

## QUARTERLY HIGHLIGHTS

	3-Months Ended Mar-09 US\$m	3-Months Ended Mar-08 US\$m	3-Months Ended Dec-08 US\$m
<b>General Insurance Operations:</b>			
Net Premium Written	9,967	12,080	9,208
Net Premium Earned	10,487	11,357	10,981
Underwriting Profit (Loss)	(206)	405	(3,194)
Net Investment Income	652	1,205	370
Income before Net Realised Capital Gains (Losses)	446	1,610	(2,824)
Net Realised Capital Gains (Losses)	(447)	(273)	(2,529)
<b>Operating Income (Loss)</b>	<b>(1)</b>	<b>1,337</b>	<b>(5,353)</b>
Loss Ratio	76.6%	70.4%	83.1%
Expense Ratio	25.4%	26.0%	46.0%
Combined Ratio	102.0%	96.4%	129.1%
<b>Other Divisions Operating Income (Loss):</b>			
<b>Life Insurance &amp; Retirement Services Operations</b>	(1,873)	(1,831)	(17,885)
<b>Financial Services Operations</b>	(1,122)	(8,772)	(17,592)
<b>Asset Management Operations</b>	(633)	(1,251)	(6,478)
Other before Net Realised Capital Gains (Losses)	(3,080)	(503)	(11,034)
Other Net Realised Capital Gains (Losses)	732	(265)	(1,122)
Consolidation and Elimination Adjustments	(391)	21	(743)
<b>Loss before Income Tax Benefit</b>	<b>(6,368)</b>	<b>(11,264)</b>	<b>(60,556)</b>
Income Tax Benefit	(1,235)	(3,537)	2,000
<b>Net Loss</b>	<b>(5,133)</b>	<b>(7,727)</b>	<b>(62,556)</b>
Less net Income (Loss) Attributable to Non-Controlling Interests	(780)	78	897
<b>Net Loss Attributable to AIG</b>	<b>(4,353)</b>	<b>(7,805)</b>	<b>(61,659)</b>
Total Investments	610,131	835,602	636,912
Total Assets	819,758	1,049,876	860,418
Total AIG Shareholders' Equity	45,759	78,088	52,710

Source: SEC AIG 10-Q Return

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## YEAR END HIGHLIGHTS

	12-Months Ended Dec 31	
	2008 US\$m	2007 US\$m
<b>General Insurance Operations:</b>		
Net Premiums Written	45,234	47,067
Net Premiums Earned	46,222	45,682
Underwriting Profit (Loss)	(4,200)	4,500
Net Investment Income	3,477	6,131
Income (Loss) before Net Realised Capital Gains (Losses)	(723)	10,632
Net Realised Capital Gains (Losses)	(5,023)	(106)
<b>Operating Income (Loss)</b>	<b>(5,746)</b>	<b>10,526</b>
Loss Ratio	76.9	65.6
Expense Ratio	32.2	24.5
Combined Ratio	109.1	90.2
<b>Life Insurance &amp; Retirement Services Operations:</b>		
Premiums and Other Considerations	37,295	33,627
Net Investment Income	10,106	22,341
Income before Net Realised Capital Gains (Losses)	6,901	10,584
Net Realised Capital Gains (Losses)	(44,347)	(2,398)
Operating Income (Loss)	(37,446)	8,186
Financial Services Operations:		
<b>Operating Loss excluding <sup>(1)</sup></b>	<b>(40,364)</b>	<b>(8,983)</b>
FAS 133 <sup>(2)</sup>	41	211
Net Realised Capital Gains (Losses)	(498)	(100)
Capital Markets Other-Than-Temporary Impairments	0	(643)
<b>Operating Loss</b>	<b>(40,821)</b>	<b>(9,515)</b>
<b>Asset Management Operations:</b>		
<b>Operating Income (Loss) before Net Realised Capital Gains (Losses)</b>	<b>(429)</b>	<b>2,164</b>
Net Realised Capital Gains (Losses)	(8,758)	(1,000)
<b>Operating Income (Loss)</b>	<b>(9,187)</b>	<b>1,164</b>
Other before Net Realised Capital Gains (Losses)	(13,837)	(1,731)
Other Net Realised Capital Gains (Losses)	(1,218)	(409)
Consolidation and Elimination Adjustments	(506)	722
<b>Income (Loss) before Income Tax Expense (Benefit) and Minority Interest</b>	<b>(108,761)</b>	<b>8,943</b>
Income Tax Expense (Benefit)	(8,374)	1,455
<b>Income (Loss) before Minority Interest</b>	<b>(100,387)</b>	<b>7,488</b>
Minority Interest, after-tax:		
Income (Loss) before Net Realised Capital Gains (Losses)	829	(1,272)
Net Realised Capital Gains (Losses)	269	(16)
<b>Net Income (Loss)</b>	<b>(99,289)</b>	<b>6,200</b>
<small>(1) FAS 133, Net Realised Capital Gains (Losses) and Capital Markets Other-Than-Temporary Impairments</small>		
<small>(2) FAS 133 accounting for derivative instruments and hedging activities</small>		
Total Investments	636,912	829,468
Total Assets	860,418	1,048,361
Total AIG Shareholders' Equity	52,710	95,801

