



Moody's Investors Service

Global Credit Research

Rating Action

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Rating Action: **Insurance Co. of the State of Pennsylvania**

Moody's confirms AIG's senior debt at A3; outlook negative

Downgrades AIG's subordinated debt to Ba2 from Baa1; takes various rating actions on subsidiaries

New York, March 02, 2009 -- Moody's Investors Service has confirmed the A3 senior unsecured debt and Prime-1 short-term debt ratings of American International Group, Inc. (NYSE: AIG). AIG's subordinated debt rating has been downgraded to Ba2 from Baa1. The rating outlook for AIG is negative. This rating action follows AIG's announcement of net losses of \$62 billion for the fourth quarter and \$99 billion for the full year of 2008, along with a revised restructuring plan supported by the US Treasury and the Federal Reserve. This concludes a review for possible downgrade that was initiated on September 15, 2008.

In addition, Moody's has confirmed the insurance financial strength (IFS) ratings of AIG's core property & casualty (P&C) operations, including AIG Commercial Insurance (AIGCI -- Aa3, negative), AIG UK Limited (AIG UK -- A1, negative) and AIG General Insurance (Taiwan) Co., Ltd. (AIGGI Taiwan -- A3, negative). Also confirmed were the IFS ratings of American International Assurance Company (Bermuda) Limited (AIAB -- Aa3, negative), Transatlantic Reinsurance Company (Transatlantic -- Aa3, developing), and United Guaranty Residential Insurance Company (UGRIC -- A3, negative). The rating agency downgraded the IFS ratings of AIG's Domestic Life Insurance & Retirement Services (DLIRS) companies, American Life Insurance Company (ALICO) and AIG Edison Life Insurance Company (AIG Edison) to A1 (developing) from Aa3.

"The rating confirmation for AIG and its core P&C operations reflects the benefits to policyholders and senior creditors from the restructuring steps announced today," said Bruce Ballentine, Moody's lead analyst for AIG, "as well as our expectation that the government will provide incremental support as needed to ensure that AIG can meet its obligations through this period of severe economic recession and market turmoil." The expectation of systemic support is based on the substantial size and global scope of AIG's insurance and financial operations, and is consistent with actions taken to date by the US government and related statements made by the US Treasury and Federal Reserve. The IFS ratings of the core P&C subsidiaries and the senior debt rating of AIG incorporate Moody's view that AIG will emerge from the government intervention as a leading global P&C insurer with a sound credit profile.

"The negative rating outlook on AIG and its core P&C operations signals the potential loss of customers, distributors and employees during the period of government intervention," added Mr. Ballentine, "along with the uncertainty regarding the ownership and capital structure following the intervention." Other areas of risk and uncertainty include: (i) potential erosion of values in operations to be divested; (ii) potential further declines in investment portfolio values, particularly in life insurance subsidiaries, which may require further capital infusions; (iii) the timing of divestitures and resulting proceeds, given the limited funding available to potential buyers; and (iv) the timing and costs associated with unwinding AIG Financial Products Corp. (AIGFP).

AIG's fourth-quarter loss was driven mainly by realized capital losses on investments (including other-than-temporary impairments), write-downs of intangible assets, unrealized market valuation losses on derivatives, and other charges related to the ongoing restructuring efforts. Major aspects of the revised restructuring plan include: (i) conversion of the existing \$40 billion preferred stock provided by the US Treasury to a non-cumulative issue; (ii) commitment from the US Treasury for an additional \$30 billion of preferred equity capital; (iii) debt-for-equity swaps whereby the Federal Reserve Bank of New York (the NY Fed) will

exchange a portion of the senior secured loan under its \$60 billion facility for preferred interests in certain operating units; and (iv) exchanges by the NY Fed of a portion of the senior secured loan for embedded value securitization notes from certain DLIRS companies. These actions were prompted by AIG's fourth-quarter loss and the deteriorating market conditions, and will give the company greater flexibility to pursue its restructuring and divestiture plans.

SUBORDINATED DEBT RATINGS

Moody's lowered AIG's subordinated debt ratings to Ba2 from Baa1. The rating agency noted that the cumulative nature of the interest on such instruments reduces the incentive to defer interest payments, especially in light of the enhancements to AIG's capital position announced today. Nevertheless, in the event of further liquidity strains and/or a need for additional government support, the risk of deferred payment on these instruments, as well as the risk of a potential restructuring, warrants additional notching on these ratings down from AIG's senior unsecured debt rating.

