

NAME: American International Group - Consolidated

DOMICILE: USA

## CONSOLIDATED FINANCIAL INFORMATION - ANNUAL DATA HIGHLIGHTS

From most recent publicly available information.

## Year Ended December 31 (\$ Millions)

	2007	2006	2005
<b>General Insurance Operations:</b>			
Gross premiums written	58,798	56,280	52,725
Net premiums written	47,067	44,866	41,872
<i>Statutory measures:</i>			
Statutory underwriting profit/(loss)	4,073	4,408	(2,165)
Loss ratio	65.6	64.6	81.1
Expense ratio	24.7	24.5	23.6
Combined ratio	90.3	89.1	104.7
<b>Life Insurance &amp; Retirement Services operations:</b>			
Premiums and other considerations	33,627	30,766	29,501
Operating income/(loss)	8,186	10,121	8,965
Gross insurance in force at end of year	2,312,045	2,070,600	1,852,833
<b>Financial Services operations:</b>			
Operating income/(loss)	(9,515)	383	4,424
<b>Asset Management operations:</b>			
Operating income/(loss)	1,164	1,538	1,963
<b>Other operations:</b>			
Net realised capital gains/(losses)	12	217	(71)
All other	(1,430)	(984)	(2,383)
<b>Consolidated:</b>			
Total revenues	110,064	113,387	108,781
Operating income	8,943	21,687	15,213
Year-end total assets	1,060,505	979,410	853,048
Shareholders' Equity	95,801	101,677	86,317

Source - 2007 SEC 10K Return

## CONSOLIDATED FINANCIAL INFORMATION - INTERIM DATA HIGHLIGHTS

## Nine Months Ended September 30 (\$ Millions)

	2008	2007
<i>Total revenues:</i>		
General Insurance	35,854	38,589
Life Insurance & Retirement Services	14,271	40,337
Financial Services	(16,016)	7,109
Asset Management	658	4,969
Other	531	407
Consolidations & eliminations	(436)	220
Total	34,862	91,631
<i>Operating income/(loss)</i>		
General Insurance	(393)	8,511
Life Insurance & Retirement Services	(19,561)	6,900
Financial Services	(22,880)	1,008
Asset Management	(2,709)	1,806
Other	(2,899)	(1,557)
Consolidations & eliminations	237	711
Total (pre-tax)	(48,205)	17,379
Shareholders' Equity	71,182	104,067

Source - 2008 Q3 SEC 10Q Return

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.

## 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 5 February 2009 the market capitalisation was \$2.8 billion based on a share price of \$1.03.

## SUBPRIME EXPOSURE AND RECENT EVENTS

The AIG share price has fallen from a yearly high of \$53.58 on 6 February 2008, to as low as \$1.00 in trading on 3 February 2009 and the company has suffered rating downgrades from the main agencies (details below). The company was potentially threatened by further downgrades which could continue to have serious consequences for the business. The current financial issues, as JLT understand it, have mainly arisen out of losses incurred as a consequence of the credit crisis, rather than from insurance underwriting. In particular, write-downs and realised losses within the mortgage related credit default swap portfolio.

For information, as at June 2008, the company recorded a six-month pre-tax loss of \$20 billion primarily due to an unrealised market valuation loss of \$14.7 billion on its super senior credit default swap portfolio. The fair value position of the super senior credit default swap portfolio at that time was a net loss of \$26.1 billion, representing AIG's best estimate of the amount it would need to pay a willing, able and knowledgeable third party to assume the obligations under the swap portfolio. Of the \$446.8 billion of net par outstanding at June under the super senior credit default swap portfolio approximately \$57.8 billion includes some exposure to US subprime mortgages. However, further deterioration in market conditions, believed to be caused at least partly by the bankruptcy of investment bank Lehman Brothers, left the company potentially facing possible further serious losses within this portfolio.

At September 2008 the nine-month pre-tax loss had increased to \$48.2 billion (post-tax \$37.6 billion). The three month pre-tax loss to September 2008 was \$28.2 billion (post-tax \$24.5 billion). The unrealised market valuation loss on the super senior credit default swap portfolio had increased to \$21.7 billion. AIG has confirmed that the total "Structured Securities" (includes RMBS, CMBS, etc) held by the 16 commercial property casualty insurance companies was less than 3% of total invested assets (approx \$1.8 billion total value) as of August 31, 2008.

In response to the magnitude of the problems that the company was facing, and the potential impact that a failure could have on the wider economy, the US Federal Reserve Bank, with the full support of the Treasury Department, agreed to offer a comprehensive credit facility on 16 September 2008 amounting to \$85 billion, to ensure the financial stability of the firm. As part of the deal, the current CEO of AIG, Robert Willumstad, stepped aside in favour of Edward Liddy the former head of insurer Allstate Corporation, who has also taken on the chairman role. The appointment was confirmed on 18 September 2008. Additionally, on 8 October 2008, the Fed entered into a \$37.8 billion securities borrowing facility with certain of AIG's US insurance subsidiaries.