Source: SEC AIG 10-K Return

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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 August 3<sup>rd</sup> 2009 the market capitalisation was \$1.8 billion based on a share price of \$13.60.

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.

## RECENT EVENTS

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 in March 2009, the sixth consecutive quarterly loss. AIG's first quarter 2009 net loss resulted primarily from a number of restructuring and market disruption-related charges and accounting charges related to taxes. The link to the March 2009 earnings release is as follows: <http://ir.aigcorporate.com/phoenix.zhtml?c=76115&p=irol-financialreports>

Highlights Include:

- Net loss for the first quarter of 2009 of \$4.35 billion or \$1.98 per diluted share, compared to a net loss of \$7.81 billion or \$3.09 per diluted share in the first quarter of 2008. First quarter 2009 adjusted net loss, excluding net realised capital gains (losses) and FAS 133 gains (losses), net of tax, was \$1.60 billion, compared to an adjusted net loss of \$3.56 billion in the first quarter of 2008.
- Included in the above market disruption-related losses of \$2.5 billion pre-tax (\$1.6 billion after tax)
- Property/Casualty combined ratio of 102% (Q1 2008: 96.4%)
- Property/Casualty net premium drop of 17.5%

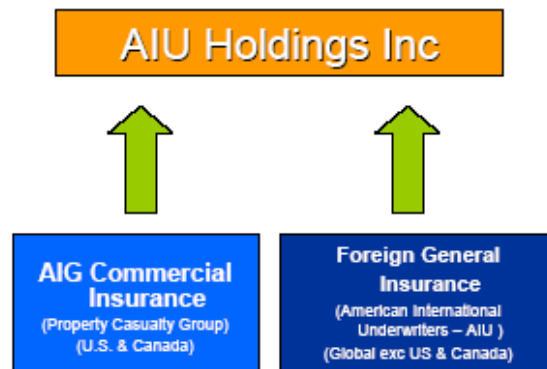
AIG's losses have been primarily driven by the AIG Financial Products Division (AIGFP) and the circumstances have been well documented. In September 2008, when it was clear that AIG would not be able to find a private sector solution to its funding and liquidity requirements the US Government, via the Federal Reserve Bank of New York, stepped in to offer financial assistance, since AIG was deemed too important to fail. The financial assistance, which has been amended and increased in various increments, takes various forms and currently amounts to circa \$180 billion. By way of compensation the Government receives a circa 80% shareholding in AIG.

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. Contrary to the earlier plan to separate the roles, 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. The full press release can be read here: [http://www.aig.com/Home-Page\\_20\\_17084.html](http://www.aig.com/Home-Page_20_17084.html)

**RESTRUCTURED DEAL**

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.

