REPORT ON EXAMINATION

OF THE

AIG EXCESS LIABILITY INSURANCE COMPANY LTD
n/k/a CHARTIS SELECT INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

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CHARTIS SELECT INSURANCE COMPANY

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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 15th day of July, 2010

841 Silver Lake Blvd., Dover, DE 19904-2465 ◆ www.delawareinsurance.gov
(302) 674-7300 Dover ◆ (302) 739-5280 fax ◆ (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

CHARTIS SELECT INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 15 July 2010

Insurance Commissioner of the State of Delaware

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15th day of July 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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May 6, 2010

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Honorable Karen Weldin Stewart, CIR-ML
Commissioner, Delaware Dept. of Insurance
Rodney Building
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Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.008, dated December 24, 2008, an Association examination has been made of the affairs, financial condition and management of

AIG EXCESS LIABILITY INSURANCE COMPANY LTD.

hereinafter referred to as “AIG Excess”, “Company” or “AIGELIC” and incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Rd, Suite 400, Wilmington, Delaware. The examination was conducted at administrative offices of the Company, located at 175 Water Street, New York, NY 10038.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2005. This examination covers the intervening three (3) year period from January 1, 2006, through December 31, 2008, and encompasses a general review of Company key process activities and related controls, transactions during the period, business policies and practices, as well as management and relevant corporate matters, with a determination of statutory financial condition at December 31, 2008. Transactions and significant events subsequent to the examination date were also reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate financial condition and identify Company prospective risks by obtaining and assessing information relevant to corporate governance, inherent risks, key process activities, system and general controls, and other procedures used to mitigate risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. All accounts and activities of the Company were considered in accordance with the risk focused examination process.

The examination report addresses regulatory issues reviewed during the examination process. Its format will describe the Company and its operations in those areas detailed and explain findings and changes wherever made.

During the course of this examination consideration was given to work performed by both the Company's Internal Audit Department (IAD) as regards their oversight of compliance with Sarbanes-Oxley (SOX), risk analysis, documentation, test work, remediation efforts over weaknesses identified, and by the Company's independent external accounting firm, PricewaterhouseCoopers, LLP (PWC). The 2008 workpapers of PWC were made available during the examination, extensively reviewed, and used as either original support, or additional support to analysis and procedures performed during the examination. Certain auditor work-papers have been incorporated into the workpapers of the examiners and were utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the examiners met regularly with senior management and supporting staff of PWC throughout the planning phase and as needed during the field work phase in an effort to best leverage their work, analysis, and specific knowledge of critical areas under review.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

The examination of the Company was performed concurrently with its affiliates Lexington Insurance Company (Lexington) and Landmark Insurance Company (Landmark). Separate reports for each have been filed.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the workpapers of this examination:

Corporate Records
Employee and Agents Welfare
Fidelity Bonds and Other Insurance
NAIC Ratios
Legal Actions
Regulatory Agency Correspondence
All Other Asset and Liability Items Not Mentioned

HISTORY

AIG Excess Liability Insurance Company Ltd. (formerly named Starr Excess Liability Insurance Company, Ltd.) was incorporated on May 19, 1993, and began operations on June 30, 1993. The Company was formed to provide large blocks of high-level excess general liability, directors and officers' liability (D&O) and professional liability (E&O) capacity to Fortune 1000 and other companies requiring protection against exposures inherent in their business operations.

The Company was a joint venture between American International Group (AIG) and General Re (Gen Re), with AIG purchasing Gen Re's portion of the common stock on January 29, 1998. Currently the Company is a wholly-owned subsidiary of National Union Fire Insurance Company of Pittsburgh, Pa. (NUFIC), a wholly owned indirect subsidiary of AIG.

In 2007, the Company changed its name from Star Excess Liability Insurance Company Ltd., to AIG Excess Liability Insurance Company Ltd. In 2009, the Company changed its name to Chartis Select Insurance Company. Refer to the "Subsequent Events" section of this Report, under the caption "AIG General Insurance Operations Rebranding".

