

A.M. Best Comments on American International Group, Inc.'s Ratings and the U.S. Government's Revised Plan

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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, securitizations, 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 monetization 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 finalize 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 stabilize AIG and protect the interests of policyholders. A.M. Best's view of AIG's financial flexibility and the fungibility of capital across the organization, 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.

The principal methodologies used in determining these ratings, including any additional methodologies and factors, which may have been considered, can be found at www.ambest.com/ratings/methodology.

Founded in 1899, A.M. Best Company is a global full-service credit rating organization dedicated to serving the financial and health care service industries, including insurance companies, banks, hospitals and health care system providers.

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