On 10 November 2008 the Federal Reserve Board announced that the aforementioned deal was to be restructured. The new measures were aimed at establishing a more durable capital structure, resolving liquidity issues, facilitating AIG's execution of its plan to sell certain of its businesses in an orderly manner (see below), promoting market stability, and protecting the interests of the U.S. government and taxpayers. The key elements of the restructuring are as follows:

First, the maturity of the loan under the September Facility was increased from two years to five years (i.e., until 22 September 2013).

Second, the interest rates applicable to drawn and un-drawn amounts of funding under the September Facility were reduced. The interest rate payable on outstanding advances under the September Facility was reduced from 3-month LIBOR plus 850 basis points to 3-month LIBOR plus 300 basis points. The interest rate payable on available but undrawn amounts of funding under the September Facility was reduced from 850 basis points to 75 basis points.

Third, the maximum amount of credit permitted to be outstanding under the September Facility was reduced from \$85 billion to \$60 billion.

Other important terms of the September Facility, however, remain unchanged. AIG remains unconditionally obligated to repay the unpaid principal amount of all advances, together with accrued and unpaid interest thereon and any unpaid fees on the maturity date. Also, all outstanding balances under the September Facility are secured by the pledge of a substantial portion of the assets of AIG and its primary non-regulated subsidiaries, including AIG's ownership interest in its regulated U.S. and foreign subsidiaries. In addition, upon the receipt of shareholder approval, additional collateral will be pledged by AIG to secure the September Facility. Furthermore, AIG's obligations to the Reserve Bank continue to be guaranteed by each of AIG's domestic, non-regulated subsidiaries that have more than \$50 million in assets. These guarantees themselves are separately secured by assets pledged to the Reserve Bank by the relevant guarantor. Additional subsidiaries of AIG may be added as guarantors over time by signing a short supplemental agreement.

Finally, the Reserve Bank's agreement to provide advances under the September Facility continue to be specifically conditioned on the Reserve Bank being satisfied in its sole discretion with the nature and value of the collateral securing AIG's obligations at the time of the advance, and on the Reserve Bank being reasonably satisfied in all respects with the corporate governance of AIG. Reserve Bank representatives are in regular contact with AIG's senior management and attend all AIG board of directors meetings, including committee meetings, as an observer. The Reserve Bank also has staff on-site at AIG to monitor the company's funding, cash flows, use of proceeds and progress in pursuing its global divestiture plan. Control and management of the daily business and operations of AIG and its subsidiaries continue to be vested in the new chairman and chief executive officer of AIG and his management team. These and other provisions protect the interests of the Federal Reserve, the Treasury Department, and taxpayers in having full repayment by AIG of all of its Federal Reserve borrowing without incurring any losses.

In addition to the restructuring of the main credit facility, the following actions were announced:

#### ***Equity Purchase***

The US Treasury announced that it will purchase \$40 billion of newly issued AIG preferred shares under the Troubled Asset Relief Program. Concurrently, additional warrants price at \$2.50 totalling 2% of AIG outstanding common stock were issued to the government at purchase date. This purchase will allow the Federal Reserve to reduce from \$85 billion to \$60 billion the total amount available under the credit facility established by the Federal Reserve Bank of New York on 16 September, 2008. (n.b. the deal was consummated on 25 November 2008)

#### ***Credit Facility***

Certain other terms of the existing New York Fed credit facility, established on 16 September, will be modified to help achieve the objectives described above. In particular, the interest rate on the facility will be reduced to three-month Libor plus 300 basis points from the current rate of three-month Libor plus 850 basis points, and the fee on un-drawn funds will be reduced to 75 basis points from the current rate of 850 basis points. The length of the facility will be extended from two years to five years. The other material terms of the facility remain unchanged. The facility will continue to be secured by a lien on many of the assets of AIG and of its subsidiaries.

#### ***Additional Lending Facilities***

The Federal Reserve Board has authorised the New York Fed to establish two new lending facilities relating to AIG under section 13(3) of the Federal Reserve Act. These facilities are designed to alleviate capital and liquidity pressures on AIG associated with two distinct portfolios of mortgage-related securities.

##### ***(1) Residential Mortgage-Backed Securities Facility***

In one new facility, the New York Fed will lend up to \$22.5 billion to a newly formed limited liability company (LLC) to fund the LLC's purchase of residential mortgage-backed securities from AIG's U.S. securities lending collateral portfolio. AIG will make a \$1 billion subordinated loan to the LLC and bear the risk for the first \$1 billion of any losses on the portfolio. The loans will be secured by all of the assets of the LLC and will be repaid from the cash flows produced by these assets as well as proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid. Proceeds from this facility, together with other AIG internal resources, will be used to return all cash collateral posted for securities loans outstanding under AIG's U.S. securities lending program. As a result, the aforementioned \$37.8 billion securities lending facility established by the New York Fed on 8 October 8 2008, will be repaid and terminated.