CAPITALIZATION

Common Capital Stock

The Certificate of Incorporation, as amended, provides that the authorized capital stock of the Company shall be 5,000 shares of $1,000 par value common stock. At December 31, 2008, all shares were issued and outstanding, resulting in total capital stock of $5,000,000.

In 2008, the Company received contributions recorded to paid-in surplus totaling $1,402,673 non-cash (in kind) related to the Tax Sharing Agreement, further described under the section "Intercompany Agreements", and $50,000,000 cash contribution for a total additional paid-in of $51,402,673.

Dividends

The Company paid $50,000,000 stockholder dividends in 2008 to its parent company. While regulatory approval was not required, the Company did not provide the notification required under Section 5004(e) of the Delaware Insurance Code.

The review of transactions in the Company's Form B filing did not include the $50,000,000 declared and paid dividend. However, from a review of the minutes of the Board of Directors on September 3, 2008, it was determined that the dividend was appropriately adopted and declared payable to the shareholder of record. The Form B omission was discussed with management.

Reconciliation of Capital and Surplus

The following reconciliation of capital and surplus for the period December 31, 2005, to December 31, 2008, was extracted from the Company's filed Annual Statements and does not reflect examination changes:

Capital and Surplus, December 31, 2005		$714,201,296
2006		
Net income	$205,993,636	
Change in net unrealized capital gains or (losses)	53,595,937	
Change in net deferred income tax	9,646,319	
Change in non-admitted assets	(33,196,802)	
Change in provision for reinsurance	(695,244)	
	$235,343,846	
Capital and Surplus, December 31, 2006		$949,545,142
2007		
Net income	$257,901,910	
Change in net unrealized capital gains or (losses)	34,814,281	
Change in net deferred income tax	6,571,873	
Change in non-admitted assets	(4,564,337)	
Change in provision for reinsurance	3,807,290	
	$298,531,017	

Capital and Surplus, December 31, 2007		$1,248,076,159
2008		
Net income	$133,691,496	
Change in net unrealized capital gains or (losses)	50,439,887	
Change in net deferred income tax	(602,117)	
Change in non-admitted assets	(497,526)	
Change in provision for reinsurance	5,404,316	
Surplus adjustments: Paid in	51,402,673	
Dividends to stockholders	(50,000,000)	
	$189,838,729	
Capital and Surplus, December 31, 2008		$1,437,914,888

MANAGEMENT AND CONTROL

Stockholders

In accordance with Company bylaws, the annual meeting of the Stockholder shall be held at such time and place as the Board of Directors shall designate. The Board of Directors may, in its sole discretion, determine that the meeting may be held solely by means of remote communication. The Stockholder or Board of Directors may call special meetings for any purpose or purposes when required by the General Corporate Law to do so. Minutes of meetings held by Stockholder during the examination period were reviewed without material exception.

Board of Directors

The Company's amended Certificate of Incorporation provides that all corporate powers of the Company be managed by a Board of Directors. The Company's bylaws stipulate that the Board of Directors shall consist of not less than one (1) member or such number as may be determined from time to time by action of the stockholder or the Board of Directors. The term of office for all Directors shall be one (1) year and each Director shall hold office until his term has expired, his successor has been elected and qualified, until his death, removal, or resignation.

At December 31, 2008, the nine (9) members of the Board of Directors together with their principal business affiliation were as follows:

Name and Date Elected	Principal Business Affiliation
John Quinlan Doyle (4), Chairman	President and CEO, AIG Commercial Insurance
Merton Bernard Aidinoff (1)	Retired Partner, Sullivan & Cromwell
Kristian Philip Moor (1)	President and CEO, AIG Property Casualty Group
Win Jay Neuger (1)	Executive Vice President & CIO, AIG
Charles Harry Dangelo (2)	Vice President, AIG
David Lawrence Herzog (2)	Senior Vice President & Comptroller, AIG
Robert Scott Higgins Schimek (2)	Senior Vice President, CFO/Treasurer, certain AIG subsidiaries including the Company
David Neil Fields (3)	President, AIG Risk Finance
Mark Timothy Willis (4)	Executive Vice President, AIG Commercial Insurance

(1) Elected prior to 2003 (2) First elected in 2005
(3) First elected in 2006 (4) First elected in 2008

Committees

In accordance with the Company's bylaws, the Board may designate committees by resolution that set forth the powers and authority of the committee. The bylaws, Article III, Section 1, state that, "The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of, to change the number of members of, or to dissolve the Executive Committee." On November 11, 2008, the Board approved a resolution to dissolve the Executive Committee.

