

|                                                  | Quarterly                |                 | Annual                |                 |
|--------------------------------------------------|--------------------------|-----------------|-----------------------|-----------------|
|                                                  | Three months Ended 31/12 |                 | 12 months Ended 31/12 |                 |
|                                                  | 2009                     | 2008            | 2009                  | 2008            |
|                                                  | \$m                      | \$m             | \$m                   | \$m             |
| <b>General Insurance Operations:</b>             |                          |                 |                       |                 |
| 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%            |
| <b>Operating Segments Pre-Tax Income (Loss):</b> |                          |                 |                       |                 |
| 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)        |
| <b>Net Income (Loss) Attributable to AIG</b>     | <b>(8,873)</b>           | <b>(61,659)</b> | <b>(10,949)</b>       | <b>(99,289)</b> |
|                                                  |                          |                 | <b>Dec-09</b>         | <b>Dec-08</b>   |
| Total Investments                                |                          |                 | 601,165               | 636,912         |
| Total Assets                                     |                          |                 | 847,585               | 860,418         |
| Total AIG Shareholders' Equity                   |                          |                 | 98,076                | 60,805          |

Source: Earnings Press Release - 26<sup>th</sup> 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.

## Index

1. [Ownership Information](#)
2. [Background](#)
3. [Restructured Deal and Establishment of Chartis Brand](#)
4. [State Regulation of Insurance Companies](#)
5. [Sales of Businesses and Assets](#)
6. [Recent News](#)
7. [Rating Information](#)

## **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 26<sup>th</sup> 2010 the market capitalisation was \$3.4 billion based on a share price of \$25.13. 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 2<sup>nd</sup> 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 26<sup>th</sup> 2010.

Commenting on the results, AIG President and Chief Executive Officer Robert H. Benmosche said, "Importantly, in the fourth quarter, AIG strengthened its General Insurance worldwide loss reserves by \$2.3 billion, or \$1.5 billion after tax, based on AIG's year end internal actuarial analyses. AIG considered the results of its third party actuary's analysis in reaching its judgment. This reserve strengthening represents roughly 3.6 percent of Chartis' carried reserves at December 31, 2009.

"At our Domestic Life Insurance & Retirement Services companies, recently rebranded as the SunAmerica Financial Group, we have made notable progress in re-establishing relationships and reinvigorating sales distributions. We are very proud that Western National, one of the first insurance companies to develop fixed annuity products specifically for sale through banks, successfully regained its number one position in that market in the third quarter of 2009. "We continue to address the funding needs and are exploring strategic restructuring opportunities for International Lease Finance Corporation (ILFC), and American General Finance, Inc. (AGF).

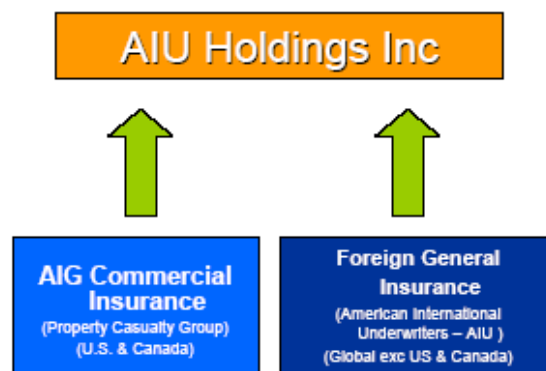
"Lastly, we are increasingly confident in how we see the mix of AIG's businesses over the long term. We are taking the right steps to regain our stature as one of the most respected and diverse property-casualty operations in the world, with a strong U.S. life and annuity operation and several other businesses that will enhance our nucleus, help us to meet our goal of repaying taxpayers and provide value to the communities where we operate," Mr. Benmosche concluded.

On May 21<sup>st</sup> 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 3<sup>rd</sup> 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 6<sup>th</sup> 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 27<sup>th</sup> 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.

