

	Quarterly		Annual	
	Three months Ended 31/12		12 months Ended 31/12	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
General Insurance Operations:				
Net Premium Written	6,930	7,088	30,664	35,633
Net Premium Earned	8,030	8,663	32,274	36,499
Underwriting Profit (Loss)	(2,609)	(1,797)	(2,596)	(683)
Net Investment Income	856	117	3,295	2,606
Income before Net Realised Capital Gains (Loss)	(1,753)	(1,680)	699	1,923
Net Realised Capital Gain (Loss)	152	(2,269)	(530)	(4,374)
Pre-tax Operating Income (Loss)	(1,601)	(3,949)	(169)	(2,451)
Loss Ratio	99%	78%	79%	71%
Expense Ratio	34%	43%	29%	30%
Combined Ratio	132%	121%	108%	102%
Operating Segments Pre-Tax Income (Loss):				
Domestic Life Insurance & Retirement Services	670	(15,228)	(1,179)	(34,948)
Foreign Life Insurance & Retirement Services	1,345	(3,419)	3,221	(3,332)
Financial Services	95	(17,592)	517	(40,821)
Other (inc tax, realised gains etc...)	(9,382)	(21,471)	(13,339)	(17,737)
Net Income (Loss) Attributable to AIG	(8,873)	(61,659)	(10,949)	(99,289)
			Dec-09	Dec-08
Total Investments			601,165	636,912
Total Assets			847,585	860,418
Total AIG Shareholders' Equity			98,076	60,805

Source: Earnings Press Release - 26th February 2010

JLT has access to publicly available financial data only. Whilst the information on which we rely is obtained from sources considered to be reliable, we give no assurance about nor accept any responsibility for the financial standing or performance of any (re)insurer. We do not accept any liability for financial loss or damage, howsoever caused, arising from reliance on the review process or this document.

	3-Months Ended Mar-10 \$m	3-Months Ended Mar-09 \$m
General Insurance Operations:		
Net Premium Written	7,644	7,727
Net Premium Earned	7,641	8,272
Statutory Underwriting Profit (Loss)	(192)	275
Net Investment Income	1,071	435
Net Realised Capital Gains (Losses)	137	(608)
Operating Income (Loss)	1,016	102
Loss Ratio	71.44%	69.96%
Expense Ratio	31.07%	26.72%
Combined Ratio	102.51%	96.68%
Operating Segments Income (Loss):		
Life Insurance & Retirement Services	327	(1,827)
Foreign Life Insurance & Retirement Services	85	(128)
Financial Services	(439)	(1,130)
Consolidation and Eliminations	140	(89)
Other (inc tax)	(203)	(2,141)
Continuing Operation Income (Loss)	926	(5,213)
Discontinued Operations Income (Loss)	1,173	80
Net Income (Loss)	2,099	(5,133)
Noncontrolling Interests	(648)	780
Net Income (Loss) Attributable to AIG	1,451	(4,353)
Other	(642)	2,267
Adjusted Net Income (Loss) Attributable to AIG	809	(2,086)
	Mar-10	Dec-09
Total Investments	449,047	601,165
Total Assets	863,697	847,585
Total Equity	101,719	98,076

Source: Earnings Press Release - 7th May 2010

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OWNERSHIP INFORMATION

American International Group, Inc. is an international insurance organisation with operations in more than 130 countries and jurisdictions. AIG's common stock is listed on the New York Stock Exchange, as well as the stock exchanges in Ireland and Tokyo. On February 26th 2010 the market capitalisation was \$24.0 billion based on a share price of \$34.81. AIG traces its roots back 90 years when an American entrepreneur named C.V. Starr founded AIG's earliest predecessor company in Shanghai. What began as a small insurance business grew to become one of the world's largest companies. By early 2007 AIG had assets of \$1 trillion, \$110 billion in revenues, 74 million customers and 116,000 employees. Yet just 18 months later, AIG found itself on the brink of failure and in need of emergency governmental financial assistance.

