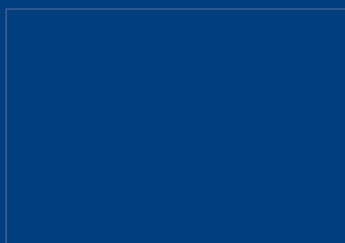




AIG UK LIMITED PERFORMANCE REVIEW 2008



Managing Risk in Challenging Times

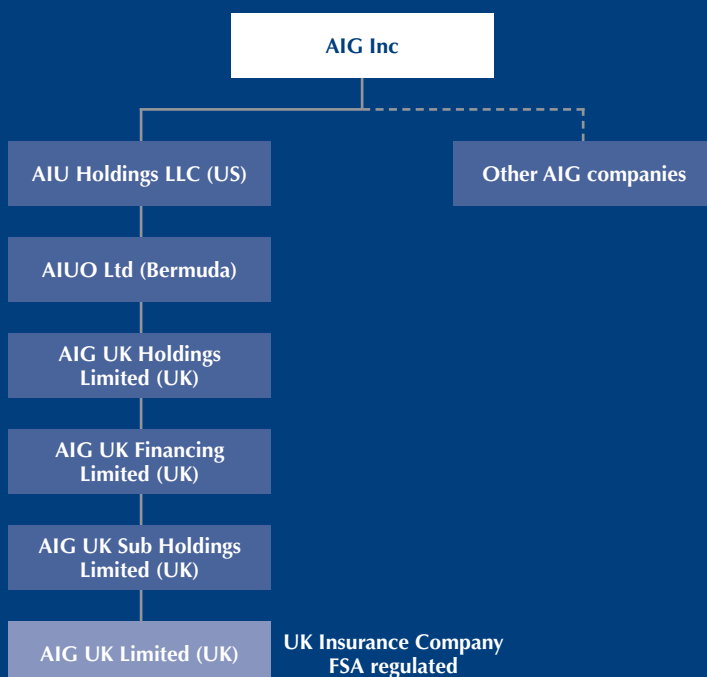


About AIG UK

AIG UK, one of the UK's largest insurance companies, provides innovative products and services to the business market. Based in London, we have offices throughout the UK and count more than half the country's top 1,000 companies as clients, as well as many thousands of public and private sector organisations.

We believe the most effective way to serve the UK business sector is to have specialised industry-focused teams such as Aviation, or to specialise in a particular risk such as Executive Liability which all businesses and organisations face. This structure enables us to keep pace with the insurance needs of UK businesses, which may alter for many reasons – from changes in legislation, to the way an industry operates and to the economic climate. As a result, we offer UK businesses one of the widest product ranges in the market.

AIG UK Ownership Structure



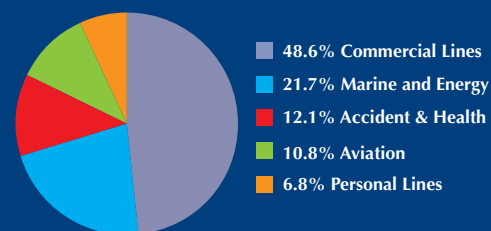
Financial Highlights

- **Combined Ratio of 91.9%¹**
An excellent result in a soft market and the eighth consecutive year of underwriting profit (2007 – 89.2%)².
- **2008 gross claims paid – over £1bn**
- **Regulatory Capital of £1.1bn**
This capital position is almost five times our estimated FSA minimum capital requirement (MCR).
- **Invested Assets of £2.8bn**
Our fixed income portfolio comprises 97% Investment Grade Securities.
- **Strong credit ratings maintained**
A+ S&P, A1 Moody's, AA- Fitch.

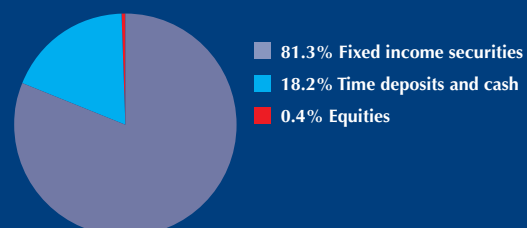
Gross Written Premiums³
(£bn)



Gross Written Premiums¹
(%)



Invested Asset Profile
as at 30 November 2008



¹ Unaudited 2008 Statutory Accounts excluding the impact of the Part VII transfer and associated restructuring.