[Click here](#)

### 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 will retain control of ALICO and AIA, though the New York Fed will have certain governance rights to protect its interests. 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**

Since September, 2008, AIG has announced the following asset sales agreements and closings:

- Unibanco: União de Bancos Brasileiros S.A. (Unibanco) and AIG announced in November 2008 an agreement to repurchase each other's shares in two Brazil joint ventures: Unibanco AIG Seguros S.A. (UASEG) and AIG Brasil Companhia de Seguros (AIG Brasil). CLOSED November 26, 2008
- Tenaska: AIG and Tenaska, Inc., announced in December 2008 that Tenaska would repurchase the 50% interest in Tenaska Marketing Ventures, Tenaska Gas Storage and Tenaska Marketing Canada (collectively, TMV) owned by affiliates of AIG Financial Products Corp. (AIGFP). CLOSED December 31, 2008
- AIG Private Bank: AIG announced in December 2008 an agreement to sell AIG Private Bank Ltd. to Aabar Investments PJSC, a global investment company based in Abu Dhabi. Under the terms of the agreement, Aabar paid AIG approximately \$253 million for the entire share capital of AIG Private Bank, and purchased and assumed approximately \$55 million of intra-company loans outstanding to AIG Private Bank. CLOSED April 16, 2009
- HSB Group: AIG announced in December 2008 the sale of its wholly owned subsidiary HSB Group, Inc. (HSB) to the Munich Re Group. Under the terms of the transaction, Munich Re acquired 100% of the outstanding shares of HSB Group, a leading worldwide provider of equipment breakdown and engineered lines insurance and reinsurance, for \$742 million in cash and assumed \$76 million of outstanding HSB capital securities. CLOSED March 31, 2009
- AIG Life of Canada: AIG announced in January 2009 an agreement to sell AIG Life Insurance Company of Canada to BMO Financial Group. AIG Life of Canada, headquartered in Toronto, Canada, offered a wide range of insurance and wealth products, including universal life and term life insurance plans, critical illness plans, permanent plans and immediate annuities. Under the terms of the transaction, BMO acquired AIG Life of Canada for approximately C\$375 million (or approximately US \$308 million) in cash, subject to any change in net worth between September 30, 2008 and closing. CLOSED April 1, 2009
- AIGFP's commodities index business: UBS Investment Bank announced in January 2009 that it entered into a binding agreement to purchase the commodity index business of AIG Financial Products Corp., including AIG's rights to the DJ-AIG Commodity Index. This commodity index business is comprised of a product platform of commodity index swaps and funded notes based on the benchmark Dow Jones-AIG Commodity Index (DJ-AIGCI). \$15 million of the purchase price was paid upon closing, with additional payments of up to \$135 million payable over the following 18 months based upon future earnings of the purchased business. CLOSED May 7, 2009