BACKGROUND

On March 2nd 2009, AIG released details of the largest quarterly loss in US corporate history with a fourth quarter 2008 loss of \$61.7 billion and full year 2008 loss of \$99.3 billion. Following on from this, the company recorded a loss of \$4.4 billion for the quarter ended March 2009, its sixth consecutive quarterly loss. Two subsequent quarters of profitability was brought to a halt when the [fourth quarter 2009 results](#) were released in February 26th 2010. The March 2010 quarterly results appended above saw the company bounce back into profitability.

Commenting on the first quarter 2010, AIG President and Chief Executive Officer Robert H. Benmosche said, "During the quarter, AIG announced more than \$51.0 billion in sale transactions, led by the announced sales of AIA and ALICO. These transactions are expected to close by the end of 2010 and allow the company to substantially reduce its obligations to the Federal Reserve Bank of New York (FRBNY) and take a significant step toward a sustainable capital structure. As with previous reductions in the FRBNY available amount, accelerated amortisation of the pre-paid commitment fee will be triggered when proceeds are applied to pay down the FRBNY Credit Facility balance and available amount. Future quarters may also be affected by possible goodwill impairment charges, a potential bargain purchase gain arising from the acquisition of additional shares in Fuji Fire & Marine Insurance Company Limited (Fuji), and gains and losses on sales of certain companies.

"Operating earnings at our continuing insurance operations showed further signs of stability, with \$2.2 billion of pre-tax operating earnings generated by Chartis, SunAmerica Financial Group, and AIG Star and AIG Edison, despite catastrophe losses in our General Insurance business. Our teams have worked extremely hard to strengthen their franchises, through extensive distribution, client, and employee outreach, in the midst of very competitive market conditions. I am pleased with their progress, but there is still more work to be done.

"UGC reported a profit for the first time since the first quarter of 2007, as residential mortgage trends showed signs of improvement.

"ILFC generated approximately \$4.0 billion of liquidity in the first four months of 2010, including \$1.3 billion from two secured term loans and \$2.75 billion in senior unsecured debt. In April, we announced the sale of approximately \$2.0 billion of aircraft and amended and extended ILFC's bank facility, providing additional financial flexibility. A search is underway for a permanent CEO, but we expect a smooth transition, given that Alan Lund, ILFC's long-time CFO, was able to step in as interim President and CEO. Separately, American General Finance, Inc. (AGF) raised \$3.5 billion through secured borrowings and an asset securitization since year-end. We continue to address the long-term financing needs of both companies and explore strategic alternatives for AGF.

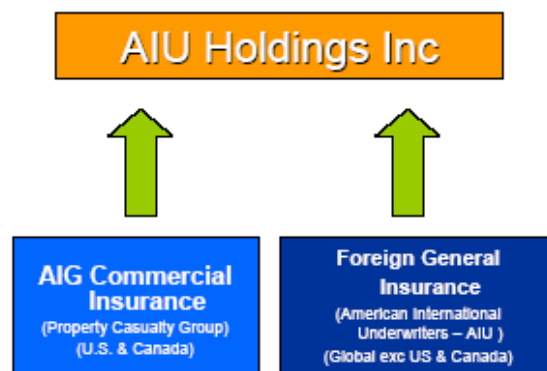
"We remain focused on further stabilising and strengthening our businesses while continuing our restructuring activities, closing the pending transactions, and developing plans to address our highly leveraged capital structure."

On May 21st 2009 AIG announced that Edward Liddy, the then current CEO and Chairman, would be resigning as soon as successors could be found. Liddy recommended to the AIG Board that going forward the role of Chairman and CEO be separated, with which they concurred. Liddy publicly stated that..."we have noted repeatedly, our (AIG's) pace of success will depend on global economic conditions and financial markets. It is likely to take several years. AIG should have a leadership team committed to a similar time horizon and prepared to carry the plan to completion." Liddy had been appointed at the Government's behest in September 2008 as a "Czar" to oversee restructuring as the AIG crisis was unfolding.

On August 3rd 2009 AIG announced the appointment of a successor. Robert H. Benmosche was appointed as both President and Chief Executive Officer. Mr. Benmosche, 65, is former Chairman, President, and Chief Executive Officer of MetLife, a leading provider of insurance and other financial services. Subsequently, on August 6th AIG announced that its Board of Directors has elected AIG Director Harvey Golub Non-Executive Chairman of the Board. Mr. Golub assumed his new role on August 10, 2009, succeeding Edward Liddy.