##### ***(2) Collateralised Debt Obligations Facility***

In the second new facility, the New York Fed will lend up to \$30 billion to a newly formed LLC to fund the LLC's purchase of multi-sector collateralised debt obligations (CDOs) on which AIG Financial Products has written credit default swap (CDS) contracts. AIG will make a \$5 billion subordinated loan to the LLC and bear the risk for the first \$5 billion of any losses on the portfolio. In connection with the purchase of the CDOs, the CDS counterparties will concurrently unwind the related CDS transactions. The loans will be secured by all of the LLC's assets and will be repaid from cash flows produced by these assets as well as the proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

On 30 October four AIG subsidiaries were additionally granted access to \$20.9 billion under the U.S. Federal Reserve commercial paper program, which allowed it to reduce its dependence on more expensive credit offered in the original \$85 billion bailout offered in September. AIG are thought to have raised circa \$15 billion under this facility at the time of writing.

## 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

## KEY APPOINTMENTS

On 16 October 2008 AIG announced that David L. Herzog has been named Executive Vice President and Chief Financial Officer. Mr. Herzog will assume responsibilities for financial operations across all AIG business units. He will also assume a central role in overseeing AIG's plan to address its capital structure and pay down the credit facility from the Federal Reserve Bank of New York. Mr. Herzog, 48, has served as AIG Senior Vice President and Comptroller since June 2005. On 23 October 2008 AIG announced that Paula Rosput Reynolds, formerly chief executive at US insurer Safeco, has been appointed as chief restructuring officer. She will oversee asset divestiture and will be the company's key point of liaison with the Federal Reserve Bank of New York. On 20 January 2009, AIG named Monika M. Machon as AIG Senior Vice President and Chief Investment Officer, responsible for insurance company portfolio management across all asset classes, succeeding Win J. Neuger. Mr. Neuger will continue as AIG Investments Chairman and Chief Executive Officer, while leading the management team of the external client asset management business that AIG intends to sell. Ms. Machon will report directly to AIG Chairman and Chief Executive Officer Edward J. Liddy.

## SIGNIFICANT DISPOSALS

In order to repay the aforementioned loan AIG is in the process of disposing of a number of its assets. The process is ongoing with an aim of maximising shareholder value. The most significant sale to date is that of HSB Group Inc., parent of The Hartford Steam Boiler Inspection, an equipment insurer. German insurance group Munich Re, the world's second largest reinsurer, is the purchaser. Munich Re will acquire all outstanding shares for \$742 million in cash and assume \$76 million of outstanding HSB capital securities. The deal is expected to close at the end of the first quarter of 2009, AIG said.

AIG announced two other unit sales in early December, though the company refused to divulge how much money changed hands. On 3 December, AIG and Omaha-based Tenaska Inc. said that Tenaska would re-purchase three units owned by AIG: Tenaska Marketing Ventures, Tenaska Gas Storage and Tenaska Marketing Canada. This deal is expected to close by 2 January, 2009.

On 1 December, AIG said it would sell its subsidiary AIG Private Bank to Aabar Investments, an institutional investor based in the United Arab Emirates.

On 26 November, AIG and the Brazilian bank Unibanco said they would each purchase their "cross-holdings." The companies said that AIG would buy shares in its subsidiaries that were held by Unibanco, and Unibanco would buy shares in its subsidiaries that were held by AIG.

On 13 January 2009 AIG announced an agreement to sell AIG Life Insurance Company of Canada to BMO Financial Group. AIG Life of Canada, headquartered in Toronto, Canada, offers 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 will acquire 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. The transaction, which is expected to close by June 1, 2009, is subject to certain conditions, including approvals by the appropriate regulatory authorities.

## RATINGS INFORMATION SUMMARY

## STANDARD &amp; POOR'S:

Long-Term Counterparty Credit Rating	A-	11 December 2008	Watch Negative
Insurer Financial Strength Rating (main subsidiaries)	A+	10 November 2008	Watch Negative

Nov. 10, 2008, Standard & Poor's Ratings Services said that its ratings on American International Group Inc. (NYSE:AIG; A-/Watch Neg/A-1) and subsidiaries are unaffected by the company's earnings announcement and the announcement of a revision to its agreements with the Federal Reserve. The company announced a large net loss of \$24 billion for the quarter ended Sept. 30, 2008. This loss was not unexpected given the capital markets developments in the third quarter and the company's exposures. The reported loss includes realised investment losses of \$15 billion after taxes, most of which AIG had previously reported as unrealised losses and were re-categorised as realised losses given changes in the company's expectation of its ability to hold these securities to maturity. This change does not constitute a cash loss to AIG but only a change to the accounting characterisation. The core operations reported strong results, though they were somewhat weaker than we expected because of hurricane losses and the difficult interest rate and investment environment for the company's life insurance businesses.

At the same time as the earnings announcement, the company and the Federal Reserve Bank of New York (FRBNY) announced various revisions to their agreements. These new revisions include a restructuring of the \$85 billion lending facility from the FRBNY to AIG as a \$60 billion lending facility and an investment of \$40 billion in AIG preferred stock, as well as additional facilities to absorb the company's exposure under its securities lending and credit default swap portfolios. We believe these moves are mostly positive, as they offer more economic terms under the credit facility and a preferred stock investment similar to those received by other financial institutions, and they limit AIG's further losses under its most loss-making exposures.