RATING ACTIONS ON CORE OPERATIONS

The confirmations of the IFS ratings of AIGCI, AIG UK and AIGGI Taiwan were based on Moody's expectation of a sound business and financial profile for the global P&C operations following the government intervention. "AIG holds one of the world's largest and most diversified P&C operations, with a leading market presence in global accounts along with solid positions in several local markets," commented Mr. Ballentine. These operations have suffered some loss of business, especially in the most credit sensitive lines, as a result of parent company turmoil and the weak economy, according to the rating agency. The negative outlook reflects the potential for further business erosion during the period of government intervention, whether through loss of customers, distributors and employees or through aggressive pricing which could hurt underwriting results over time.

RATING ACTIONS ON OPERATIONS TO BE DIVESTED

The downgrades of the IFS ratings of the DLIRS companies and of ALICO and AIG Edison reflect business disruptions related to turmoil at AIG as well as general deterioration in economic conditions and investment portfolio values. Moody's noted that business disruptions were most pronounced during the fall of 2008, when several business units experienced spikes in customer surrenders and steep declines in new business. Since that time, the business flows have recovered to varying degrees, with recent growth in some markets and a slower pace of decline in others. AIG has contributed large amounts of capital to its life insurance subsidiaries, particularly the DLIRS companies, to offset the effects of investment losses and equity market declines over the past year. "The current ratings incorporate Moody's expectation that the government will support these operations and maintain their capital levels throughout the divestiture process," said Laura Bazer, lead analyst for the DLIRS companies and ALICO. "The developing outlook reflects the possibility of business sales over time to buyers of higher, equal or lower credit quality, and the potential for further business erosion, in the event that divestitures are delayed."

The confirmation of the IFS rating of AIAB reflects its strong market presence and that of the broader American International Assurance (AIA) across Asia and Australia, along with an expectation that the group will eventually attract one or more buyers who will maintain capitalization at a level consistent with the current rating. AIA has suffered some of the same disruptions as AIG's other life operations, but the rating agency still sees the business and financial profile as consistent with a rating in the Aa range. The negative outlook reflects uncertainty about the future ownership structure as well as the challenging market conditions.

The confirmation of the IFS rating of Transatlantic reflects Moody's view that this unit maintains a strong presence in the broker reinsurance market and an appropriate capital structure to support the rating. Transatlantic, which is publicly traded with an approximate 59% stake held by AIG, generates about 13% of its business through AIG affiliates and the remainder through globally diversified sources. The developing outlook signals uncertainty regarding Transatlantic's future ownership structure.

UNWINDING AIGFP

Moody's said that AIGFP has developed a comprehensive plan to unwind its business, attempting to strike a balance between reducing exposures rapidly and limiting cash outflows. AIGFP has already eliminated some of its more challenging exposures, including substantially all of its credit default swaps (CDS) covering multi-sector credit default obligations. "Still, the ultimate costs and duration of the unwinding process are difficult to estimate and could be substantial," said Mr. Ballentine. For instance, remaining exposures include CDS

written for regulatory capital or corporate arbitrage purposes, where further market deterioration and/or changes in valuation methods could lead to sizable losses and collateral requirements.

OTHER OPERATIONS

In confirming UGRIC's IFS rating with a negative outlook, Moody's noted that the rating is based mainly on the benefits of a net worth maintenance agreement provided by AIG and a fixed-dollar-limit reinsurance agreement provided by an AIGCI member.

The long-term ratings of International Lease Finance Corporation and American General Finance Corporation remain under review for possible downgrade and will be addressed in separate rating announcements over the next week or two.

Moody's will host a teleconference to discuss these actions on Tuesday, March 3, at 11:00 AM EST. Please visit www.moody.com/events for further information.

AIG, based in New York City, is an international insurance and financial services organization, with operations in more than 130 countries and jurisdictions. The company is engaged through subsidiaries in General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. AIG reported a net loss of \$61.7 billion for the fourth quarter of 2008. Shareholders' equity was approximately \$52.7 billion as of December 31, 2008.

The last rating action took place on December 18, 2008, when Moody's commented on AIG's restructuring efforts, while continuing the review for possible downgrade.