RESTRUCTURED DEAL AND ESTABLISHMENT OF CHARTIS BRAND

In March 2009, details of the government backed re-structuring plan, with rating agency endorsement, designed to enhance the company's capital and liquidity in order to facilitate the orderly completion of the company's global divestiture program was announced. A key tenet of the re-structuring plan was to establish a separate holding company for the group's main general insurance operations, known as AIU Holdings Inc. The new company was to consist of the Commercial Insurance, Foreign General Insurance, and Private Client Group businesses of AIG.



On July 27th 2009 AIG announced the establishment of a special purpose vehicle to which AIU Holdings Inc would be contributed in preparation for the potential sale of a minority stake in the business, which ultimately may include a public offering of shares, depending on market conditions. Additionally, AIG announced the appointment of Kristian P. Moor as President and Chief Executive Officer of the Company and the establishment of a new brand name for the company's operations to be known as Chartis. With a combined worldwide statutory surplus of \$32.1 billion worldwide at year-end 2008, Chartis will serve more than 40 million clients in over 160 countries and jurisdictions.

A link to the Chartis website is provided below.

[Click here](#)

It is widely reported in the press that the spin-off of Chartis has been officially put on hold. The link below refers.

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aAlwRA.YRQrQ&pos=13>

Other components of the restructured deal were as follows:

Preferred Equity

The U.S. Treasury will exchange its existing \$40 billion cumulative perpetual preferred shares for new preferred shares with revised terms that more closely resemble common equity and thus improve the quality of AIG's equity and its financial leverage. The new terms will provide for non-cumulative dividends and limit AIG's ability to redeem the preferred stock except with the proceeds from the issuance of equity capital.

Equity Capital Commitment

The Treasury Department will create a new equity capital facility, which allows AIG to draw down up to \$30 billion as needed over time in exchange for non-cumulative preferred stock to the U.S. Treasury. This facility will further strengthen AIG's capital levels and improve its leverage. The Federal Reserve will take several actions relating to the \$60 billion Revolving Credit Facility for AIG established by the Federal Reserve Bank of New York (New York Fed) in September 2008, to further the goals described above.

Repayment by Preferred Stock Interests

The Revolving Credit Facility will be reduced in exchange for preferred interests in two special purpose vehicles created to hold all of the outstanding common stock of American Life Insurance Company (ALICO) and American International Assurance Company Ltd. (AIA), two life insurance holding company subsidiaries of AIG. AIG is to sell both operations. The valuation for the New York Fed's preferred stock interests, which may be up to approximately \$26 billion, will be a percentage of the fair market value of ALICO and AIA based on valuations acceptable to the New York Fed.

Securitisation of Life Insurance Cash Flows

The New York Fed is authorised to make new loans under section 13(3) of the Federal Reserve Act of up to an aggregate amount of approximately \$8.5 billion to special purpose vehicles (SPVs) established by domestic life insurance subsidiaries of AIG. The SPVs would repay the loans from the net cash flows they receive from designated blocks of existing life insurance policies held by the parent insurance companies. The proceeds of the New York Fed loans would pay down an equivalent amount of outstanding debt under the Revolving Credit Facility. The amounts lent, the size of the haircuts taken by the New York Fed, and other terms of the loans would be determined based on valuations acceptable to the New York Fed.

Restructuring of Other Terms

After the transactions described above, the total amount available under the Facility will be reduced from \$60 billion to no less than \$25 billion. In addition, the interest rate on the Facility, which is three-month LIBOR plus 300 basis points, will be modified by removing the existing floor (3.5 percent) on the LIBOR rate. The Facility will continue to be secured by a lien on a substantial portion of AIG's assets, including the businesses AIG plans to retain. The other material terms of the Facility remain unchanged.

Issuance of Preferred Stock

As required by the credit agreement governing the Revolving Credit Facility, AIG has agreed to issue on March 4, 2009, shares of convertible preferred stock representing an approximately 77.9% equity interest in AIG to an independent trust for the sole benefit of the United States Treasury.

AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilisation Act, including the most stringent limitations on executive compensation as required under the newest amendments to the Emergency Economic Stabilization Act. Additionally, AIG must continue to maintain and enforce newly adopted restrictions put in place by the new management on corporate expenses and lobbying as well as corporate governance requirements.

The deal was endorsed by the main rating agencies which removed the immediate threat of further downgrades.

STATE REGULATION OF INSURANCE COMPANIES

The AIG insurance companies are regulated by state law and their affairs overseen by state insurance commissioners. Those laws are designed in part to assure that regulated insurance companies are operated on a financially sound basis and their assets are protected from the financial problems of non-insurance affiliates. The insurance company subsidiaries are not subject to federal bankruptcy laws, as would be AIG and its non-insurance company subsidiaries. If AIG were to be the subject of federal insolvency proceedings, the reach of a debtor-in-possession or federal receiver would not extend to the assets of the AIG insurance company subsidiaries. All states have enacted insurance holding company statutes which authorise insurance departments to regulate the inter-company transactions involving insurance companies within holding company structures. The various state statutes are generally patterned on the Model Act adopted by the National Association of Insurance Commissioners Holding Company Regulatory Act.

These statutes provide state insurance departments with the regulatory power and responsibility to ensure that the assets of insurance companies are held separate from the other entities within the holding company system. AIG cannot legally enter into any material transaction with its insurance company subsidiaries, without the approval of the state insurance regulators. For example, approval is required for inter-company reinsurance, loans, management contracts, asset sales, swaps, or other similar transactions. The assets of the insurance business are maintained to support the insurance business underwritten by those companies and may not be hypothecated or inter-mingled with the assets of any non-insurance affiliates.

Source: Albert B Lewis - D'Amato & Lynch, LLP Attorneys New York

SALES OF BUSINESSES AND ASSETS

Throughout 2009 and into 2010 AIG has been divesting assets in order to fund its obligations to the Government. These divestitures include assets as varied as the majority share in Transatlantic Holdings, to the AIG building in Tokyo.

Two significant events in 2010 include the announcement of the sales of two life businesses: AIA and ALICO.

AIA Sale

As of March 1, 2010, AIG and AIA Aurora LLC, a special purpose vehicle formed by AIG and the FRBNY (AIA Holdings), entered into a definitive agreement (the AIA Share Purchase Agreement) with Prudential plc (Prudential) and Prudential Group Limited (formerly known as Petrohue (UK) Investments Limited), for the sale of AIA to Prudential Group Limited for approximately \$35.5 billion, consisting of \$25 billion in cash, approximately \$5.5 billion in face value of ordinary shares in the capital of Prudential Group Limited, \$3 billion in face value of mandatory convertible securities of Prudential Group Limited, and \$2 billion in face value of preferred stock of Prudential (or at Prudential's election, Prudential Group Limited), subject to closing adjustments. The obligations of Prudential Group Limited under the AIA Share Purchase Agreement are guaranteed by Prudential.

The cash portion of the proceeds from the sale will be paid to the FRBNY to redeem preferred interests with a liquidation preference of approximately \$16 billion plus accrued but unpaid preferred return held by the FRBNY in AIA Holdings, and unless otherwise agreed with the FRBNY, to repay approximately \$9 billion under the FRBNY Credit Facility. AIG intends to monetize the \$10.5 billion in face value of Prudential Group Limited securities over time, subject to market conditions, following the lapse of agreed-upon minimum holding periods. Unless otherwise agreed with the FRBNY, net cash proceeds from the monetization of these securities will be used to repay any outstanding debt under the FRBNY Credit Facility.

ALICO Sale

As of March 7, 2010, AIG and ALICO Holdings LLC, a special purpose vehicle formed by AIG and the FRBNY (ALICO Holdings) entered into a definitive agreement (the ALICO Stock Purchase Agreement) with MetLife for the sale of ALICO by ALICO Holdings to MetLife, and the sale of Delaware American Life Insurance Company by AIG to MetLife, for approximately \$15.5 billion, consisting of \$6.8 billion in cash and the remainder in equity securities of MetLife, subject to closing adjustments.