There were no other operating committees appointed by the Board of Directors during the period under review.

Officers

In accordance with the Company's bylaws, the Board of Directors may elect a Chairman of the Board, a President, one or more Vice Presidents, one or more Assistant Vice Presidents, a

Secretary, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, and any other such officers as the Board deems necessary. Only the Chairman is required to be a Director. At December 31, 2008, the Company's principal officers and their respective titles were as follows:

<u>Officer:</u>	<u>Title:</u>
John Q. Doyle	Chairman
Jeremy D. Johnson	President, CEO
Amy M. Cinquegrana	Secretary
Nicholas E. Anselmo	Executive Vice President
Kenneth Gregnoli	Executive Vice President
William Hopkins	Executive Vice President
Robert S. Schimek	Senior Vice President, CFO/Treasurer
Andrew P. Archambault	Senior Vice President
Charles H. Dangelo	Senior Vice President
Frank H. Douglas, Jr.	Senior Vice President, Actuary
William J. Glastal	Senior Vice President
Andrew R. Holland	Senior Vice President
Gary E. Muoio	Senior Vice President
Stephen J. Paris	Senior Vice President
Richard T. Pisano	Senior Vice President
Richard C. Woollams	Senior Vice President
Carl E Chamberlain	Vice President
Agustin Formoso Jr	Vice President
Gregory J. Giardiello	Vice President, Comptroller
Douglas P. Monska	Vice President
Adam C. Reed	Vice President
James C. Roberts	Vice President
James J. Rowland	Vice President
Richard Ruggiano	Vice President
John H. Shalaida	Vice President
David G. Thomas	Vice President

In addition to the above officers, additional vice presidents, assistant vice presidents and other assistant officers were also appointed.

Numerous changes in directors and officers occurred during the period under review. As required, proper notification was provided to the Delaware Department of Insurance.

Enterprise Risk Management

Neither the Company nor AIG Property Casualty Group possessed a structured enterprise risk management function during the examination period. See the "Subsequent Events" section of this Report for information related to the appointment of a Chief Risk Officer during 2010. The management of general business and industry risks, however, is practiced informally and regularly by officers of the Company, both individually within their respective responsibilities, and collectively within regularly attended meetings held by senior officers and department managers. Current issues and emerging risks are discussed and plans developed to understand, manage, and mitigate risks identified. Management reports are reviewed regularly and contain sufficient detailed information to allow management to make sound decisions. Management uses various Company and industry resources such as agents, brokers, underwriters, claims adjustors, both inside and outside counsel, investment advisors, actuaries, reinsurers, consultants, trade associations, and industry trade publications to assist in its process of identifying and managing risks.

Corporate Governance

The examiner's assessment of the Company's corporate governance was considered "weak – moderate" based on the following factors:

- A review of AIGELIC corporate governance noted that of its nine (9) Directors (while experienced), eight (8) have principal and interlocking business affiliations with other AIG affiliates as managers, officers, and directors.
- Its one Director identified as independent, Mr. Merton Aidinoff, was a retired partner of Sullivan & Cromwell, a law firm that provides legal services for the Company. Mr. Aidinoff resigned from the Board in the 2nd Quarter of 2009 and has not been replaced, and no Conflict of Interest statement was available during his tenure as a Board member.
- The Board of Directors has no designated Committees.

- A review of Board minutes showed them to be of a general nature relative to actions and discussions regarding AIG, the distribution of information concerning appointments, financial results, and approvals of management actions regarding investments and new contracts. As it was not the nature of the meetings held, no comfort was gained from this review that AIGELIC Board members probed for explanations, challenged information presented, scrutinized activities, or presented alternative views.