² Source: FSA Returns Landmark Insurance Company and New Hampshire UK Branch.

³ Source: 2003-2007 Gross Written Premium from Landmark Insurance Company and New Hampshire UK Branch FSA return excluding internal reinsurance.

A Conversation with the CEO

Consistently delivering on our promise

Against a backdrop of global economic uncertainty, AIG UK's CEO, Lex Baugh, talks about the resilience of the UK business and its regulatory independence.

How did AIG UK perform in 2008?

Overall we had a successful year, we achieved an eighth consecutive year of underwriting profit despite difficult market conditions, and emerged from 2008 in a strong financial position. We grew capital and reserves in the year from £0.7bn to £1.1bn, through planned capital strengthening, and retained profits for the year.

Is AIG UK still financially independent and what's its governance position?

Yes, it is a separately capitalised company and is regulated by the Financial Services Authority. Our two executive and five Non-Executive directors (three are independent with many years of senior management experience in the industry) provide us with a solid basis for sound corporate governance.

What caused the problems at your parent, AIG Inc., and how is it dealing with them?

The severe deterioration of the residential mortgage market began a chain of events that led to rapid valuation losses in AIG's credit default swap portfolio, as well as other investment losses. AIG was faced with a liquidity problem and had to get backing from the US Federal Government in September 2008. AIG is now implementing an extensive corporate restructuring programme and made new financial arrangements with the US Government in March 2009. AIG UK Limited has not needed funds from this source.

Have the problems at AIG affected your retention and new business rates?

The impact has not been significant. We've retained relationships with 98% of our major accounts that have become eligible for renewal, and our retention rate across the company is roughly 5% below that of last year. Considering that we are increasing rates in line with rising claims costs it's about what I would expect. On behalf of AIG UK employees, I would like to thank all our clients and brokers who have supported us through these difficult times.



Alexander Baugh
Chief Executive Officer
AIG UK Limited

What benefits do AIG UK's customers derive from being part of a larger group – AIU Holdings?

It has always enabled us to offer our multinational clients local products and services – from industry specialists who understand local customs and practices – anywhere in the world. Through the mechanism of each entity paying a dividend into a pool, it has also given our customers financial security by providing a backstop in the event of a catastrophe happening in any territory. Now, the formation of AIU Holdings, a holding company for most of AIG's general insurance operations including AIG UK, will help to increase the entities' value and to highlight their status as independently run businesses. AIU Holdings will have more than 40 million customers in 130 countries and jurisdictions. Experiences from one country can form part of what we can offer individuals and businesses in another. Based on our experience in the Middle East, AIU is, for example, extending the countries in which it offers Sharia products.

What were AIG UK's gross premiums written and total claims paid in 2008?

Total gross premiums written in 2008 were £2.3bn and our claims payout pattern remains within predicted levels. We paid out over £1bn in 2008.

How does your performance compare with that of your competitors?

We continue to maintain our position as one of the more profitable players in the London market. Our disciplined underwriting process and expense control is what makes the difference and, over any normal period, enables us to outperform our competition. We work hard to ensure that any new business we write is profitable.

A Conversation with the CEO continued

£1.1bn
Regulatory Capital

Almost five times our estimated FSA minimum capital requirement

What differentiates your service?

Our strategy is to create unparalleled value for our customers and, as part of that, our transparent claims service is at the front of our business. What we promise is clear at the time the policy is written and we have a consistent and fair approach to paying claims. This is particularly important in an economic downturn – people need to be reimbursed quickly. Of course at times of recession, the levels of fraudulent claims can rise – so we are watching closely to manage trends that might emerge.

How liquid is your investment portfolio?

We don't take risks with the assets on our balance sheet. When our clients buy insurance they expect us to invest the premiums safely so that we can pay their claims. Our portfolio consists of 97% investment-grade securities, and at the year end 18% was in time deposits and cash. The portfolio includes less than 1% of equities.

How do you handle reinsurance?

We run a market-leading process. We buy enough reinsurance to minimise our exposure to an unanticipated event, but we're big enough not to need it for our day-to-day activity. Our rigorous reinsurer security requirements enable us to maintain an excellent recovery rate on reinsurance purchases.

How do you motivate staff?

We offer our staff great opportunities and considerable empowerment. Our policy is to train and develop people and, wherever possible, to promote from within rather than recruiting from outside. Staff turnover is constant, and we continue to recruit at all levels, including university graduates and, when necessary, experienced executives.