- AIG PhilAm Savings Bank, Inc. (AIGPASB), PhilAm Auto Finance & Leasing, Inc. and PFL Holdings, Inc: East West Banking Corporation (EastWest Bank) and AIG announced on January 23, 2009 that they and certain of AIG's subsidiaries, including Philippine American Life and General Insurance Company (Philamlife) and AIG Consumer Finance Group, Inc., entered into a Share Sale Agreement for EastWest Bank to acquire all of the shares of AIG PhilAm Savings Bank, Inc. (AIGPASB), PhilAm Auto Finance & Leasing, Inc. and PFL Holdings, Inc. CLOSED March 16, 2009
- AIG Retail Bank and AIG Card Thailand: Bank of Ayudhya Public Company Limited (BAY) and AIG announced an agreement on February 5, 2009 under which BAY would acquire AIG Retail Bank Public Company Limited and AIG Card (Thailand) Company Limited. Under the terms of the agreement, BAY acquired 99.5% of shares of AIG Retail Bank and 100% of AIG Card (Thailand) for a total consideration of Baht 2.055 billion or \$58.7 million (subject to closing valuation adjustment). In addition, inter-company loans totalling \$477 million from AIG were repaid at closing. CLOSED April 8, 2009
- Assets from AIGFP's energy and infrastructure book: AIG Financial Products Corp. reported on Feb. 13, 2009 that it closed the sale of its interests in two transactions and related commodity hedges from its energy and infrastructure book of business for total net proceeds of \$60.5 million. CLOSED February 13, 2009
- Interests in Spanish solar photovoltaic plants: AIG Financial Products Corp. (AIGFP), an AIG company, reported in March 2009 that it closed the sale of its interests in three operating Spanish solar photovoltaic plants from its energy and infrastructure book. The plants have a combined capacity of 35.4MWp. HG Capital, a London-based private equity firm focused on renewable energy, acquired AIGFP's interests. CLOSED March 18, 2009
- 21st Century Insurance Group: AIG and Zurich Financial Services Group (Zurich) announced on April 16, 2009 an agreement to sell 21st Century Insurance Group, the wholly owned subsidiaries comprising AIG's U.S. personal auto insurance business, to Farmers Group, Inc. (FGI), a subsidiary of Zurich. Under the terms of the transaction, FGI paid AIG \$1.9 billion, consisting of \$1.7 billion in cash and \$200 million in face amount of subordinated, euro-denominated capital notes backed by Zurich Insurance Company, Zurich's principal operating unit. FGI also assumed 21st Century's outstanding debt of \$100 million. CLOSED July 1, 2009