The downside to AIG is that it will give up to the FRBNY under these facilities a significant portion of the future recoveries of asset values, which Standard & Poor's considers to be potentially significant. This is a major shift from Standard & Poor's prior expectations, which were based on substantially lower economic losses and expected ultimate asset recoveries exceeding \$20 billion. However, S&P believes the heightened level of government support significantly mitigates this weakening in earnings capacity. On the whole, weighing the costs and the benefits to AIG, S&P thinks these restructurings are mostly positive and should give the company more time to sell assets under better economic conditions and an improved ability establish a viable and profitable long-term general insurance franchise.

S&P ratings anticipate the continued use of facilities provided by the Federal Reserve to provide interim funding while AIG restructures its operations. The support measures the Federal Reserve has provided, which are intended to meet the enterprise's liquidity and subsidiary capital needs, underpin AIG's creditworthiness. Without those support measures, it is likely the holding company would be rated in the speculative-grade category.

The ratings on AIG and its property/casualty subsidiaries remain on CreditWatch with negative implications. S&P expects to resolve the CreditWatch status of these ratings in 2009, when it will likely get a better picture of the company's efforts to price and retain its business. Standard & Poor's expects some loss of business lines and personnel. If those losses are significant and threaten future business prospects, it could lower the ratings further. However, if such potential declines were modest, it could affirm the ratings.

S&P expects that AIG will sell its life insurance operations (which remain on CreditWatch with developing implications) under its planned restructuring. Most of the likely buyers are rated 'AA-' or better, which could have a positive impact on the ratings on these AIG subsidiaries. We could raise these ratings once sales to higher-rated entities are completed. However, if the sale process is slow, if the sale is to a lower-rated entity, or if there is significant deterioration in the businesses, S&P could lower the ratings.

**Further to the above, on 11 December 2008 S&P issued the following bulletin:**

Standard & Poor's said that its ratings on American International Group Inc. are unaffected by media reports of additional losses on the company's credit default swap contracts. In Standard & Poor's view, the \$10 billion figure reported in the media relates to specific exposures on which AIG has previously reported a partial loss, and not to any new losses on AIG Financial Products' portfolio. These exposures and the related losses were already incorporated in Standard & Poor's analysis and the counterparty credit rating on AIG. As explained in AIG's response to the reports, the contracts in question relate to \$9.8 billion of notional exposure to swaps covering synthetic securities. These swaps are included in the company's \$71.6 billion notional portfolio of credit default swaps covering multi-sector collateralised debt obligations. Standard & Poor's has analysed the entire portfolio, and losses on that portfolio are incorporated in its previously published expectation of \$8 billion to \$10 billion of ultimate losses on the combined CDS and residential mortgage-backed securities portfolios. Despite those ultimate loss expectations, the company has previously reported market value losses on these portfolios that significantly exceed these figures.

**Further to the above, on 4 February 2009 S&P withdrew a number of subsidiary ratings:**

On Feb. 4, 2009, Standard & Poor's Ratings Services took various ratings actions on several American International Group Inc. subsidiaries. These actions follow AIG's decision to revise or terminate guarantees. The guarantees had provided the basis for the ratings. Therefore, S&P withdrew ratings that are no longer necessary.

In addition, Standard & Poor's revised its CreditWatch implications on the 'A+' ratings on American Life Insurance Co.'s (ALICO) subsidiaries, First American Czech Insurance Co. A.S. and AHICO First American-Hungarian Insurance Co., to CreditWatch developing from CreditWatch negative. The action was the result of a change in the guarantor from National Union to ALICO. S&P also affirmed its 'ruAAA' rating on AIG Life Insurance Co. ZAO (Russia) as a result of the ALICO guarantee.

The business of the following subsidiaries: AIG Czech Republic Pojistovna A.S., AIG Poland Insurance Co. S.A., and AIG Slovakia Insurance Co. A.S., was transferred into newly formed branches of AIG Europe. As a result, the guarantees have been terminated as these subsidiaries no longer exist. Therefore, Standard & Poor's withdrew its ratings.

New Hampshire Insurance Co., an AIG affiliate, terminated its guarantee to HSB Engineering Insurance Ltd. (HSB) because the rating is no longer necessary. S&P are not rendering an opinion on HSB because it believes the company's operations are not material. S&P are withdrawing its rating on this subsidiary at the company's request.

Further, AIU Insurance Co. Shanghai Province was converted into a wholly owned foreign enterprise (WFOE) and took over the Shanghai branch portfolio. The following branches became branches of the new Shanghai registered WFOE: AIU Insurance Co. Guangzhou China Branch, AIU Insurance Co. Foshan China Branch, and AIU Insurance Co. Shenzhen China Branch. S&P has withdrawn the ratings on these branches.

In addition, S&P withdrew the ratings on AIG Capital Corp. and SunAmerica Life Insurance Co. (Separate Accounts) I at the company's request.