During the examination, no review was made of corporate governance relative to the AIG Property Casualty Group, and the general failure of AIG corporate governance was noted and given material consideration in this assessment. It was noted during the review of AIG's 2009 Form 10-K, that AIG's risk management policies, tools and processes have in the past been ineffective and could be ineffective in the future.

However, it is acknowledged that the Company's management is knowledgeable, experienced, competent, and excluding the 2008 departures of Mr. Kevin Kelley, former Board Chairman and CEO, and Mr. Shaun Kelly, former President and COO, senior management and mid-management of the Company has remained relatively unchanged. It was noted that AIGELIC's organizational structure possessed clear lines of understood responsibility and authority, that information was communicated both up and down the organizational structure of senior management as well as across related business activities on a regular basis. It was also noted that expectations and goals of senior management are discussed, established, evaluated on a regular basis, and that regular consideration is given to operational processes and the design and on-going monitoring of effective controls over those processes.

Conflict of Interest

AIG maintains a written conflict of interest policy that is found within the AIG Code of Conduct (Code). Annually, all officers and employees must acknowledge receipt and agree to comply with the policies described in the Code and acknowledge that they must report all violations of it to management. The acknowledgement also states that failure to comply with the Code may result in disciplinary action, up to and including termination and, if applicable, criminal or civil proceedings. This acknowledgement is not required for principals of managing general underwriters, third party administrators, or independent contractors.

Our review of the processes in place during the examination disclosed no conflicts of interest that appeared to adversely affect the Company; however, the Company failed to obtain and maintain a conflict of interest statement for one director, Mr. Merton Aidinoff. It was noted that Mr. Aidinoff, listed as the one independent Board member, was a retired partner from Sullivan & Cromwell, a law firm that performed legal work for the Company. Mr. Aidinoff was not re-elected to his directorship in 2009. All other Board members are employees of AIG.

Certificate of Incorporation and Bylaws

By resolution of the Board of Directors dated May 21, 2007, the bylaws were amended and restated in their entirety. The restated bylaws were provided to the Delaware Department of Insurance.

HOLDING COMPANY SYSTEM

The Company is a member of the American International Group, Inc., Insurance Holding Company System. The immediate parent of the Company at December 31, 2008 was NUFIC, a wholly owned indirect subsidiary of the AIG Property Casualty Group. The Company has one insurance subsidiary, AIG Excess Liability Insurance International Limited (Ireland), of which it had a 100% ownership interest as of December 31, 2008.

The following presentation of the holding company system reflects only the identities and interrelationships between the Company and its immediate parent, affiliates and subsidiaries as of December 31, 2008:

Company	Domicile	% own
American International Group, Inc.	Delaware	
AIG Property Casualty Group, Inc.*	Delaware	100%
National Union Fire Insurance Company of Pittsburgh, Pa.	Pennsylvania	100%
National Union Fire Insurance Company of Vermont	Vermont	100%
National Union Fire Insurance Company of Louisiana	Louisiana	100%
American International Specialty Lines Insurance Company*	Illinois	70%
AIG Excess Liability Insurance Company Ltd.*	Delaware	100%
AIG Excess Liability Insurance International Limited*	Ireland	100%
Lexington Insurance Company	Delaware	70%
Japan International Accident & Fire Insurance Co., Ltd.	Japan	50%
AIG Centennial Insurance Company	Pennsylvania	100%
AIG Auto Insurance Company of New Jersey	New Jersey	100%
AIG Preferred Insurance Company	Pennsylvania	100%
AIG Premier Insurance Company	Pennsylvania	100%
AIG Indemnity Insurance Company	Pennsylvania	100%
The Insurance Company of the State of Pennsylvania	Pennsylvania	100%
Lexington Insurance Company	Delaware	20%
AIG Casualty Company (f/k/a Birmingham Fire Insurance Company of Pennsylvania)*	Pennsylvania	100%
Lexington Insurance Company	Delaware	10%
Landmark Insurance Company	California	100%

*Refer to the Report section “Subsequent Events” regarding rebranding of the Company’s affiliates and or subsidiaries above.