- AIG Otemachi Building in Tokyo: AIG announced on May 11, 2009 an agreement to sell its prime real estate holding in Tokyo, The AIG Otemachi Building, for approximately \$1.2 billion in cash (¥115,500mm) to Nippon Life Insurance Company. The property includes approximately one acre of land on which the building is situated. CLOSED May 28, 2009
- AIG consumer finance operations in Argentina: AIG announced on June 2, 2009 that it had entered into an agreement to sell 100 percent of its shares in its consumer finance operations in Argentina, consisting of Compañía Financiera Argentina S.A. (CFA), Cobranzas y Servicios S.A. and AIG Universal Processing Center S.A., to Banco de Galicia y Buenos Aires S.A. and an investment group arranged by Grupo Pegasus. Financial terms of the transaction were not disclosed. The transaction is subject to the satisfaction of certain conditions, including approvals by the Argentine Central Bank and the Argentine National Commission for the Defense of Competition.
- Transatlantic Holdings, Inc.: AIG announced on June 10, 2009 that it had closed the previously announced public offering of 29.9 million shares of Transatlantic Holdings, Inc. common stock owned by AIG and its subsidiaries in an underwritten offering for gross proceeds of \$1.136 billion. Following the offering, AIG and its subsidiaries own approximately 13.9 percent of the outstanding shares.
- AIG consumer finance operations in Mexico: AIG announced on June 24, 2009 that it had entered into an agreement to sell its consumer finance operations in Mexico, consisting of AIG Universal, S.A. de C.V., SOFOM E.N.R. and Markcenter Services, S. de R.L. de C.V., to Desarrollo de Negocios Integrados, S.A. de C.V. and Inversiones DNI, S.A. de C.V., companies related to Afirme Groupe Financiero and Consorcio Villacero. CLOSED July 17, 2009
- AIG consumer finance operations in Russia: AIG announced on June 29, 2009 that it has entered into an agreement to sell its consumer finance operations in Russia, consisting of OOO AIG Bank (RUS), to Banque PSA Finance SA, a 100 percent-owned subsidiary of PSA Peugeot Citroën Group. The transaction is subject to the satisfaction of certain conditions, including approval by the Central Bank of Russia.
- AIG Credit Card Company (Taiwan) Limited: AIG announced on June 30, 2009 that it has entered into an agreement to sell the assets of AIG Credit Card Company (Taiwan) Limited to Far Eastern International Bank. The transaction is subject to the approval of the Financial Supervisory Commission of the Republic of China.
- AIG consumer finance operations in Colombia: AIG announced on July 1, 2009 that it has agreed to sell its consumer finance operations in Columbia, consisting of Inversora Pichincha S.A. and Interdinco S.A., to Banco Pinchincha C.A. of Ecuador and other parties. The transaction is subject to the satisfaction of certain conditions, including approval by the Ecuador Superintendency of Finance and the Colombia Superintendency of Finance.
- U.S. Life Insurance Premium Finance Portfolio: On July 28, 2009 AIG announced that it has completed the sale of a majority of the U.S. life insurance premium finance business of AIG Credit Corp. and A.I. Credit Consumer Discount Company (A.I.Credit) to First Insurance Funding Corp. (FIFC), a subsidiary of Wintrust Financial Corporation of Lake Forest, Illinois, for approximately \$679.5 million in cash. If certain conditions are met, FIFC will purchase certain specified additional life insurance premium finance assets for \$61.2 million. CLOSED July 28, 2009
- AIG Consumer Finance Operations in Poland: On July 29, 2009 AIG announced that it has entered into an agreement under which it will combine its consumer finance business in Poland, conducted through AIG Bank Polska S.A., into the Polish consumer finance business of Santander Consumer Finance S.A., which is conducted through Santander Consumer Bank, S.A. (SCB). In exchange, AIG will receive a 30% equity interest in SCB. At closing, all of the AIG inter-company debt facilities related to these entities will be repaid, and AIG will not be responsible for the future funding of the combined consumer finance businesses.
- AIGFP Completes Disposition of Energy and Infrastructure Portfolio: On August 11, 2009 AIG Financial Products announced that it has completed the sale of its energy and infrastructure investment assets, realizing aggregate net proceeds in excess of \$1.9 billion. This disposition effort, which began during the fall of 2008, concluded with AIGFP's sale of its lease equity interest in the Bruce Mansfield power generation plant operated by FirstEnergy Corp. The Mansfield sale follows recent closings of three other sales: a tax equity interest in the Stanton wind farm in west Texas and two lease equity interests in portfolios of rail cars operated by BNSF Railway Company. CLOSED August 11, 2009.
- AIG (Finance) Hong Kong Limited: On August 12, 2009 AIG announced that it has entered into an agreement to sell 100 percent of its shares of AIG Finance (Hong Kong) Limited ("AIG Finance") to China Construction Bank Asia for \$70 million in cash, subject to typical closing adjustments, plus the repayment of intra-group indebtedness and deposits of approximately US\$557 million. The transaction is subject to the satisfaction of certain conditions, including approvals by appropriate regulatory authorities.