Source: Standard & Poor's ClassicDirect

**MOODY'S:**

Senior Unsecured Debt Rating  
Insurance Financial Strength

**A3** **10 November 2008**  
**Various Ratings 10 November 2008**

Moody's Investors Service is maintaining its present ratings on American International Group, Inc. (AIG -- senior unsecured debt at A3, short-term debt at Prime-1, on review for possible downgrade) following announcements of AIG's large net loss for the third quarter of 2008 and of a government-supported restructuring plan. Moody's noted that the restructuring plan includes a large infusion of preferred stock that would restore much of the capital lost in recent periods, along with transactions that would limit AIG's future losses on some of its most troublesome investment and derivative exposures. The current ratings on AIG incorporate Moody's expectation that the insurer will continue to benefit from strong government support while it executes its divestiture and restructuring plan. The continuing review for possible downgrade reflects the substantial uncertainty surrounding (i) the value that will be received for businesses that are sold, (ii) potential additional losses incurred during the unwinding of other businesses, and (iii) the future performance of businesses that are retained. Such uncertainty is heightened by the weak global economy.

AIG reported a net loss of \$24.5 billion for the third quarter of 2008, driven mainly by net realised capital losses (mostly other-than-temporary impairment of investments), unrealised market valuation losses on derivatives, and other charges related to financial market turmoil and the restructuring plan. Over the past four quarters, AIG has reported cumulative net losses of \$42.9 billion and net unrealised depreciation on investments totaling \$15.9 billion. These losses and write-downs pertain largely to mortgage-related exposures in the credit default swap (CDS) portfolio of AIG Financial Products Corp. (AIGFP) and in the securities lending collateral pool of AIG's US life insurance subsidiaries. Significant cash collateral calls and reductions/terminations of securities borrowing arrangements have strained AIG's liquidity and capital resources.

To help AIG meet its obligations, the Federal Reserve Bank of New York (the Fed) provided the company with an \$85 billion two-year secured revolving credit facility on September 16, 2008. As part of this transaction, the Fed obtained a 79.9% equity interest in AIG. Also, on October 8, 2008, the Fed entered into a \$37.8 billion securities borrowing facility with certain of AIG's US insurance subsidiaries. Under the restructuring plan announced today, the Fed intends to replace the \$85 billion revolving credit facility with a \$40 billion redeemable perpetual preferred stock issue and a \$60 billion five-year secured revolving credit facility, with pricing and other terms that are more favorable to AIG than the current Fed credit facility.

In addition to the recapitalisation, AIG and the Fed have announced a de-risking plan that would cap AIG's exposure to further market value deterioration in its mortgage-related securities lending collateral pool and in the multi-sector component of its CDS portfolio. In each case, AIG would transfer these exposures to an unaffiliated special purpose vehicle (SPV) funded by a large tranche of senior financing provided by the Fed and a smaller tranche of subordinated financing provided by AIG. The exposures would be transferred to the SPVs at estimated current market values. The transaction with the securities lending collateral pool is intended to allow for termination of AIG's securities lending program and of the Fed's \$37.8 billion securities borrowing facility. Although AIG will crystallise substantial losses on its mortgage-related exposures through these transactions, the \$40 billion preferred stock investment mitigates that concern, providing significant incremental protection for senior creditors.

To repay its borrowings under the Fed revolving credit facility, AIG is attempting to sell a broad range of businesses, including many of its Life Insurance & Retirement Services, Financial Services and Asset Management operations, as well as some modest-sized General Insurance units. Remaining core operations are intended to include the US-based Commercial Insurance Group, Foreign General Insurance and a majority stake in American International Assurance.

Moody's said that the proposed recapitalisation and de-risking transactions will provide AIG with additional time and flexibility to facilitate asset sales and bolster AIG's operating performance. Terminating the securities lending pool may make the participating life insurers more attractive to potential buyers. In addition, the more favorable capital structure may give various constituents -- customers, distributors, employees, creditors, potential business buyers -- greater confidence that AIG can complete its asset sales and repay the Fed revolving credit facility within a reasonable time frame.

Moody's noted, however, that AIG faces serious headwinds, including the weak global economy and limited availability of financing alternatives for potential business buyers. The company also faces the daunting task of unwinding the remaining operations of AIGFP (beyond the multi-sector component of the CDS portfolio). The costs and timing of this likely prolonged and complex unwinding process are difficult to estimate, but could be substantial. Finally, AIG's ultimate capital structure, assuming successful completion of the global divestiture plan and repayment of the Fed revolving credit facility, would still likely include substantial debt and hybrid securities with large fixed charge requirements. Moody's has estimated that AIG's financial leverage and coverage metrics at that time, absent other capital raising or restructuring initiatives, would be somewhat weak for the single-A debt rating.

Offsetting these challenges and weaknesses is the strong support demonstrated by the Fed. The Fed has shown flexibility in adjusting the amount and terms of its support with changing circumstances at AIG and in the broader financial markets. The current ratings on AIG and its subsidiaries reflect Moody's expectation of continuing Fed support, not only to fund immediate liquidity needs but also to facilitate the global divestiture plan and the unwinding of AIGFP. Without such support, the ratings of AIG and many of its subsidiaries -- including core operations and businesses identified for sale -- would be lower.

