

September 16, 2008

Frequently Asked Questions

Q. I heard AIG has been downgraded. By which agencies?

A. On September 15, 2008, the following agencies downgraded American International Group, Inc. (AIG) and many of its subsidiaries:

A.M. Best Company downgraded AIG and most of its subsidiaries. Specifically, A.M. Best downgraded the financial strength rating (FSR) of the domestic life insurance and retirement services subsidiaries, including AIG American General, one notch to A (Excellent) from A+ (Superior) and issuer credit ratings (ICR) to “a” from “aa” for the domestic life insurance and retirement services subsidiaries of AIG, which includes AIG American General.

Fitch Ratings downgraded AIG’s issuer default ratings (IDR) to A from AA-. The domestic life companies and retirement services financial strength ratings (FSR), including AIG American General, were downgraded two notches to AA- from AA+. *Fitch believes that “the measures AIG is currently taking will take time to develop and thus, while they are likely to help AIG in the long-term, they are unlikely to provide benefits in the short-term.”* Notwithstanding, Fitch believes the accommodations being provided by AIG’s insurance regulators have eased the potential liquidity strain being experienced at the holding company level.

Standard & Poor’s Ratings Services (S&P) downgraded AIG’s long-term counterparty rating to A- from AA-. The FSRs for the domestic life insurance and retirement services, including AIG American General, were downgraded to A+ from AA+. S&P’s press release says “the main reason for the rating actions is the combination of reduced flexibility in meeting additional collateral needs and concerns over increasing residential mortgage-related losses. Mark-to-market losses from mortgage-related investments...have placed significant pressure on AIG’s ability to access capital and liquidity. This is happening concurrently with significant dislocation across the financial markets. *Despite these factors, the ratings also reflect the group’s strong and diversified global competitive position in life and general insurance as well as its historically strong operating result.*”

Moody’s Investors Service downgraded AIG’s senior unsecured debt rating to A2 from Aa3. The domestic life insurance and retirement services, including AIG American General, were downgraded one notch to Aa3 from Aa2.

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Q. Why do ratings matter?

- A. Independent ratings agencies, such as A.M. Best and Standard & Poor's, provide opinions on an organization's ability to meet its financial obligations to its policy holders, creditors and shareholders. Generally there are two components to ratings – a credit rating (e.g., IDR referenced above) and a financial strength rating (FSR).

Credit ratings, or long-term debt ratings, are an evaluation by the ratings agencies of the creditworthiness of an organization and its ability to pay its short- and long-term debt. Financial strength ratings are an evaluation by the ratings agencies of an insurer's ability to meet its obligations to its policy holders.

Q. What is AIG doing to correct the current situation? Is AIG in trouble?

- A. This past year has been very troubling for the financial markets and many fine companies, including AIG, have been impacted. AIG has undertaken a comprehensive review of all its businesses with a goal of improving results, reducing AIG's risk profile and protecting its capital base. We expect Chairman and CEO Robert Willumstad to report on AIG's progress later in the month.

AIG's life insurance, general insurance and retirement services businesses remain adequately capitalized and fully capable of meeting their obligations to policy holders.

AIG is actively evaluating alternatives to increase its short-term liquidity. However, the insurance policies written by AIG companies are direct obligations of its regulated insurance companies around the world. These companies are well capitalized and meet or exceed local regulatory capital requirements. And these companies continue to operate in the normal course to meet obligations to policy holders.

Recent events do not change our continuing commitment to providing our clients with world-class coverage and the highest levels of service. It is important to note that AIG's core operations remain sound and that we have strong franchises that provide valuable products and services that are much needed by American consumers. In addition, we continue to remain absolutely committed to fulfilling the long-term financial obligations to our customers. The AIG companies are fully committed to meeting the needs of their customers around the world.

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Q. I've heard that AIG is borrowing money. Can you tell me why?

A. AIG is raising capital to increase its liquidity position. By having more capital, AIG will have the ability to meet immediate obligations and better withstand further deterioration of the financial markets.

Q. I'm concerned about my policy. What will happen to my policy if AIG files for bankruptcy?

A. Insurance is a highly regulated industry. All insurance companies doing business in the United States are regulated by state law, and required to maintain enough capital and surplus to satisfy their obligations to their policy holders. The type and quantity of investments in which insurance companies may invest surplus capital is also limited by state law. Although various companies owned by AIG are part of a larger insurance holding company system – including the member insurers of AIG American General – each company is individually responsible for the liabilities associated with the business that it sells. In addition, each insurer is individually regulated by its state of domicile for compliance and financial solvency independent of its parent or affiliates.

This includes ongoing financial reporting to the regulator and undergoing periodic financial examination. *In addition, major transactions involving insurance companies are typically required to be approved by the responsible state regulator.*

In accordance with state insurance requirements and investment guidelines, AIG American General's general account is primarily invested in high quality investment grade fixed income securities (bonds). The investment objective of the general account is to optimize yield, adjusting for credit risk, liquidity and liability characteristics.

State insurance regulations are substantial and are designed to preserve and enhance the solvency of the general account and to assure that the contractual obligations to our policy holders are fulfilled. These regulations, along with the conservative investment requirements, help to safeguard client assets.

It is important to note that the guarantees related to individual AIG American General life policies and annuity contracts are backed by the general account of the respective issuing companies. These general accounts support only the obligations of AIG American General life insurance companies and are not obligated to support any other AIG businesses.

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Q. I heard that AIG American General loaned money to its parent, AIG. Is that true? Does that mean there are fewer assets to protect my policy?

A. There are many options being discussed to help AIG raise liquidity. One way to raise more liquidity is to restructure the organization of the companies within AIG. Although nothing has been determined, the restructuring described by the NY Times involving the Domestic Life Insurance and Retirement Services companies, should it be implemented, would *have no impact to the Domestic Life and Retirement Services assets supporting the policies written by those issuing companies.*

Q. Who are AIG American General's re-insurers?

A. AIG American General, like most insurers, utilizes many re-insurers. The major companies are Swiss Re, RGA Reinsurance, Transamerica Reinsurance, Munich Re, and Gen Re.

Q. Is my policy insured under the FDIC?

A. No. The FDIC insures bank accounts – checking, savings, trust, certificates of deposit (CDs), IRA retirement accounts held at the bank and also money market deposit accounts. All of these bank accounts generally are insured by the FDIC up to the legal limit of \$100,000.

The FDIC does not insure investment products such as mutual funds, annuities, life insurance policies, stocks and bonds. This is because they are not considered bank deposits.

Q. What is the state guaranty fund?

A. State regulators monitor insurance companies through periodic analysis of financial statements and in-person examinations. Under insurance guaranty fund laws, states may assess insurers doing business in that state to cover certain obligations of insolvent insurance companies. State guaranty funds may help protect contract owners depending on the policy and/or its dollar amount in the event of an insurer failure.