



**AIG Commercial Insurance
Company of Canada**

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November 12, 2008

Dear Valued Partner:

We would like to take this opportunity to update you, and our mutual clients, regarding a number of recent important developments relating to AIG's property and casualty operations in Canada, as well as our parent company American International Group, Inc. ("AIG").

AIG and the US Government Financing

On Monday, November 10, 2008, AIG announced agreements with the US Treasury and the Federal Reserve Bank of New York to establish a durable capital structure for AIG, and facilities designed to resolve the liquidity issues AIG has experienced in its credit default swap portfolio and its US securities lending program. The amendments to the existing Federal Reserve credit facility and the creation of new programs are extremely positive developments for AIG and its stakeholders. We believe our greatest remaining challenge, the uncertainty of our parent's financial situation, is behind us and AIG Commercial Insurance will be free to compete on the merits of its great franchise. Further details regarding these changes are set out in the attached letter from John Doyle, President and CEO, AIG Commercial Insurance, and the fact sheet attached to this letter. We would be pleased to take the time to discuss these changes with you and our mutual clients.

Continued Strength of AIG Commercial Insurance ("AIGCI")
including the Canadian Property and Casualty Operations

While the changes to the US Government financing should enhance the financial flexibility of our ultimate parent, AIG, it is important to note that AIGCI is not planning to access any of the facilities with the federal government, as AIGCI's businesses remain well capitalized and financially stable. AIGCI's financial strength ratings remain excellent and were reaffirmed by key rating agencies immediately after the announcement of AIG's third quarter 2008 financial results and the changes to the US Government Financing. AIGCI continues to hold ample resources to pay claims, averaging US\$73 million in paid claims every business day (in 2007 we paid out more than CDN\$500 million to our Canadian clients).

AIGCI's investment portfolio is conservative. The Canadian property and casualty operations have no investments in US sub-prime mortgage, similar US assets, or any investments in Canadian Asset Backed Commercial Paper, and maintain assets, capital and surplus which meet or exceed the Office of the Superintendent of Financial Institutions' ("OSFI") requirements.

AIG Commercial Insurance, including Canada, is retaining the vast majority of its customers with account retention declining a modest 6.5% in September 2008, as compared with September 2007. October's retention was down only slightly from the previous October and that variance improved from September. We are particularly pleased to report that retention levels in Canada have been even better and we have been successful in writing significant new business in the months of September and October.

Canadian Restructuring Complete

We are also pleased to report that, subject to final regulatory approval, as of November 1, 2008, the Canadian reorganization of AIG's property and casualty operations has been completed. Over the past year the independent businesses of Commerce and Industry Insurance Company of Canada ("Commerce & Industry") and American Home Assurance Company, Canada Branch ("American Home") have been consolidated into **AIG Commercial Insurance Company of Canada** ("AIGCIC"), under the supervision of OSFI. AIGCIC is now a single, Canadian-based property and casualty insurer, with dedicated assets in Canada of over CDN\$4.5 billion. As of September 30, 2008, AIG's property and casualty operations in Canada operated with a combined ratio of 84.1%.

Producers and policyholders alike will benefit from the Canadian reorganization as a result of our simplified legal structure, improved transparency, heightened efficiencies and additional regulatory protection. Going forward, all policies in Canada will be issued on AIGCIC paper. This includes mid-term endorsements and certificates of insurance, notwithstanding that the original policy may have been issued by American Home or Commerce & Industry. All claims should be directed to, and will be handled by, our AIGCIC Claims Department, regardless of whether the claim relates to an American Home or Commerce & Industry policy.

Customers continue to choose to do business with AIG's Canadian property and casualty operations because of our unique market strengths, which are not easily replicated and include:

- A strong balance sheet;
- The broadest selection of products and services;
- Commitment with at least 35 years of experience in the most complex lines such as Property, D&O and Excess Casualty;
- An innovative culture;
- A veteran management team with significant bench strength;
- A large and experienced in-house claims staff; and
- An AIG service infrastructure that regularly engages customers around the globe.

