

December 7, 2009

WOODRUFF-SAWYER UPDATE: AIG/BERNSTEIN RESEARCH REPORT DATED NOVEMBER 30, 2009

On November 30, 2009, Bernstein Research issued a report stating that as a result of an insurance industry loss reserve analysis, it had concluded that the Year End 2008 loss reserves of AIG's non-life insurance operations were deficient by \$11 billion. Note: AIG's non-life insurance operations consist of the commercial lines insurance operations which are primarily concentrated in its newly-named subsidiary, Chartis Insurance Company.

In response, AIG stated that the Bernstein analyst had relied only on "Schedule P", which is part of the Annual Statutory Financial Statements filed domestically with regulators. AIG noted that Schedule P includes the following cautionary language: "It is not possible for any person to accurately determine the adequacy of the Company's loss and loss expense reserves using the Company's Schedule P data as the sole source." AIG also noted that the 2008 Calendar Year data reported in Schedule P is particularly distorted as a result of the restructuring of certain foreign operations. The Chartis segment of AIG has commissioned an independent actuarial firm to review its loss reserves annually since 2005, in addition to its internal staff of actuaries. Furthermore, Chartis' independent auditors also review loss reserves annually. Neither the independent actuarial firm nor the independent auditor have opined to a reserve deficiency at the level suggested in the Bernstein report. We have attached the complete Chartis response for your review.

Reserve adequacy is a complicated topic because it is affected by numerous factors, not the least of which is the timing of the review. In addition, the use of reinsurance affects loss reserves, but it is difficult to compare adequacy from one year to the next because the structures of these reinsurance programs may change from year-to-year.

AIG released its Third Quarter 2009 earnings on November 6, 2009. In the nine-month period ending September 30, 2009, the Chartis segment of AIG reported adverse loss development of \$478 million. While noteworthy, this number represents about 0.8% of \$60.4 billion of existing loss reserves for the Chartis operation(s). Chartis noted that the majority of the adverse development was due to excess casualty business related to accident years 2006 and prior. It further noted the impact of the worldwide credit crisis in its claim activity. If these trends continue, Chartis may need to increase reserves.

We will continue to monitor the overall financial condition of AIG and of Chartis. In addition, we will closely review AIG's Year End 2009 results – including the impact of adverse loss development – and will provide additional comment at that time. In the meantime, Chartis remains on our approved list of companies based on its ability to meet policyholder demands.

Woodruff-Sawyer & Co. commitment to clients

- Woodruff-Sawyer is committed to providing our clients with the information necessary to make buying decisions based on their risk tolerance.
- When/if our clients require alternative quotes from other insurers, we will respond accordingly.
- We will be proactive in monitoring and discussing market security issues with our clients.

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AIG Statement in Response to Bernstein Research Report of November 30, 2009

On November 30, 2009, Bernstein Research issued a report stating that AIG's non-life insurance loss reserves were deficient. Just seven months ago, in April 2009, Bernstein issued a report stating that AIG's reserves were redundant. AIG does not comment on analyst reports. However, to the extent that Bernstein's analysis was based on information from Schedule P to AIG's domestic property casualty insurance company Annual Statutory Financial Statements, AIG included the following cautionary language in Schedule P to such statements with respect to the use of Schedule P data: "It is not possible for any person to accurately determine the adequacy of the Company's loss and loss expense reserves using the Company's Schedule P data as the sole source." AIG also noted that the 2008 calendar year data reported in Schedule P is particularly distorted as a result of the restructuring of certain foreign operations previously conducted as branches of domestic companies.

As also disclosed in such Annual Statements, as well as in AIG's Annual Reports on Form 10-K, reserves for losses and loss expenses are determined on the basis of internal actuarial evaluations, review and consideration of analyses by independent actuaries where deemed appropriate, and other estimates, including historical loss experience. The methods of making such estimates and for establishing the resulting reserves are continually reviewed and updated at least quarterly, and any resulting adjustments are recorded in the current period.

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