Moody's continuing review of the ratings on AIG and its subsidiaries will focus on (i) the firm's evolving liquidity profile, including the level of borrowing under the Fed revolving credit facility; (ii) execution of the de-risking transactions for the securities lending pool and the multi-sector component of the CDS portfolio; (iii) the timing and amounts of cash proceeds generated from asset sales; (iv) development of a comprehensive plan to unwind AIGFP, including estimated costs and timing; (v) the performance of major operating units, whether they are core operations or targeted for sale; and (vi) the resulting financial profile (e.g., financial leverage and fixed charge coverage) of AIG following the asset sales. For those operations being sold, Moody's will consider their intrinsic financial strength as well as the rating profiles of potential acquirers.

The last rating action on AIG took place on October 3, 2008, when Moody's downgraded the senior unsecured debt rating to A3 from A2, with a continuing review for possible downgrade, following the announcement of AIG's global divestiture plan.

**Further to the above, on 23 December 2008 Moody's issued the following bulletin:**

Moody's has seen good and bad omens as it monitors the restructuring and divestiture efforts of American International Group, Inc. "AIG has made important strides in the restructuring plan announced on Nov. 10, 2008," the ratings agency announced in a special commentary on AIG's financial position since the U.S. Treasury and the Federal Reserve Bank of New York offered the company a US\$150-billion bailout. "AIG has revised its capital structure, terminated its U.S. securities lending program, and materially reduced its exposure to credit default swaps (CDS) written on multi-sector collateralised debt obligations (CDOs). "These developments are positive in Moody's view, helping to limit future strains on AIG's liquidity and capital." Nevertheless, Moody's notes, "the company faces significant challenges in its efforts to divest non-core operations, unwind the remainder of AIG Financial Products Corp. (AIGFP) and preserve the values of major operating units. These challenges are heightened by the weak global economy and distressed financial markets." In particular, Moody's reports, the pricing and timing of planned asset dispositions have been hampered by the weak global economy and limited availability of financing alternatives for potential business buyers. "During the past few months, AIG's core and non-core insurance operations have seen deterioration with respect to sales and persistency of business," Moody's comments. "Moody's expects that lower business volumes combined with the costs of retaining key employees will hurt profit margins. Material delays in the divestiture process could cause significant erosion of the values of operations to be sold as well as core operations to be retained."

Source: Moody's Investor Services

**A.M. BEST:**

Issuer Credit Rating	<b>BBB</b>	<b>10 November 2008</b>	<b>Negative</b>
Best's Rating	<b>A</b>	<b>10 November 2008</b>	<b>Negative</b>

A.M. Best Co. has affirmed the financial strength ratings (FSR) and issuer credit ratings (ICR) of the insurance subsidiaries of American International Group, Inc. (AIG) (New York, NY). In addition, A.M. Best has affirmed the ICR of "bbb" of AIG. All the above ratings have been assigned a negative outlook.

A.M. Best's removal of the ratings from under review reflects the protracted time frame necessary for an orderly sale of AIG's assets, which exceeds the usual near term time frame incorporated in an under review status. Clearly, the issues affecting these ratings continue to be reviewed as they change or emerge, and the ratings could be downgraded at any time if events do not meet expectations. Alternatively, the sale of a business to a higher rated organisation could result in an upgrade to the business sold.

A.M. Best's rating affirmations are heavily based on the U.S. Government's intervention and provision of immense capital levels partially without recourse to AIG. All of A.M. Best's future rating considerations are based on continued U.S. Government support as long as support is needed. A.M. Best believes the sale of AIG's businesses will be a lengthy and protracted process absent a near term and significant turn around of market conditions, which is not expected. A.M. Best remains quite guarded regarding the ultimate valuation of the businesses based on a host of factors including: cost and availability of financing for potential acquirers, varied perceptions of value, reduction of competitive bidders, reduced enthusiasm over franchise availability and length of time assets remain on the market generating negative speculation. The negative outlook reflects the interim concern of franchise deterioration during a period of potential disparity between expected and offered valuations. If this materialises beyond expectations, or there is a material deviation from the expected time line, A.M. Best expects to downgrade the ratings of those businesses affected.

The material support provided to AIG from the Federal Reserve Bank of New York and the U.S. Government in its entirety is the underlying impetus to affirm the current ratings. However, A.M. Best views the terms of the preferred stock investment to be significantly less than equity-like, and the capital structure and financial leverage of AIG at September 30, 2008 and estimated to be at December 31, 2008 are outside of the range representative of its ratings. In particular, the \$23 billion of equity reflecting the U.S. Government's 79.9% interest in the company is supporting the \$24.5 billion third quarter net loss. However, A.M. Best views the amortising asset supporting this equity as less than tangible capital underlying an already strained capital and leverage structure.

These rating actions follow AIG's announcement of its third quarter financial results, restructuring of the company's \$85 billion credit facility with the Federal Reserve Bank of New York and permanent solutions for AIG's U.S. Securities Lending Program (Securities Lending) and Multi-Sector Credit Default Swap exposure. The third quarter net loss of \$24.5 billion was outside of A.M. Best's expectations and further increases the scale of the required asset sales. Contributing to this loss were after tax net realised capital losses of \$15.1 billion, including other than temporary impairments (OTTI) of \$16.2 billion much of which emanates from valuations or changes in accounting treatment due to AIG's lack of intent to hold such securities to recovery, particularly with respect to Securities Lending collateral. The numbers also reflected a significant \$2.3 billion (after tax) of issuer specific credit write-offs including \$.9 billion (after tax) of Lehman Brothers exposure as well as an additional \$4.6 billion (after tax) of additional AIGFP unrealised market valuation losses. However, the magnitude and capital implications of the net loss continue to be overshadowed by AIG's liquidity issues, which have been fully supported by the Federal Reserve Bank of New York.