We hope that the above input and the attached information are helpful in updating you and our mutual clients regarding recent events affecting AIG within Canada and the US. We thank you for your continued support of AIGCIC and the opportunity to prove our competitive advantage in the Canadian marketplace.

Should you have any additional questions please do not hesitate to contact us.

Sincerely yours,



Lynn Oldfield
President



Gary McMillan
Chief Executive Officer

November 10, 2008

Dear Business Colleague,

This morning, AIG announced agreements with the U.S. Treasury and the Federal Reserve to establish a durable capital structure for AIG, and facilities designed to resolve the liquidity issues. Under the new plan:

- The size of the existing credit facility from the Federal Reserve Bank of New York (FRBNY) will be amended to reduce the capacity from \$85 billion to \$60 billion. Its term will be extended from 2 years to 5 years, and the interest rate and fee on undrawn portions will be significantly reduced.
- The U.S. Treasury will purchase \$40 billion of newly issued AIG preferred stock, with a 10% coupon.
- AIG's agreements create two new financing entities in partnership with the Federal Reserve. The first new financing entity will acquire substantially all of the Residential Mortgage Backed Securities from AIG's U.S. Securities Lending program. As a result of this transaction, AIG's remaining exposure to losses from its U.S. securities lending program will be limited to declines in market value prior to closing and AIG's \$1 billion of funding. The second financing entity will purchase Multi-Sector Collateralized Debt Obligations (CDOs) on which AIG has written credit default swap contracts. Credit default swap contracts will be terminated on Multi-Sector CDOs that are purchased.

These developments should enhance the financial flexibility of our parent, as highlighted by the reaction of the major rating agencies.

AIG also announced third quarter 2008 earnings. AIG Commercial Insurance (AIGCI) performed well given competitive market conditions, catastrophe losses from Hurricanes Ike and Gustav, and our parent's ongoing issues, recording nearly \$5.6 billion in net premiums written and \$33 million in operating income before realized capital gains and losses. AIGCI's combined ratio in the third quarter 2008, excluding catastrophe losses, was 89.13 percent. Most notably our significant statutory policyholder surplus has not significantly changed from the second quarter and is greater than our US peers.

We are thankful for the trust you have shown our team through this challenging period, and we will continue to earn that trust by delivering to customers the benefits of our organization, including:

- Broad risk appetite and superior capacity for catastrophic risks
- Excellent financial strength and claims paying ability
- Proven commitment to served markets
- Innovative products and underwriting solutions
- Experienced underwriting / claims professionals
- Extensive global and national network
- Focus on service excellence

I am also confident that AIG's new agreement will help us compete on the merits of this great franchise.

Thank you again for your continued support.

A handwritten signature in black ink, appearing to read "J. Doyle".

John Q. Doyle
President and CEO
AIG Commercial Insurance

For more information, see the attached [Fact Sheet](#) or contact your broker, local AIGCI representative or visit: www.aig.com/commercialinsurance

AIG Commercial Insurance is the marketing name for the domestic commercial property casualty insurance operations of American International Group, Inc. For additional information, please visit our website at www.aig.com. All products are written by insurance company subsidiaries of AIG Commercial Insurance Group, Inc. Coverage may not be available in all jurisdictions and is subject to actual policy language. As a surplus lines insurer, Lexington Insurance Company does not generally participate in state guaranty funds. Non-insurance products and services may be provided by independent third parties.