**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.

**OTHER ACTIONS TAKEN SINCE THE ANNOUNCEMENT OF MARCH 2ND**

Since the announcements of March 2<sup>nd</sup> AIG has taken the following actions to improve its capital structure, execute on an orderly asset divestiture plan, protect and enhance the value of its key businesses, and position these franchises for the future as more independently run, transparent companies:

- The U.S. Department of the Treasury (U.S. Treasury) exchanged its shares of AIG's Series D Fixed Rate Cumulative Perpetual Preferred Stock for shares of AIG's Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, on April 17, 2009. Dividends on the Series E Preferred Stock are payable on a non-cumulative basis. Additionally, AIG entered into a replacement capital covenant that requires AIG to replace the Series E Preferred Stock with qualifying equity replacement capital securities if the company repays or redeems the Series E Preferred Stock.
- The U.S. Treasury provided AIG with a new five-year equity capital facility, which provides access to up to \$29.835 billion of available funds to AIG under the terms of the purchase agreement for shares of Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock. In connection with the establishment of this facility, AIG issued to U.S. Treasury a warrant to purchase 3,000 shares of AIG's common stock.
- The Federal Reserve Bank of New York (FRBNY) Credit Agreement was amended to remove the minimum 3.5 percent LIBOR floor as of April 17, 2009. AIG Financial Products Corp:
- Since December 31, 2007, the notional amount on AIGFP's derivative portfolio has been reduced by more than 40 percent from approximately \$2.7 trillion at December 31, 2007 to approximately \$1.5 trillion at March 31, 2009.
- AIGFP reduced the number of trade positions in its portfolio to approximately 28,000 at March 31, 2009, down 20 percent from approximately 35,000 as of December 31, 2008.

**Completed Asset Sales:**

- AIG PhilAm Savings Bank, PhilAm Auto Financing and Leasing, and PFL Holdings to EastWest Banking Corporation for \$43 million, on March 12, 2009.
- Hartford Steam Boiler (HSB) to the Munich Re Group for \$739 million, plus the assumption of \$76 million of outstanding HSB capital securities, on March 31, 2009.
- AIG Life Insurance Company of Canada to BMO Financial Group for \$263 million, on April 1, 2009.
- AIG Retail Bank Public Company Limited and its credit card operation, AIG Card (Thailand) Company Limited, in Thailand to Bank of Ayudhya Public Company Limited for approximately \$45 million, plus the repayment of intra-group indebtedness of approximately \$495 million, on April 8, 2009.
- AIG Private Bank Ltd. (AIG Private Bank) to a subsidiary of Aabar Investments PJSC (Aabar), a global investment company based in Abu Dhabi, for approximately \$253 million for the entire share capital of AIG Private Bank. Aabar also purchased and assumed approximately \$55 million of intra-company loans outstanding to AIG Private Bank, on April 16, 2009.
- Deutsche Versicherungs-und Rückversicherungs-Aktiengesellschaft (Darag), a German general insurance subsidiary of AIG affiliate Württembergische und Badische Versicherungs-AG (WüBa) in Germany, to Augur for approximately \$26 million on April 24, 2009.
- On May 11, 2009 AIG announced an agreement to sell its prime real estate holding in Tokyo for approximately \$1.2 billion in cash to Nippon Life Insurance Company. The property consists of approximately one acre of land on which The AIG Otemachi Building in Tokyo is situated. Consummation of the deal was announced on May 28, 2009.

- AIG announced on June 8<sup>th</sup> 2009 that the underwriters of the previously announced public offering of 26 million shares of Transatlantic Holdings, Inc. (NYSE: TRH) common stock owned by AIG and its subsidiary, American Home Assurance Company (AHAC), have exercised their option to purchase an additional 3.9 million shares. As a result, AIG and AHAC will sell a total of 29.9 million shares for aggregate gross proceeds of \$1.136 billion. TRH will not receive any of the proceeds from the secondary offering. The secondary offering was made through a syndicate of underwriters, led by J.P. Morgan Securities Inc., Goldman, Sachs & Co., and Morgan Stanley & Co. as joint book-running managers with Lazard Capital Markets LLC as co-lead underwriter. Dowling & Partners and Fox-Pitt Kelton Cochran Caronia Waller acted as co-managers of the offering. At the close of the secondary offering AHAC owns 9,192,662 common shares of Transatlantic Holdings, Inc. representing approximately 13.9 percent of Transatlantic Holdings Inc.'s common shares issued and outstanding.
- AIG announced on July 1<sup>st</sup> that it had closed the sale of 21st Century Insurance Group, the wholly owned subsidiaries of AIG's U.S. personal auto insurance business, to Farmers Group, Inc. (FGI), a subsidiary of Zurich, for \$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.
- On July 17<sup>th</sup> AIG announced that it has closed the sale of 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 Grupo Financiero and Consorcio Villacero. Terms of the transaction were not disclosed.