The Residential Mortgage Backed Securities (RMBS) held in connection with the Securities Lending program will be monetised through the formation of a special purpose vehicle (SPV) and sale of approximately \$40 billion face value securities for approximately \$23.5 billion. The SPV will be funded with an approximate \$22.5 billion senior loan provided by the Federal Reserve Bank of New York and an approximate \$1 billion junior loan provided by AIG. The senior loan is recourse only to SPV assets. Principal and interest on the RMBS will be used to first repay the senior loan and secondarily the junior loan with any residual cash flows split between the loans. Non-RMBS securities with a market value of \$6.2 billion constitute the remainder of the Securities Lending program and will be disposed in the market or other means to monetise these assets. AIG can now exit Securities Lending domestically and provide more attractive balance sheets to potential acquirers of the domestic life and retirement services businesses.

Reduction of the liquidity drain from AIG's Multi-Sector Credit Default Swaps (CDS) will be accomplished through a similar SPV structure. The SPV will be comprised of a senior loan provided by the Federal Reserve Bank of New York and a junior loan provided by AIG. The senior loan is recourse only to SPV assets. The counterparties to the CDS contracts held approximately \$33 billion of collateral as of September 30, 2008. Any future upside emanating from the SPV will be shared between the loans.

The U.S. Government support continues with a restructure of the current \$85 billion two year credit facility into a new \$60 billion five year credit facility with significantly lower interest carry and a \$40 billion preferred stock investment with a 10% per annum cumulative compounding dividend. In addition to the loans to the SPV and restructure of the credit facility, four AIG affiliates, including subsidiaries of AIG Funding, Inc. and International Lease Finance Corporation, maintain access to the Federal Reserves' Commercial Paper Funding Facility (CPFF), which has been substantially utilised.

A.M. Best has reviewed the potential liquidity drain from AIG's operations including AIG Financial Products Corp. (FP), the matched investment program, as well as liquidity support offered by AIG to several business segments and debt maturities. While it is not possible to obtain certainty of the cash needs of unwinding FP's varied and complicated products into hesitant and illiquid markets, it appears that remaining capacity under the recast credit facility will be sufficient for the near term although expectations are quite fluid and changes in ratings and outlook could be made as information is continually reviewed.

A.M. Best has and will continue to review the rate and exposure monitoring reports provided by the Commercial Insurance Group including rate and exposure changes. To date the review does not warrant a rating revision; however, due to the lag in capturing bound policies versus current market quotes some concern remains. In addition, A.M. Best has reviewed employee turnover in key AIG business segments through a specific listing of key employees. While the current review does not indicate significant turnover at this point in the areas reviewed, we expect this issue will continue to evolve, and A.M. Best will continue to focus on this as a measure of the inherent value of the subsidiary businesses.

The rating affirmations of AIG's domestic life and retirement services subsidiaries reflect the individual financial strength and operating performance of the operating subsidiaries organised under AIG's domestic life and retirement services operations. The ratings recognise the life and retirement services estimated modest statutory after tax operating earnings performance presented through third quarter 2008, sufficient risk-adjusted capitalisation and its diverse product portfolio.

In an effort to maintain the value of the franchise, AIG's domestic life and retirement services entities have benefited from roughly \$16 billion of capital infusions to offset significant losses stemming from its securities lending portfolios.

Partially offsetting these positive rating factors are that AIG's core annuity and spread businesses remain vulnerable to interest rate risk and the effects of the global economic environment. The life and retirement services subsidiaries continue to face challenges due to competitive pressures in its core domestic product lines. Through third quarter 2008, annuity surrenders have increased and sales in its retirement services annuity portfolios have been reduced. Through third quarter 2008, AIG's various initiatives are supportive of its commitment to recapitalise these subsidiaries.

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**FITCH RATINGS:**

Issuer Default Rating	<b>A</b>	<b>10 November 2008</b>	<b>Stable</b>
Insurer Financial Strength Rating	<b>Various Ratings</b>		

Actions announced on 10 November by American International Group, Inc. (AIG), the U.S. Treasury and the Federal Reserve provide a high level of explicit and implicit U.S. government support for AIG as the company implements its previously announced restructuring plan, according to Fitch Ratings, which has affirmed various AIG ratings and removed them from Rating Watch Evolving.

Fitch views the U.S. government's actions as an important part of its ongoing and wide spread efforts to promote financial stability in the worldwide economy. Accordingly, Fitch believes that the U.S. government has significant incentives to assure AIG is successful in implementing its restructuring plan, which includes allowing AIG to emerge as an entity with a financial profile supportive of 'AA'-category IFS ratings and 'A' rated senior unsecured debt ratings.