AIG, a Delaware corporation, is a holding company, which, through its subsidiaries, is engaged in a broad range of insurance, insurance-related, financial, and other non-insurance activities in the United States and abroad. AIG’s primary activities include both general and life insurance and retirement services. Other significant activities include financial services and asset management. As of December 31, 2008, AIG possessed assets totaling $860 billion, shareholder equity of $53 billion, and earned net income (loss) of ($99.3) billion on total reported revenues of $11.1 billion. In September 2008, the U.S. Department of the Treasury (U.S. Treasury) and the Federal Reserve Bank of New York (NY Fed) took a series of actions related to AIG in order to address liquidity and capital needs, as a result of its derivative investment exposure through AIG’s Financial Products division, which could have severely disrupted financial markets and contributed to a further worsening of economic conditions. For a complete discussion of the actions taken, refer to the Report section "Events Related to AIG".

A review of the Annual Form B and Form C filings made by American International Group, Inc. on behalf of the Company for all years under examination revealed that the Company had complied with Delaware Administrative Code requirements.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2008, the company was licensed to transact multiple lines of insurance business in the State of Delaware. In addition, the Company is an authorized surplus lines carrier in forty (40) States and the District of Columbia.

Plan of Operation

The Company's principal business is writing high excess catastrophe liability coverage. Additionally, business is derived from its participation in an intercompany pooling agreement with two affiliates, Lexington and Landmark, effective December 31, 1998, known as the AIG Surplus Lines Pool. At December 31, 2008, pooling percentages were as follows: Lexington - 80%, AIG Excess - 18%, and Landmark - 2%. Refer to the "Intercompany Agreements" and "Reinsurance" sections of this Report for details regarding this agreement. The pooling arrangement provided the Company with assumed premium of $1,281,551,000 during 2008.

The Company remains diversified both in terms of classes of business and geographic locations. In the Company's insurance business, 20.4%, 20.2%, and 18.7% of net premiums written during 2008 represented other liability – occurrence, other liability – claims-made, and fire products, respectively. For the year ending December 31, 2008, approximately 57.4% or

$29,709,995 of the Company’s direct premiums were written in five states: Texas, 14.8%; California, 13.8%; New York, 11.9%; Illinois, 9.1%; and Ohio, 7.8%. Direct written premiums of the Company’s thirty seven (37) other jurisdictions amounted to approximately 42.6% or $22,050,610.

Regarding its direct operations, AIG Excess has maintained its niche as a high-level catastrophic liability insurer within the AIG Property Casualty group of companies. It continues to focus on its core product lines, high excess casualty, D&O, professional and employment practices liability. Additionally, AIG Excess offers an omnibus excess policy, which affords excess coverage in a single policy which supplements multiple product lines, such as general liability, D&O, E&O and EPL. Target clients principally come from Fortune 1000 companies and other large global clients generally from industry groups such as Energy, Industrials, Technology, Health Care, Transportation, Utilities, Construction, and Financial Services. Underwriting is done in New York and through the branch offices of its subsidiary, AIG Excess International Ltd. in Bermuda, London, and Dublin. Business is produced for AIG Excess exclusively by brokers, including the larger U.S., U.K. and European based National and Regional retail and wholesale brokers.

A. M. Best Rating

Based on A. M. Best’s opinion of the consolidated Financial Strength of the members of the AIG Surplus Lines Pool, each pool member was assigned a Best's Financial Strength Rating of “A” (Excellent) for 2008.

GROWTH OF THE COMPANY

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated, and covers the period from the Company's last examination.

Year	Net Admitted Assets	Surplus as Regards to Policyholders	Change in Capital and Surplus	Direct Written Premiums	Premiums Earned	Net Income
2008	4,042,682,173	1,437,914,888	15.21%	51,760,605	939,715,731	133,691,496
2007	3,514,834,192	1,248,076,159	31.44%	121,283,419	903,538,151	257,901,910
2006	2,967,936,485	949,545,142	32.95%	142,508,961	854,462,019	205,993,636
2005	2,520,331,288	714,201,296	23.61%	144,023,804	719,928,315	80,652,111

From its last examination, the Company's total net admitted assets have increased 60.4%, principally due to net income from operations.