What value does your management team add to the business?

It is a group of people who understand our values and know how to get things done. Some have experience of working in different parts of the AIG network; many have been with AIG for a good many years – average service is 14 years – and we augment the team from time to time with fresh talent.

What does AIG contribute to the London market?

We're a customer-focused organisation which has a consistent approach. As a significant player in this market for more than 50 years, it is our entrepreneurial and innovative approach that sets us apart: we change products, or bring out new ones, when there is a need. We have, for example, developed a product that responds to the new EU Environmental Impairment Directive, which came into force on 1 March 2009.

What is your strategy for the short and medium term?

In the short term, we will ensure that all our businesses are performing well and that we maintain the level of service our customers have come to expect. In the medium term, we are looking to broaden our product and service offer, and will continue to look for ways to increase efficiency and to align our businesses with customers' needs.

Are you optimistic about the future?

More so than ever.

Alexander Baugh Chief Executive Officer, AIG UK Limited

Lex was appointed CEO in December 2008, having previously been CEO of AIG Europe SA – AIU's operation in continental Europe, and is also currently Regional President for AIU UK & Ireland. He joined AIG in 1983 in the US and specialised in Financial Lines. He has held significant management positions in the UK, the US and continental Europe, spending a total of 17 years in either London or Paris.

As a result of the positions he has held and his extensive underwriting experience in Financial Lines, Lex has detailed knowledge of corporate governance and regulatory issues in both the UK and continental Europe. He is a graduate of the University of Virginia and is a Chartered Property Casualty Underwriter.

Looking Ahead

£2.8bn
of Invested Assets

97% in Investment
Grade Securities

As businesses respond to uncertain economic conditions, the risks they face will continue to change, and insurers will need to reflect these changes in the products and services they offer. These are our views on how the aviation and executive liability markets will move, and an insight into the way claims service must change.



Aviation

The aviation market has grown significantly in recent years as a result of the huge increase in budget carriers and the demand for terrorism cover following 9/11. This growth is, however, unlikely to continue in the current economic conditions – flights are being cancelled, business and leisure traffic is falling, airlines are deferring or cancelling orders for new aircraft, and the viability of some national carriers is under threat.

We expect hull rates to remain stable until the end of the year, but the corporate jet and aerospace sectors will remain under pressure as rates are unlikely to increase in a market which has double the capacity needed. Continued competition will eventually result in some companies withdrawing from the market as inadequate pricing and reduced reinsurance capacity takes its toll. The future is, however, secure for those companies which have a good understanding of the aviation business, and of how to price risk to make an underwriting profit. It is what AIG UK, with the ability to place significant lines, will continue to do to maintain its position as a leader in this market.

Executive Liability

Since AIG UK provided the first UK Directors and Officers (D&O) policy in the early 1970s changes in cover have principally been driven by development in legislation. More recently we have begun to see further changes resulting from stakeholders demanding that managers be held more responsible for their actions.

In a recession errors and fraud are more difficult to disguise and claims will increase. This will drive demand for these products as organisations are increasingly challenged about

their decisions, and people seek redress for what are often substantial financial losses. The impact is already being felt as reinsurers restrict capacity and rates begin to harden, particularly in the financial institutions sector. As claims grow we expect the market to respond by offering additional cover and focus on changes in legislation, as we did recently with the introduction of cover for Approved Persons, Corporate Manslaughter, Extradition and pre-regulatory investigation costs.

Claims

In these extraordinary economic times, decisions made by commercial and financial institutions, worldwide, are under scrutiny as never before. Amidst unprecedented financial scandals, many financial and commercial organisations, together with their senior executives, are being criticised for their investment decisions and actions. That criticism is inevitably leading stakeholders to seek compensation.

Policy holders will increasingly expect confirmation of cover at the earliest possible stage, and to have advice and legal expertise provided as well as financial support for legal representation. To meet these standards, claims teams will have to offer specialist knowledge and specific experience. AIG UK's Financial Lines claims team now numbers 25 specialists, including lawyers. This enables us to manage the claim for our policyholders and only use law firms for technical advice. We focus on removing the individuals from the legal action, leaving them to concentrate on their businesses without the fear of personal damages. As product lines become ever more complex, only specialist claims teams – such as our Financial Lines and long-standing Energy and Complex Liability departments – will have the expert knowledge needed to answer claims quickly.