#### **Divestiture of Asian Life business and Reduction in Debt:**

American International Group, Inc. (AIG) announced on June 25<sup>th</sup> 2009 that it had entered into an agreement with the Federal Reserve Bank of New York (FRBNY) that will accomplish two key goals: reducing the debt AIG owes the FRBNY by \$25 billion; and positioning two of the company's leading international life insurance franchises, American International Assurance Company, Ltd. (AIA) and American Life Insurance Company (ALICO), for initial public offerings, depending on market conditions.

Under the agreement with the FRBNY, AIG will contribute the equity of each of AIA and ALICO to separate special purpose vehicles (SPVs) in exchange for preferred and common interests in the SPVs. The FRBNY will receive preferred interests in the AIA SPV of \$16 billion and in the ALICO SPV of \$9 billion.

The face value of the preferred interests represents a percentage of the estimated fair market value of AIA and ALICO. AIG will hold the common interests in the AIA and ALICO SPVs and will benefit from the fair market value of AIA and ALICO in excess of the value of the preferred interests as the SPVs monetize their stakes in these companies in the future.

Taken together, upon closing, the transactions will result in a reduction in the debt owed by AIG under the FRBNY credit facility and the line available to AIG by \$25 billion. As of June 25th, AIG's outstanding balance under the FRBNY credit facility is approximately \$40 billion.

AIG expects these transactions to close in the second half of 2009 subject to customary closing conditions, including regulatory approvals. Until their separation as independent companies, AIA and ALICO will remain wholly owned subsidiaries of AIG, consolidated in AIG's reported financial statements.

"Placing AIA and ALICO into SPVs represents a major step toward repaying taxpayers and preserving the value of AIA and ALICO, two terrific life insurance businesses with great futures," said Edward Liddy, Chairman and Chief Executive Officer, AIG. "Operating AIA's and ALICO's successful business models in the SPV format will enhance the value of these franchises as we move forward with our global restructuring."

According to the FRBNY: "The agreements further the goals of enabling AIG to fully repay the assistance that it has received from U.S. taxpayers and advancing the company's global restructuring process. The exchange of senior secured debt for preferred equity interests reduces AIG's financial leverage and facilitates the independence of these two key subsidiaries."

**Other Information:**

On March 15, AIG published details of the counterparties to its CDS, GIA and Securities Lending contracts. The details can be accessed via the link below:

[http://www.aig.com/aigweb/internet/en/files/CounterpartyAttachments031809\\_tcm385-155645.pdf](http://www.aig.com/aigweb/internet/en/files/CounterpartyAttachments031809_tcm385-155645.pdf)

Soon to be retiring AIG Chairman and Chief Executive Officer Edward Liddy delivered the following remarks regarding AIG at a hearing held by a subcommittee of the U.S. House of Representatives on March 18:

<http://phx.corporate-ir.net/phoenix.zhtml?c=76115&p=irol-newsArticle&ID=1267430&highlight=>

At the same hearing, details of how the public money has been utilised were made available:

[http://www.aig.com/aigweb/internet/en/files/EML\\_Congress3\\_17\\_2009\\_addendum\\_tcm385-155689.pdf](http://www.aig.com/aigweb/internet/en/files/EML_Congress3_17_2009_addendum_tcm385-155689.pdf)

**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

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

Long-Term Counterparty Credit Rating	<b>A-</b>	<b>2 March 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.

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**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."