The cash portion of the proceeds from this sale will be paid to the FRBNY to reduce the liquidation preference of a portion of the preferred interests owned by the FRBNY in ALICO Holdings (together with the preferred interests owned by the FRBNY in AIA Holdings, the Preferred Interests). Upon the closing of this sale to MetLife, ALICO Holdings will receive and pay to the FRBNY the cash consideration and will hold the remainder of the transaction consideration, consisting of 78,239,712 shares of MetLife common stock, 6,857,000 shares of newly issued participating preferred stock convertible into 68,570,000 shares of common stock upon the approval of MetLife shareholders, and 40,000,000 equity units of MetLife with an aggregate stated value of \$3 billion. AIG intends to monetize these MetLife securities over time, subject to market conditions, following the lapse of agreed-upon minimum holding periods. Unless otherwise agreed with the FRBNY, net cash proceeds from the monetization of these securities will be used to reduce the liquidation preference of the Preferred Interests owned by the FRBNY in ALICO Holdings and thereafter to repay any outstanding debt under the FRBNY Credit Facility.

RECENT NEWS

AIG REPORTS FOURTH QUARTER AND FULL YEAR 2009 RESULTS

<http://www.aigcorporate.com/investors/AIG%204Q09%20Press%20Release.pdf>

26/2/2010

RATINGS INFORMATION SUMMARY**STANDARD & POOR'S:**

Long-Term Counterparty Credit Rating	A-	1 April 2010	Negative Outlook
Insurer Financial Strength Rating (main subsidiaries)	A+	1 April 2010	Negative Outlook

On April 1, 2010, Standard & Poor's Ratings Services affirmed its 'A-/A-1' counterparty credit ratings on American International Group Inc. (AIG). It also affirmed its 'A+' counterparty credit and financial strength ratings on its insurance subsidiaries, Chartis and SunAmerica Financial Group. The outlook remains negative.

The counterparty credit rating on AIG reflects S&P's opinion of the extraordinary support from the U.S. government in light of AIG's perceived status as a highly systemically important U.S. financial institution, as well as its view of the company's 'A+' rated multi-line insurance subsidiaries. It expects the government support to continue during AIG's period of stress.

The long-term counterparty credit rating on AIG includes a five-notch uplift from its assessment of the company's stand-alone 'BB' credit profile and takes into consideration the level of extraordinary government support currently provided to the company. S&P does not anticipate any increase in this support at this time.

S&P revised its assessment of AIG's stand-alone credit profile to 'BB' from 'BB-' to reflect the company's continued momentum in re-establishing its multi-line insurance market presence through its Chartis and SunAmerica operations, good progress in the unwinding of AIG Financial Products Corp., and the improved liquidity position of its non-insurance operations. In addition, S&P believes AIG's recently announced transactions reflect solid progress in its challenging restructuring plan. The company has announced that it will sell American International Assurance Co. Ltd. (AIA) and American Life Insurance Co. (ALICO), which, together, are expected to raise \$51 billion in proceeds over the next three years.

The outlook on the stand-alone credit profile is positive because S&P believes the successful closing of the two major divestitures (AIA and ALICO) in the fourth quarter of 2010 likely will improve AIG's financial profile. As a result, S&P could upwardly revise its assessment of the company's stand-alone credit profile by up to two notches to investment grade.

During fourth-quarter 2009, AIG's insurance operations generated a pre-tax net gain of approximately \$2.6 billion (excluding a one-time \$2.3 billion reserve strengthening), a modest decline from third-quarter 2009. The decline reflects a number of one-time items and some unfavourable combined ratio trends in Chartis, specifically within its international division. S&P believes the overall improvement in the full-year 2009 GAAP earnings primarily reflects favourable trends within the financial markets that contributed to lower investment losses and the general improvement in mark-to-market results across all segment operations. Operating insurance earnings improved in 2009 and, in S&P's opinion, are strong and diversified.

The 'A+' financial strength ratings on Chartis and related property/casualty (P/C) insurance companies reflects S&P's view of a strong global P/C franchise that is well diversified by geographic location and product line. In S&P's opinion, a strong management team has built and sustained these businesses, which have successfully differentiated themselves from their competition through a combination of unique product offerings and a highly competitive cost structure within the Chartis U.S. operations. The international business, in addition to generating profitable growth, has, until recently, exhibited extremely strong profitability, in S&P's opinion. Although profitability has diminished to the strong level, it has the solid potential of returning to an extremely strong level of earnings over the long term. In S&P's view, capitalisation has improved into the strong range, bolstered by the disposal of certain non-core affiliates.