- On October 12<sup>th</sup> 2009 AIG announced an agreement to sell its 97.57% share of Nan Shan Life Insurance Company, Ltd. to a consortium comprising Primus Financial Holdings Limited, the Hong Kong-based financial services firm, and China Strategic Holdings Limited, the Hong Kong Stock Exchange-listed investment company, for approximately US\$2.15 billion.

## RECENT NEWS

### AIG REPORTS FOURTH QUARTER AND FULL YEAR 2009 RESULTS

[Click here](#)

26/2/2010

### Bernstein Report and Fallout

On November 30th Sanford Bernstein, a US investment house, published a report suggesting that the reserving position of the US property casualty group of AIG (soon to be fully re-branded Chartis) were substantially deficient with a shortfall of US\$11bn and that AIG would likely have to take some kind of reserve charge before selling its Chartis property-casualty business. The report also mentioned that AIG has a large amount of non-US business which has an estimated reserve redundancy of about US\$1bn. A copy of the report is available via the JLT client website:

<http://www.jltgroup.com/market-update/>

The market reacted on 30th November by selling AIG stock which resulted in a significant drop in the value of the stock from US\$35 to just under US\$28.4. This mostly recovered in the following days.

For background information, both S&P and AM Best in their most recent reports are of the opinion that the Group's reserves are fairly stated and neither agency has immediately changed its rating. S&P further states that other strengths include, in its view, controls surrounding catastrophe risk, reserves, claims management and reinsurance utilisation within the domestic global broking unit. S&P commentary advises that 'AIG's general insurance reserves appear to be appropriately stated. This assessment is supported by a 2007 review of all significant general insurance lines, with a greater focus on the lines more susceptible to reserve development—particularly long-tail U.S. liability lines. In 2008 net general insurance reserves were \$72.5bn. Net loss development on prior year reserves was adverse by \$118 million in 2008, \$656 million reserve release in 2007 and a \$53 million reserve release in 2006'. As at September 2009 insurance reserves were \$64.9bn (due in part to asset sales) and AIG advises that net loss development from prior accident years was adverse by approximately \$478 million.

3/12/2009

### AIG Closes Two Transactions That Reduce Debt AIG Owes Federal Reserve Bank of New York by \$25 Billion and AIG Places American Life Insurance Company (Alico), American International Assurance Company, Ltd. (AIA) In Special Purpose Vehicles

[Click here](#)

1/12/2009

### AIG Moving Forward With Separation of ALICO

[Click here](#)

1/12/2009

## RATINGS INFORMATION SUMMARY

## STANDARD &amp; POOR'S:

|                                                       |           |                         |                         |
|-------------------------------------------------------|-----------|-------------------------|-------------------------|
| Long-Term Counterparty Credit Rating                  | <b>A-</b> | <b>2 September 2009</b> | <b>Negative Outlook</b> |
| Insurer Financial Strength Rating (main subsidiaries) | <b>A+</b> | <b>2 March 2009</b>     | <b>Negative Outlook</b> |

On March 2, 2009, Standard & Poor's affirmed its supported 'A-/A-1' counterparty credit rating on American International Group Inc. (NYSE:AIG) and its 'A+' counterparty credit and financial strength ratings on AIG's insurance subsidiaries. At the same time, Standard & Poor's removed all of these ratings from CreditWatch, where they were placed on Nov. 8, 2008, with negative implications. The outlook is negative. The ratings on International Lease Finance Corp. (ILFC; BBB+/Watch Dev/A-2) remain on CreditWatch developing pending a planned sale of the company.

The affirmation primarily reflects S&P's view that the U.S. Treasury and the Federal Reserve will continue their financial support of and ongoing commitment to AIG as the revised recapitalisation the company announced improves its capital adequacy by making available more equity capital and reduces pressure on debt holders. The ratings reflect a combination of the extraordinary external support from the U.S. government in light of AIG's status as a highly systemically important financial institution. S&P expects this support to be ongoing during AIG's period of stress. The ratings are also based on the stand-alone insurance subsidiaries' 'A+' credit characteristics. The long-term counterparty credit rating on AIG reflects a six-notch uplift from AIG's stand-alone credit profile.

The affirmation follows the announcement by AIG of a revised recapitalisation plan. Through a combination of actions, AIG will reduce its obligations under the current \$60 billion lending facility from the Federal Reserve Bank of NY (FRBNY). S&P expects that this will provide the company with the flexibility to continue its asset-disposition plan at a more measured pace. As a result, its debt-to-capital will be substantially reduced. The U.S. Treasury will provide AIG with a new five-year standby equity capital facility, which will allow AIG to raise up to \$30 billion of capital by issuing preferred shares to the U.S. Treasury from time to time as needed. If AIG fully uses this facility, the U.S. Treasury will have contributed \$70 billion to the company through the issuance of preferred shares. The federal government's total financial commitment to AIG, including asset purchases by FRBNY-funded special-purpose entities, will total approximately \$155 billion.

Although in S&P's view the actions of the U.S. government have largely eliminated the risks of further rapid deterioration in the company's creditworthiness, intermediate-term concerns about the company's ability to retain key staff and market profitable new business remain. AIG expects that the planned sale of the life operations, which S&P believes likely, will take longer than originally planned, partly because of the lack of liquidity in the capital markets. As a result of these medium-term risks, the outlook is negative.

