

Best Assigns Issuer Credit Ratings for AIG's Insurance Subs; Ratings Status is Under Review

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Following AIG's announcement that the filing of the 2004 10K will be further delayed, possibly until April 30, 2005, and the disclosure of potential accounting adjustments, A.M. Best commented that the ratings of most of American International Group's (AIG) wholly-owned insurance subsidiaries remain under review with negative implications.

The status was placed on the financial strength ratings of these companies on March 15, 2005, following their announcement that Maurice Greenberg stepped down as CEO and that the filing of AIG's 2004 10K had been delayed.

In addition, A.M. Best has formally assigned issuer credit ratings (ICRs) to all operating insurance subsidiaries. An ICR is an opinion as to the ability of a rated entity to meet its senior obligations. In the case of operating insurance companies, policyholders typically are the senior most creditors. ICRs are assigned on the credit rating scale.

The member companies currently assigned "A++" financial strength ratings have been assigned ICRs of "aa+", which aligns with the lower end of the "A++" financial strength rating. The uncertainty surrounding the ultimate financial, business and managerial impacts on AIG is not consistent with Best's highest ICR of "aaa". The issuer credit ratings are also under review with negative implications.

The under review status will remain until several concerns on various managerial, reputational, operational and financial fronts are addressed. A.M. Best believes that the filing of the financial statements may alleviate some, although not all of these concerns. The vulnerability to continued inquiries from regulators leaves AIG -- as an entity -- exposed to legal and reputational uncertainty at the present time. The aggressive accounting measures identified by AIG and historical unique governance have resulted in concerns over internal controls.

A.M. Best believes that management's time and attention has been diverted from the focus necessary to manage the current softening market pricing cycle at a time when customers and competitors may look to leverage the situation.

AIG's financial flexibility has, at least temporarily, diminished and was a factor in determining the issuer credit ratings. The reduced share price, along with potential late filing penalties, have placed AIG in a difficult position relative to the pristine financial stature and flexibility AIG enjoyed prior to the announcements of regulatory scrutiny.

The accounting mistreatments are focused within AIG's domestic property/casualty operating subsidiaries. A.M. Best, which provides individual ratings on all major U.S. insurance operating entities, will need to determine not only the GAAP but the statutory impact of these potential changes in accounting treatment and, most notably, any decreases to surplus levels which could potentially impact the financial strength and issuer credit ratings of specific insurance subsidiaries. This analysis will need to be completed prior to consideration of removal of the under review status.

Despite all of the consideration given to AIG's present difficulties, A.M. Best believes that AIG maintains one of the strongest and unique insurance franchises in the industry and that their breadth of products, capacity and ability to respond to market conditions remain intact, absent additional negative information.