The ongoing challenges of retaining customers and key employees while continuing to generate very profitable business somewhat offset the rating strengths, in S&P's opinion. Along with this, S&P believes the difficult economic conditions have dampened the demand for insurance and, more significantly, have exacerbated marginal pricing. This, along with loss trend inflation, continues to weaken industry profitability, in S&P's view.

The 'A+' financial strength ratings on the SunAmerica Financial Group (the U.S. life and retirement companies) reflects S&P's view of its very strong, albeit weakened, competitive profile; improving operating performance, which reflects positive investment markets; and a meaningful decline in its surrender activity from peak levels. In 2009, the group generated \$2.3 billion in GAAP pre-tax operating income (excluding realised losses) as a result of improved investment markets and strong underwriting fundamentals. Assets under management totalled \$231 billion as of Dec. 31, 2009, up 8% from 2008 because of the strong recovery in the equity markets. Net flows, though still negative, improved throughout 2009 as headline risk issues somewhat subsided.

Offsetting these strengths, in S&P's opinion, is the ongoing pressure on capital as more investment losses in the life operations could affect S&P's view of capital. In addition, challenges associated with regaining its competitive position within various life insurance and retirement segments given the negative publicity could further weaken the group's credit profile. Although risk-adjusted capitalisation improved in 2009, concerns remain with regard to its commercial mortgage-backed securities exposure and its overall investment portfolio that, in our opinion, has below-peer-average credit quality.

S&P expects capitalisation, under its current stress capital factors, to remain within the 'A' level, which, in S&P's view, is a slight weakness to the current 'A+' rating. S&P's capital opinion considers an expected one-year statutory operating earnings recovery per its incremental asset stress criteria.

The negative outlook on S&P's 'A-' rating on AIG and its 'A+' ratings on its subsidiaries reflects S&P's view of the likelihood that pressure on the insurance companies' operating performance could build. S&P believes AIG is particularly susceptible to the broad insurance market trends, given its somewhat weakened position. In addition, the current aggressive pricing environment is affecting the Chartis operation, and SunAmerica Financial Group is facing competitive pressures. The negative outlook on the parent company reflects uncertainty with regard to legislative risk and its potential impact on the government's ability to continue to provide extraordinary support to AIG, if needed.

If operating performance does not improve to a level approaching historical performance, factoring in the strong but diminished competitive position, S&P could lower the rating one notch. However, if operating performance comes close to historical levels and capitalisation remains consistent or improves, S&P could revise the outlook to stable.

Source: Standard & Poor's ClassicDirect

A.M. BEST:

Issuer Credit Rating	BBB	16 December 2009	Negative
Best's Rating (main subsidiaries)	A	16 December 2009	Negative

A.M. Best Co. has affirmed the financial strength ratings (FSR) and issuer credit ratings (ICR) of most property/casualty and life/health insurance subsidiaries of American International Group, Inc. (AIG) (New York) [NYSE: AIG], as well as the ICR of "bbb" of AIG. The outlook for all ratings is negative.

The ratings of the Chartis US Insurance Group (formerly referred to as AIG Commercial Lines Group), which is comprised of the commercial pool led by National Union Fire Insurance Company of Pittsburgh, Pa. and a number of related entities, and the Lexington Insurance Pool, led by Lexington Insurance Company, reflect their supportive level of risk-adjusted capitalisation; improved underwriting and operating performance through third quarter 2009; and the prominent position of these entities as global providers of commercial insurance. Offsetting rating factors include franchise damage resulting from the near collapse of AIG; considerable exposure to natural and man-made catastrophe losses (in terms of policy limits and insureds); price softening in nearly all core business segments; the risk associated with re-branding initiatives; and the continued challenges of its association with AIG.

The ratings of AIU Insurance Company (New York NY) recognize its supportive level of risk-adjusted capitalisation, strong historic operating performance and termination of the quota share reinsurance agreement that generated below average results in 2008. Offsetting these rating factors are variations in the company's surplus and business profile in recent years and the potential for run-off of liabilities associated with the aforementioned reinsurance contract to vary from the company's other business.