For the quarter ended Dec. 31, 2008, AIG reported a pre-tax net loss of \$60.6 billion. Excluding a large number of unusual items, of which \$50.6 billion were noncash items, core fundamental operating earnings were \$2.6 billion, down compared with \$5.3 billion for the prior year. Drivers behind the reduced operating earnings included deferred acquisition cost unlocking in the U.S. retirement business (equity-related), reduced partnership income versus prior periods, catastrophe losses, and a small amount of prior-year adverse reserve development versus favourable development in 2007.

Although their unfavourable underlying performance was mostly unexpected, S&P continues to believe AIG's insurance operations are very strong given their diverse competitive position, with the largest global property/casualty and life insurance businesses in the world. S&P consider operating insurance earnings, albeit pressured, to be strong and diversified. Following the 2008 investment losses, S&P considers capitalisation to be within the low 'A' range. Although future losses are possible given current market conditions, S&P believes the U.S. government's actions have eliminated material exposures, such as the guarantees on the multi-sector CDO portfolio and securities lending asset/liability mismatch.

The negative outlook reflects S&P's view that increased pressure on the performance of AIG's insurance businesses is likely. S&P believe AIG is particularly susceptible to these broader market trends given its somewhat weakened position. Although at this point S&P has not seen clear evidence of long-term damage to AIG's franchise, there have been widespread reports that competitors are actively pursuing AIG's accounts and key underwriting personnel. If those losses are significant and threaten future business prospects, S&P could lower the ratings, though likely by no more than two notches. If AIG's business were to stabilise and government support continues, S&P would consider revising the outlook to stable.

Source: Standard & Poor's ClassicDirect

1. On April 22, 2009, Standard & Poor's said that its ratings on American International Group Inc. (AIG; A-/Negative/A-1) and its insurance subsidiaries (A+/Negative/--) are not affected by AIG's announcement that it will transfer AIU Holdings Inc. to a special purpose vehicle and that it will purchase AIU's equity interests in certain AIG affiliates. These affiliates include International Lease Finance Corp. (ILFC; BBB+/Watch Neg/A-2), Transatlantic Holdings Inc. (BBB+/Stable/--), and United Guaranty Corp. (UGC; insurance subsidiaries are rated BBB+/Negative/--).

Standard & Poor's views these transactions as a positive development resulting in materially bolstered capital adequacy and enhanced quality of capital commensurate with the ratings on AIU's core commercial insurance group and foreign general property/casualty subsidiaries. This does not affect the ratings on AIG, but, S&P believes it does give a slight boost to the company's financial flexibility by improving its ability to facilitate noncore asset sales and accelerate its plans to offer to the public equity in the newly restructured AIU Holdings Inc.

In addition, the ratings on ILFC and Transatlantic are not affected because of S&P's continued belief that the companies are not core operations of AIG. These companies are therefore rated on a stand-alone basis. The rating on ILFC also reflects S&P's view of near-term liquidity support from the parent. UGC's subsidiaries, recently downgraded to 'BBB+', are considered strategically important to AIG, and the ratings reflect S&P's opinion of explicit support from AIG in the form of a support agreement. S&P believes the announced transactions should streamline the capital structure between AIG and UGC and will have no effect on the ratings on UGC's subsidiaries. Notwithstanding the positive benefits of these transactions, the current ratings and outlook on AIG continue to reflect S&P's intermediate-term concerns about AIG's ability to retain key staff and underwrite profitable insurance business, specifically within its commercial and life insurance segments, in the face of a recession, volatile capital markets, and soft pricing for commercial insurance expected over the next 12 months.

