its expiring $2.625 billion 364-day revolving credit facility and decreased the amount to $2.45 billion.

As of June 30, 2008, notes and bonds aggregating $21.2 billion were outstanding with maturity dates ranging from 2008 to 2031 at interest rates ranging from 2.13 percent to 8.45 percent. To the extent considered appropriate, AGF may enter into swap transactions to manage its effective borrowing rates with respect to these notes and bonds. As a well-known seasoned issuer, AGF has an automatic shelf registration statement on file with the SEC that permits AGF immediate access to the U.S. public debt markets.

AGF's funding sources include an SEC-registered medium-term note program, private placement debt, retail note issuances, bank financing and securitizations of finance receivables that AGF accounts for as on-balance-sheet secured financings. In addition, AGF has become a recognized issuer of long-term debt in the international capital markets and has established a $5.0 billion Euro medium-term note program. There are currently no outstanding notes under AGF's Euro program.

In addition to debt refinancing activities, proceeds from the collection of finance receivables are used to fund cash needs including the payment of principal and interest on AGF's debt. AIG does not guarantee any of the debt obligations of AGF. See also Liquidity herein.

### *AIGCFG*

AIGCFG has a variety of funding mechanisms for its various markets, including retail and wholesale deposits, short- and long-term bank loans, securitizations and intercompany subordinated debt. AIG Credit Card Company (Taiwan), a consumer finance business in Taiwan, and AIG Retail Bank PLC, a full service consumer bank in Thailand, have issued commercial paper for the funding of their respective operations. AIG does not guarantee any borrowings for AIGCFG businesses, including this commercial paper.

### *Revolving Credit Facilities*

AIG, ILFC and AGF maintain committed, unsecured revolving credit facilities listed on the following table in order to support their respective commercial paper programs and for general corporate purposes. AIG, ILFC and AGF expect to replace or extend these credit facilities on or prior to their expiration. Some of the facilities, as noted below, contain a "term-out option" allowing for the conversion by the borrower of any outstanding loans at expiration into one-year term loans.

*As of June 30, 2008 (in millions)*

| Facility | Size | Borrower(s) | Available Amount | Expiration | One-Year Term-Out Option |
|---|---|---|---|---|---|
| AIG: | | | | | |
| 364-Day Syndicated Facility | $ 2,125 | AIG/AIG Funding[a]<br>AIG Capital Corporation[a] | $2,125 | July 2008[b] | Yes |
| 5-Year Syndicated Facility | 1,625 | AIG/AIG Funding[a]<br>AIG Capital Corporation[a] | 1,625 | July 2011 | No |
| 364-Day Bilateral Facility[c] | 3,200 | AIG/AIG Funding | 102 | December 2008 | Yes |
| 364-Day Intercompany Facility[d] | 5,335 | AIG | 5,335 | September 2008 | Yes |
| Total AIG | $12,285 | | $9,187 | | |
| ILFC: | | | | | |
| 5-Year Syndicated Facility | $ 2,500 | ILFC | $2,500 | October 2011 | No |
| 5-Year Syndicated Facility | 2,000 | ILFC | 2,000 | October 2010 | No |
| 5-Year Syndicated Facility | 2,000 | ILFC | 2,000 | October 2009 | No |
| Total ILFC | $ 6,500 | | $6,500 | | |
| AGF: | | | | | |
| 364-Day Syndicated Facility | $ 2,625 | American General Finance Corporation<br>American General Finance, Inc.[e] | $2,625 | July 2008[f] | Yes |
| 5-Year Syndicated Facility | 2,125 | American General Finance Corporation | 2,125 | July 2010 | No |
| Total AGF | $ 4,750 | | $4,750 | | |

*(a) Guaranteed by AIG.*

*(b) In July 2008, this facility was resyndicated at the same aggregate amount and the expiration was extended to July 2009.*

*(c) This facility can be drawn in the form of loans or letters of credit. All drawn amounts shown above are in the form of letters of credit.*

*(d) Subsidiaries of AIG are the lenders on this facility.*

*(e) American General Finance, Inc. is an eligible borrower for up to $400 million only.*

*(f) In July 2008, this facility was resyndicated at an aggregate amount of $2.45 billion and the expiration was extended to July 2009.*

## *Credit Ratings*

The cost and availability of unsecured financing for AIG and its subsidiaries are generally dependent on their short- and long-term debt ratings. The following table presents the credit ratings of AIG and certain of its subsidiaries as of July 31, 2008. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category.

| | Short-term Debt | | | Senior Long-term Debt | | |
|---|---|---|---|---|---|---|
| | Moody's | S&P | Fitch | Moody's[a] | S&P[b] | Fitch[c] |
| AIG | P-1 (1st of 3) | A-1+ (1st of 6) | F1+ (1st of 5) | Aa3 (2nd of 9)[e] | AA- (2nd of 8)[f] | AA- (2nd of 9)[g] |
| AIG Financial Products Corp.[d] | P-1 | A-1+ | – | Aa3[e] | AA-[f] | – |
| AIG Funding, Inc.[d] | P-1 | A-1+ | F1+ | – | – | – |
| ILFC | P-1 | A-1 (1st of 6) | F1 (1st of 5) | A1 (3rd of 9)[e] | A+ (3rd of 8)[f] | A (3rd of 9) |
| American General Finance Corporation | P-1 | A-1 | F1 | A1[e] | A+[f] | A |
| American General Finance, Inc. | P-1 | A-1 | F1 | – | – | A |

*(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within rating categories.*

*(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.*

*(c) Fitch Ratings (Fitch) ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.*

*(d) AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.*

*(e) Negative outlook. A negative outlook by Moody's indicates that a rating may be lowered but is not necessarily a precursor of a ratings change.*

*(f) Negative outlook on Counterparty Credit Ratings or Corporate Credit Ratings. A negative outlook by S&P indicates that a rating may be lowered but is not necessarily a precursor of a ratings change.*

*(g) Negative outlook on Issuer Default and Senior Unsecured Debt Ratings. A negative outlook by Fitch indicates that a rating may be lowered but is not necessarily a precursor of a ratings change.*

These credit ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at AIG management's request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries.

"Ratings triggers" have been defined by one independent rating agency to include clauses or agreements the outcome of which depends upon the level of ratings maintained by one or