AIG's ratings reflect an assumption of a 'government support floor' that Fitch expects will remain in place until AIG fully executes its restructuring plan. Evidence of waning support prior to AIG emerging with a financial profile consistent with current ratings adds an element of above average variability that would result in Fitch re-thinking AIG's ratings.

Actions announced on 10 November include the following:

--AIG will issue \$40 billion of cumulative senior perpetual preferred stock which the U.S. Treasury will purchase through the Troubled Asset Relief Program (TARP). These securities will be subordinate in ranking to AIG's senior unsecured, junior subordinated, and trust preferred obligations. Under its terms, the senior perpetual preferred stock may not be redeemed unless borrowings from the Federal Reserve Bank of New York (FRBNY) are first repaid in full. This issuance of new equity-like securities significantly strengthens AIG's capital structure.

--Terms of the current \$85 billion secured credit facility (Fed Facility) between AIG and the FRBNY will be amended. The facility's committed amount will be reduced to \$60 billion and the term will be lengthened to five years from two years. Additionally, the interest rate on drawn amounts will be reduced to LIBOR +3.0% from LIBOR + 8.5% and the unused commitment fee will be reduced to 0.75% from 8.5%. Fitch views the amendments favourably because they provide AIG with more time to implement its previously announced restructuring plan at a much lower cost of funding compared to the Fed Facility's original terms.

--FRBNY and AIG will enter into two separate transactions under which FRBNY will provide the vast majority of funds required to capitalise two special purpose vehicles (SPV) formed to materially reduce liquidity and capital risks in AIG's securities lending program and AIG Financial Products Corp.'s (AIGFP) multi-sector CDO portfolio of credit default swaps (CDS). One of the SPVs will purchase for cash, certain assets from AIG related to its securities lending program that have experienced significant declines in market value. The other SPV intends to purchase reference obligations from counterparties to AIGFP's multi-sector CDO portfolio of CDS contracts in exchange for a commutation of the CDS contracts, thus eliminating the contracts' potential collateral and capital needs. Fitch believes that successful completion of these securitisation transactions will materially reduce the liquidity needs and capital drains derived from AIG's securities lending program and AIGFP's multi-sector CDO CDS portfolio, which in recent months have resulted in substantial uses of liquidity provided by the Fed Facility.

From a ratings perspective, Fitch views the explicit and implicit support provided by the U.S. government as sufficient to overcome the significant execution risks underlying AIG's restructuring plan. However, execution risks still exist, and include:

--Segments of AIGFP's portfolio of CDS contracts that are not part of the AIGFP securitisation plan outlined above could generate material cash and or capital needs under various scenarios. At June 30, 2008 the notional value of this portfolio, excluding the multi-sector CDO portfolio, totaled \$366 billion;

--AIGFP and AIG's American General Finance Corp. (AGF) will likely need assistance from AIG to satisfy their debt obligations. Fitch estimates that at Sept. 30, 2008, AIGFP and AIG's American General Finance Corp. (AGF) subsidiary had \$39 billion and \$33 billion of debt outstanding, respectively. Fitch views the majority of this debt as 'matched funded debt' in the sense that there are assets with comparable durations supporting the debt obligations. In addition, AIGFP's debt is guaranteed by AIG and AGF's bank debt requires AIG to maintain certain levels of capital at AGF. However, given the potential for continuing financial market volatility that could adversely affect AIGFP, and the outlook for deteriorating economic conditions that could adversely affect AGF, Fitch believes that ability of the companies' matched assets to fully fund these obligations is under heightened stress. As a result, Fitch believes that it is increasingly likely that AIG may have to fund a portion of AIGFP's and AGF's debt, which places additional liquidity pressures at the holding company, and could result in additional draws on the Revised Fed Facility;

--Proceeds from the sale of AIG's various subsidiaries could be less than planned, especially given the current difficult economic and capital market environments. This could cause AIG to sell more assets than currently planned in order to repay borrowings under the Fed Facility. If this were to occur, this could weaken AIG's post-restructuring financial profile;

--AIG's operating company subsidiaries, especially those in ratings sensitive businesses such as annuity and longer duration commercial property/casualty insurance, are likely to experience varying degrees of stress as the company implements its restructuring plan, including potential losses in key personnel and policy cancellations. While Fitch believes that AIG has taken reasonable steps to manage these risks; such as focusing on maintaining liquidity and pricing adequacy and retaining key staff, the agency believes some level of risk persists.

Fitch believes the greatest ratings variability could occur if AIG is ultimately able to reach sufficient future asset sales in order to repay borrowings under the Fed Facility and senior perpetual preferred stock, while financial leverage or other aspects of AIG's profile at the time, do not support an 'A'-category unsecured senior debt rating, or 'AA'-category IFS ratings. Fitch notes there are no explicit financial leverage or other covenants that prevent AIG from repaying the senior perpetual preferred stock under such circumstances, and that any deferral in repayment of the stock, or replacement with other equity-like securities, would be voluntary on the part of the U.S. Treasury. Despite these limitations, Fitch believes the U.S. government has strong economic and reputational incentives to support AIG's successful restructuring.

**Source: Fitch Ratings**