The principal methodologies used in rating this issuer were Moody's Global Rating Methodology for Property and Casualty Insurers and Moody's Global Rating Methodology for Life Insurers, which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Rating Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Moody's has announced the following rating actions:

RATINGS CONFIRMED WITH A NEGATIVE OUTLOOK

American International Group, Inc. -- long-term issuer rating at A3, senior unsecured debt at A3, short-term issuer rating at Prime-1;

AIG Funding, Inc. -- backed short-term debt at Prime-1;

AIG General Insurance (Taiwan) Co., Ltd. -- insurance financial strength at A3;

AIG Life Holdings (US), Inc. -- backed senior unsecured debt at A3;

AIG Liquidity Corp. -- backed short-term debt at Prime-1;

AIG Retirement Services, Inc. -- backed senior unsecured debt at A3;

AIG UK Limited -- insurance financial strength at A1;

American International Assurance Company (Bermuda) Limited -- insurance financial strength at Aa3;

Capital Markets subsidiaries -- AIG Financial Products Corp., AIG Matched Funding Corp., AIG-FP Capital Funding Corp., AIG-FP Matched Funding Corp., AIG-FP Matched Funding (Ireland) P.L.C., Banque AIG -- backed senior unsecured debt at A3;

Capital Markets subsidiaries -- AIG Financial Products Corp., AIG Matched Funding Corp. -- backed short-term debt at Prime-1;

Commercial Insurance subsidiaries -- AIG Casualty Company; AIU Insurance Company; American Home Assurance Company; American International Specialty Lines Insurance Company; Commerce and Industry Insurance Company; National Union Fire Insurance Company of Pittsburgh, Pennsylvania; New Hampshire Insurance Company; The Insurance Company of the State of Pennsylvania -- insurance financial strength at

Aa3;

Mortgage Guaranty subsidiaries -- United Guaranty Mortgage Indemnity Company, United Guaranty Residential Insurance Company -- backed insurance financial strength at A3.

RATINGS CONFIRMED WITH A DEVELOPING OUTLOOK

AIG SunAmerica subsidiaries -- AIG SunAmerica Life Assurance Company, First SunAmerica Life Insurance Company, SunAmerica Life Insurance Company -- short-term insurance financial strength at Prime-1;

Transatlantic Holdings, Inc. -- senior unsecured debt at A3;

Transatlantic Reinsurance Company -- insurance financial strength at Aa3.

RATINGS ASSIGNED TO REPLACEMENT SHELF WITH A DEVELOPING OUTLOOK

Transatlantic Holdings, Inc. -- senior unsecured debt shelf at (P)A3, subordinated debt shelf at (P)Baa1.

RATINGS DOWNGRADED WITH A DEVELOPING OUTLOOK

AIG Edison Life Insurance Company -- insurance financial strength to A1 from Aa3;

AIG SunAmerica funding agreement-backed note programs -- AIG SunAmerica Global Financing Trusts, ASIF I & II, ASIF III (Jersey) Limited, ASIF Global Financing Trusts -- senior secured debt to A1 from at Aa3;

AIG SunAmerica subsidiaries -- AIG SunAmerica Life Assurance Company, First SunAmerica Life Insurance Company, SunAmerica Life Insurance Company -- insurance financial strength to A1 from Aa3;

American Life Insurance Company -- insurance financial strength to A1 from Aa3;

Domestic Life Insurance & Retirement Services subsidiaries -- AIG Annuity Insurance Company, AIG Life Insurance Company, American General Life and Accident Insurance Company, American General Life Insurance Company, American International Life Assurance Company of New York, The United States Life Insurance Company in the City of New York, The Variable Annuity Life Insurance Company -- insurance financial strength to A1 from Aa3.

RATINGS DOWNGRADED WITH A NEGATIVE OUTLOOK

American International Group, Inc. -- subordinated debt at to Ba2 from Baa1;

American General Capital II -- backed trust preferred stock to Ba2 from Baa1;

American General Institutional Capital A & B -- backed trust preferred stock to Ba2 from Baa1.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to punctually pay senior policyholder claims and obligations. For more information, please visit our website at www.moodys.com/insurance.

New York
Bruce Ballentine
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Robert Riegel
Managing Director
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376

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