The ratings of Yosemite Insurance Company (Evansville, IN) acknowledge its supportive level of risk-adjusted capitalisation, continued better-than-average underwriting performance and consistently strong operating performance. These positive factors are partially offset by the company's dependence on its affiliated finance companies as the sole source of its business and distribution channel, as well as the effect of development of loss reserves associated with the general liability business historically written and assumed by the company.

AGPIC's ratings are reflective of its supportive level of risk-adjusted capitalisation, offset by its limited business profile resulting from its decision to cease writing new policies. AGPIC had no in-force business at December 31, 2008, and its operations consist primarily of settlement of claims associated with prior business. AGPIC – FL was merged into its parent effective September 30, 2009. The group's ratings were withdrawn and the group dissolved with the merger of AGPIC-FL into AGPIC.

The ratings of AIG's Domestic Life and Retirement Services entities reflect the modest improvements recorded in their statutory after tax operating earnings performance, sufficient risk-adjusted capitalisation as well as their diverse product portfolios. Partially offsetting these rating factors include the significant investment risk in real estate linked assets, limited partnerships and below investment grade bonds; lower levels of capital and surplus when reviewed in conjunction with the past five years; and the interest sensitive nature of a number of the annuity and institutional spread-based businesses from AIG's retirement services segment, which are being negatively impacted by current economic conditions. In addition, similar to the property/casualty operations, the individual life and retirement subsidiaries have suffered reputational damage from the fallout of AIG's 2008 crisis, which has resulted in loss of market share.

The ratings of American Life Insurance Company (ALICO) (Wilmington, DE) acknowledge its role as a major international distributor of insurance and retirement savings products for AIG. Through third quarter 2009, ALICO reported a modest improvement in its statutory after tax operating earnings performance. ALICO continues to maintain adequate risk-adjusted capitalisation and is diversified geographically and by product line.

Partially offsetting these strengths are the lower level of capital and surplus when reviewed in conjunction with the past five years, the regulatory challenges associated with conducting business abroad and the execution risk as ALICO moves toward separation from AIG. Recently, AIG closed a transaction with the Federal Reserve Bank of New York (FRBNY), positioning ALICO for an initial public offering or third party sale, based upon market conditions and regulatory approvals. As part of this transaction, AIG has contributed the equity of ALICO to a special purpose vehicle (SPV) in exchange for interests in the SPV. The FRBNY has received preferred interests in the ALICO SPV, while AIG holds all of the common interests in the ALICO SPV.

The downgrading of Merit Life's ratings reflects its limited business profile, the decline in operating earnings through 2009 and the challenges impacting the domestic credit insurance markets. Merit Life's business is focused on the credit life and accident business within American General Finance Corporation, which A.M. Best does not view as a key operation within AIG's domestic life and retirement services. The ratings continue to reflect Merit Life's adequate risk-adjusted capitalisation and profitable statutory operating results.

The negative outlook of all rated entities acknowledges the franchise damage and continuing challenges to the companies' within the AIG enterprise.

AIG's ICR reflects the ratings of its operating domestic property/casualty and life/health insurance subsidiaries. It also reflects the financial support of the U.S. Government, which was initially put into place in September 2008 and substantially modified on two subsequent occasions. A.M. Best's ratings on AIG and its subsidiaries since September 2008 have been and remain heavily dependent upon the continuation of the U.S. Government's support. Future rating decisions will reflect the performance of AIG's operating domestic property/casualty and life/health insurance subsidiaries and any changes in governmental support of AIG and its obligations.

Source: © A.M. Best International Ltd – used by permission

OTHER AGENCIES

MOODY'S:

Holding Company
Senior Debt Rating

A3 **26 February 2010** **Negative**

Insurance Companies

Aa3 **2 March 2009** **Negative**

The insurance holding companies hold various ratings. The major commercial lines insurance companies are rated Aa3 (negative).

FITCH:

Holding Company
Long Term Issuer Default Rating

BBB **8 March 2010** **Evolving**

Insurance Companies

A+ **26 February 2010** **Watch Negative**

The major commercial lines insurance companies are rated A+.