Corporate Governance

AIG UK Limited is committed to effective corporate governance

We have a governance structure which provides management with effective oversight of UK activities and risks, and ensures they are managed properly.

The Board of Directors is ultimately responsible for the management of AIG UK, in accordance with UK legal and regulatory requirements. The Board comprises two executive directors and five Non-Executive directors, three of whom are independent and have no relationships which could materially interfere with their impartiality or judgement. The Board's functions include determining the company's strategic objectives, reviewing operating and financial performance against them, and ensuring that AIG UK is adequately resourced and effectively controlled. It meets at least quarterly and delegates certain responsibilities to committees which have formal terms of reference and which, in turn, report at each Board meeting:

- The Audit Committee oversees and provides input into internal audit activities;
- The Executive Committee develops and implements strategy, measures and manages business performance, and ensures that risks are managed within agreed parameters; and
- The Risk Committee monitors the company's risk profile against agreed parameters and, through monthly meetings of four risk sub-committees, assesses the effectiveness of the controls over specific identified risks.

This structure enables the company to operate a 'three lines of defence' model:

- 1 Effective line management activity which includes built-in policies, systems, processes and procedures;
- 2 To challenge and overview the first line of defence, through risk management and compliance functions, and the Risk Committee; and
- 3 To provide independent and objective assurance of the effectiveness of these processes through bodies such as the Audit Committee and the internal audit function.

Board and Committee structure



AIG UK will continue to place strong emphasis on ensuring the integrity and effectiveness of its corporate governance procedures, and system of checks and balances, during the current financial year.

Independent Non-Executive Directors

Martin Bowers

Non-Executive director, AIG UK Limited

Martin has held a number of executive positions at some of the leading companies in the insurance industry. He was a Senior Insurance Manager at Gulf Oil, a prior director of CT Bowring (Insurance Ltd), a Managing Director at Marsh, and was responsible for setting up an energy business development operation for Europe and the Middle and Far East regions, an operation that subsequently opened offices in Dubai and Singapore. While at Johnson & Higgins (J&H), Martin was responsible for creating a major new energy group and subsequently became Chairman of the J&H Global Energy practice.

Tom Colraine

Non-Executive director, AIG UK Limited

Tom qualified as a chartered accountant at KPMG before joining Willis Group, one of the leading global insurance brokers, as Group Chief Internal Auditor. He subsequently held a number of executive positions at Willis, including Group CFO, and was most recently Co-Chief Operating Officer. During his time as Group CFO, Willis moved from the public to private market in what was, at the time, the largest transaction of its kind. Tom later played a leading part in the company's subsequent re-listing on the NYSE in 2001.

Tony Hope

Non-Executive director, AIG UK Limited

Tony was previously Chairman of HSBC Insurance Holdings and Group General Manager, Insurance until he retired in February 2007. During his time at the head of HSBC's insurance businesses in more than 40 countries, HSBC's transacting premiums grew from US\$2m to US\$14bn. Tony is now a member of HSBC's Insurance Audit Committee, is International Adviser to Ping An, China's second largest insurance company, and is a Non-Executive director of Paris Re (formerly Axa Re).

Executive Management Team

AA- Fitch
A+ S&P
A1 Moody's

The members of our highly experienced and stable executive management team have an average of 14 years senior management experience with the company. The team is supplemented by three independent Non-Executive directors – all of whom have many years experience at a senior management level within the insurance industry.



Executive management team listings

Alexander Baugh
 Chief Executive Officer
Steve Agutter
 Executive Director,
 Regional Claims
Patrick Corbett
 Executive Director,
 Consumer Lines
Tom Doherty
 Executive Director,
 Corporate Accounts
Mike Giblin
 Executive Director,
 Client Management
Kelly Lyles
 Executive Director,
 Commercial Lines
Chris Newby
 General Counsel
Martin Stevens
 AIU President, Aviation
Lynda Wood
 Executive Director,
 Human Resources
Simon Wood
 Executive Director, Finance
Mark Wylie
 Executive Director,
 Operation & Systems

Kelly Lyles
 Executive Director,
 Commercial Lines
 Kelly is responsible for all aspects of underwriting and business development for a diverse range of commercial insurance products, including Property, Liability, Financial Lines, Energy, Marine and Specialty Risks. She has extensive experience of underwriting the UK's top companies for financial lines insurance – a sector in which AIG UK Limited is the leading provider of Directors and Officers (D&O) insurance – an excellent understanding of UK corporate governance issues and, in addition, an in-depth knowledge of many high-profile D&O claims in the UK and Europe.