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Recent developments at AIG

- On Monday, November 10, 2008, AIG announced agreements with the U.S. Treasury and the Federal Reserve Bank of New York to establish a durable capital structure for AIG, and facilities designed to resolve the liquidity issues AIG has experienced in its credit default swap portfolio and its U.S. securities lending program.
- These major developments should significantly enhance the financial flexibility of AIG and include:
 - ✓ AIG's \$85 billion loan facility has been restructured as a \$60 billion facility to be repaid over 5 years with a more manageable interest rate of LIBOR plus 3%. Additionally, the commitment fee on the unused portion will be reduced to .75% from 8.5%.
 - ✓ The Fed will tap the Troubled Asset Relief Program (TARP) to invest \$40 billion in AIG Preferred Stock. These preferred shares carry a 10% coupon. In connection with this purchase of preferred stock, the Treasury will also receive warrants to acquire a 2% equity interest in AIG. However, the equity interest to be issued to Treasury in connection with the credit agreement will be reduced so that the total U.S. government equity stake remains at 79.9%.
 - ✓ A Special Purpose Vehicle (SPV) will be capitalized with up to \$30 billion from the Fed and \$5 billion from AIG to purchase the securities underlying the most troubled of AIG Financial Products' credit default swaps, with a face value of \$70 billion.
 - ✓ A second SPV will be capitalized with up to \$22.5 billion from the Fed and \$1 billion from AIG to purchase certain residential mortgage backed securities (RMBS) underlying AIG's domestic life insurance companies' securities lending program. This SPV will replace the \$37.8 billion securities lending agreement between AIG and the Fed.
- AIG will continue to participate in the Government's Commercial Paper Funding Facility (CPFF). AIG is authorized to issue up to \$20.9 billion to the CPFF and had issued approximately \$15.3 billion as of November 5, 2008.
- It is important to note that AIG Commercial Insurance is not planning to access any of the facilities with the Federal government, as AIGCI's businesses remain well capitalized and financially stable.

AIG Commercial Insurance (AIGCI) is well capitalized and financially secure

- In the third quarter 2008, AIGCI recorded over \$5.6 billion in Net Written Premiums, and a profitable combined ratio excluding catastrophes of 89.13%.
- There were greater than usual catastrophe losses in the third quarter 2008, primarily related to Hurricanes Ike and Gustav.
- AIGCI's financial strength ratings remain excellent and were recently affirmed by key rating agencies.
- AIGCI's expense ratio of 21.9% at September 30, 2008, is a solid competitive advantage for the organization and highlights an ongoing focus on managing expenses.
- AIGCI has ample resources to pay claims, averaging \$73 million in paid claims every business day.
- AIGCI's policyholder surplus of \$26.7 billion at June 30, 2008 is the highest among our US peers.
- AIGCI remains the industry leader among property-casualty carriers:
 - ✓ Worldwide property casualty business generated over \$40 billion in revenue in 2007, which would rank it 59th on the Fortune 500[®], ahead of all of our primary commercial property casualty competitors.
 - ✓ Customers can continue to rely on AIG's broad risk appetite, commitment to served markets and extensive global reach with boots on the ground in over 130 countries and jurisdictions.

AIGCI remains focused on the needs of customers

- AIGCI is retaining the vast majority of its customers with account retention declining 6.5% in September 2008, as compared to September 2007. October account retention was modestly lower than October 2007.
- We continue to generate substantial new business, and continue our focus on disciplined underwriting in these competitive market conditions.
- We are also successfully retaining our employees, who have been outstanding through these challenging times. Of our over 12,000 employees, retention rates remain consistent with the first nine months of 2007.
- In addition, it is worth noting that AIGCI has launched fourteen new products and services in the past several weeks.

AIGCI's unique franchise offers customers valuable advantages in managing risk

- AIGCI clients benefit from our distinct market strengths:
 - ✓ Broad risk appetite
 - ✓ Capacity for catastrophic risks
 - ✓ Financial strength and claims paying ability
 - ✓ Commitment to served markets
 - ✓ Innovative products and underwriting solutions
 - ✓ Experienced underwriters / claims professionals
 - ✓ Breadth of products / services
 - ✓ Extensive global and national network
 - ✓ Service excellence
 - ✓ Strong distribution relationships

AIG Commercial Insurance is the marketing name for the domestic commercial property casualty insurance operations of American International Group, Inc. For additional information, please visit our website at www.aig.com. All products are written by insurance company subsidiaries of AIG Commercial Insurance Group, Inc. AIG Commercial Insurance serves a wide range of customers from multinational and middle-market companies to non-profit organizations and small entrepreneurs. Its extensive product offerings include general and excess liability, property, management and professional liability, workers' compensation, accident and health, environmental liability, and integrated global programs for multinational companies. AIG Commercial Insurance also maintains dedicated industry groups to serve the insurance needs of the aviation, construction, education, energy, financial institution, healthcare, marine and real estate sectors.



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