#### A.M. BEST:

|                      |            |                     |                 |
|----------------------|------------|---------------------|-----------------|
| Issuer Credit Rating | <b>BBB</b> | <b>2 March 2009</b> | <b>Negative</b> |
| Best's Rating        | <b>A</b>   | <b>2 March 2009</b> | <b>Negative</b> |

A.M. Best Co. has commented that all financial strength ratings and issuer credit ratings are unchanged for American International Group, Inc. (AIG) (New York, NY) and its subsidiaries. The rating outlooks remain negative.

This comment takes into consideration the record loss of \$61.7 billion posted by AIG in fourth quarter 2008 and the continued and steadfast financial support provided by the Federal Reserve Bank of New York (FRBNY) and the United States Department of the Treasury which, under a revised plan, provides AIG with additional capital and liquidity to enhance its capital structure, provide liquidity and assist in the divestiture of assets.

Some of the main features of the revised plan include a new equity commitment to AIG from the U.S. Treasury of \$30 billion, modified (equity-like) terms of AIG's Series D preferred equity, in-kind repayment of its senior secured lending facility with the FRBNY, securitisations, elimination of the LIBOR floor in its existing senior secured lending facility with the FRBNY and continued access to the remaining FRBNY facility.

A.M. Best's decision to leave the ratings unchanged at this time reflects the continued commitment of the U.S. Government to support AIG's financial position, demonstrated by the new and revised plans announced today. Despite the continued financial support of the government, the negative rating outlook reflects A.M. Best's concern regarding the billions of remaining notional exposure at the AIG Financial Products unit and the negative implications and challenges associated with AIG's "core" franchise, including the recent and potential employee turnover, continued market acceptance in the commercial casualty sector and the inherent competitive pressures brought on by professional insurance brokers and risk managers alike. Management believes plans to ultimately spin off a portion of AIG's core franchise property/casualty business should help to alleviate these concerns. In addition, a potential initial public offering of AIA and ALICO is being reviewed as an alternative path to monetisation of these assets. The domestic life and retirement savings subsidiaries continue to face pressures as operating results are expected to erode from prior levels as a result of poor equity market performance, spread compression and lower sales. Additionally, overall distribution for the domestic life and retirement services has tempered due to various factors associated with the risks and reputation of the overall franchise.

A.M. Best expects to finalise its annual review of AIG's statutory operating companies in the coming months. While AIG's secure rating is heavily weighted on the financial support provided by the U.S. Government, A.M. Best's review of AIG's operating entities goes beyond the government's involvement and its ability to stabilise AIG and protect the interests of policyholders. A.M. Best's view of AIG's financial flexibility and the fungibility of capital across the organisation, as well as the adequacy of capital at the operating unit level, will need to be reflected in the rating evaluation of AIG's operating subsidiaries. In addition, trends in operating performance and business profile are further considerations that are a part of A.M. Best's published rating methodology. Deterioration in those areas may lead to a downgrade in the financial strength ratings and the issuer credit rating of the holding company. While the ratings may be downgraded, it is unlikely that the financial strength ratings assigned to the key operating companies will be downgraded below A- (Excellent) so long as the full commitment of the U. S. Government supporting AIG remains.

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

**OTHER AGENCIES****MOODY'S:**

Holding Company  
Senior Unsecured Debt Rating **A3** **2 March 2009**

## Insurance Companies

The insurance holding companies hold various ratings. The major commercial lines insurance companies are rated Aa3 (negative). AIG UK is rated A1 (negative). Moody's last commented on 22 April 2009 to say that the various ratings were unaltered by the aforementioned AIG/AIU transactions.

**FITCH:**

Holding Company  
Long Term Issuer Default Rating **BBB** **15 May 2009**

## Insurance Companies

The major commercial lines insurance companies are rated A+. They were downgraded on May 15 2009 from AA-. Fitch said: "The downgrade in the property/casualty subsidiaries' IFS ratings to 'A+' from 'AA-' is based on a perceived decline in their competitive positioning derived from the organisation's financial difficulties, along with the effect this stress is likely to have on AIG's near-to-mid-term operating results."