Kelly, who holds a BSc in Business Administration from Villanova University, joined AIG in 1985 and transferred to AIG UK Limited in 1990. She has worked extensively in the USA, Europe and the UK.

Martin Stevens
 AIU President, Aviation
 Martin has more than 30 years' experience in underwriting global aviation risks. He joined AIG as an aviation underwriter in London in 1979 and has spent time in the USA as well as the UK. In 2006 he was appointed Chief Underwriting Officer (CUO) of AIG Aviation, Inc, responsible for AIG's worldwide aviation underwriting activities. Martin continues to be based in London, reflecting the importance of the London aviation market. Over the past ten years the AIG Aviation division has been involved with most of the world's major airline programmes – a significant proportion of which are placed through London.

Martin was appointed AIU President, Aviation, in November 2008, retaining executive responsibility for AIG UK's aviation business.

Steve Agutter
 Executive Director,
 Regional Claims
 Steve joined AIG in 1991, specialising in property and energy claims. He established the specialist Energy Claims unit in the London office in 1997 and, until 2001, was responsible for the successful handling of many multi-million pound losses around the world.

In 2001 he was appointed UK Claims Manager responsible for the management of all commercial and personal lines claims. In October 2007 he was promoted to Regional Claims Manager for UK & Ireland and is currently leading the regional claims transformation project.

Financial Highlights

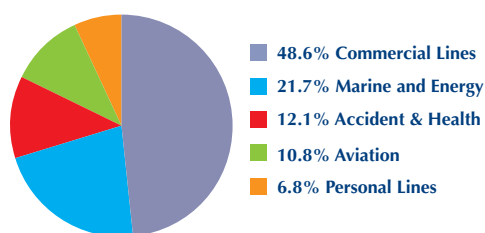
Profit and loss account for the year ended 30 November 2008 ¹	2008 £000
Gross written premiums	2,282,484
Net written premiums	1,108,471
Net earned premiums	1,115,088
Incurred losses	(730,447)
Operating expenses	(292,235)
Change in the equalisation provision	(8,035)
Underwriting profit	84,371
Investment income	94,774
Other income ²	145,113
Profit/(loss) on ordinary activities before tax	324,258
Loss ratio	65.5%
Expense ratio	26.4%
Combined ratio	91.9%

Part VII transfer and associated restructuring

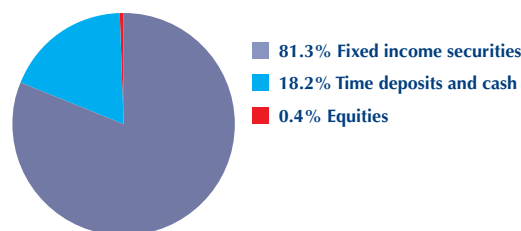
AIG UK Limited was created in December 2007 by a Part VII transfer of New Hampshire UK Branch to Landmark, which was renamed AIG UK Limited.

This profit and loss account excludes the accounting impact of the Part VII transfer and associated restructuring undertaken in December 2007. Results including the impact of these transactions, together with further details of the Part VII transfer and restructuring, will be available in our Annual Report and Accounts.

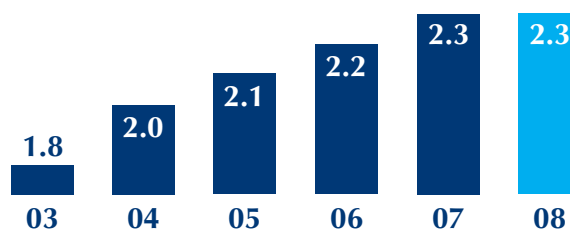
Gross Written Premiums¹ (%)



Invested Asset Profile as at 30 November 2008



Gross Written Premiums³ (£bn)



¹ Unaudited 2008 Statutory Accounts excluding the impact of the Part VII transfer and associated restructuring.

² Includes unrealised losses on investment portfolio and foreign exchange gains.

³ Source: 2003-2007 Gross Written Premium from Landmark Insurance Company and New Hampshire UK Branch FSA return excluding internal reinsurance.

For more information, please contact:



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