As an authorized surplus lines carrier, the Company provides excess and hard to place forms of coverage. The top lines of direct premium written are in the lines of Other Liability-Occurrence, Other Liability-Claims Made, Fire and Allied Lines. During 2008, Gross Written Premium (GWP) decreased by $222.9 million (or 11 .8%) while Net Written Premium (NWP) decreased from the 2007 levels by $65.1 million (or 6.8%) and Net Earned Premium (NEP) increased from the 2007 levels by $36.2 million (or 4.0%). Incurred losses and LAE increased by $222.4 (or 41.7%). This resulted in an increased combined loss and LAE ratio from 59.1% in 2007 to 80.5% in 2008, and was adversely impacted by catastrophes.

REINSURANCE

The Company had the following reinsurance programs and agreements in effect as of December 31, 2008:

General

The Company assumes all authorized lines of business from affiliates and non-affiliates on a treaty and facultative basis. The largest net aggregate amount insured under any one risk, excluding workers' compensation is limited to $160,560,000. Effective May 1, 2009, AIGELIC placed reinsurance reducing the largest net exposure under any one risk limit to $90,000,000.

For 2008, the Company reported the following distribution of net premiums written:

Direct Business	$ 51,760,604
Reinsurance Assumed From Affiliates	1,610,133,272
Reinsurance Assumed From Non-Affiliates	6,396,238
Total Direct and Assumed	1,668,290,114
Reinsurance Ceded to Affiliates	501,695,703
Reinsurance Ceded to Non-Affiliates	266,758,487
Total Ceded	768,454,190
Net Premiums Written	$ 899,835,924
Percentage Ceded of Gross	46.06%

Assumed

The Company reported 99.6% of assumed affiliated business of $1,610,133,272 in the following categories:

Intercompany pooling	$1,281,681,000
AIG Excess Liability International	321,730,000
Total	$1,603,411,000

The majority of the Company's non- affiliated assumed business is on a facultative basis.

In 1998, the Company joined with Lexington and Landmark to form the aforementioned AIG Surplus Lines Pool. Lexington assumes 100% of all business written by the Company and Landmark. Lexington retains 80% of the pool and cedes out 18% of pooled business to AIG Excess, and 2% of the pooled business to Landmark.

The Company is a member of an AIG internal facility known as the Compulsory Cessions Auxiliary Account (CCAA). For certain new and renewal business, various member companies of AIG cede business to the CCAA program. Some of the business ceded to the CCAA is from different divisions of companies within the same Intercompany Pool. For example, any business written on the paper of members of the Lexington Pool stays within that pool without cession to American Home Insurance Company (American Home), which is a member of the AIG Commercial Lines Pool. American Home or Lexington (on behalf of their respective pools) retains 100% of the CCAA's participation.

Prior to the CCAA facility there was the Compulsory Cessions Account (CCA) facility that performed in the same manner as the CCAA facility. However, with the CCA facility, Lexington, on behalf of the AIG Surplus Lines Pool, would retain 92% of the CCA participation with the 8% balance being retroceded to Transatlantic Reinsurance Company. As of December 31, 2004, the CCA facility was placed in run-off.

Ceded

The Company's reinsurance is coordinated and controlled by AIG Global Reinsurance Division (GRD) in New York. The Company's management, located in Boston, MA, is responsible for selection of the working and excess treaty reinsurance coverages. When purchased, facultative reinsurance is placed on an individual basis by the applicable underwriter. GRD is also responsible for placing catastrophe reinsurance. All reinsurance contracts are centrally filed and maintained electronically by GRD.

AIG Excess- Casualty

With respect to the casualty business written specifically by the Company, AIG Excess is protected by a 19% quota share reinsurance agreement with a limit of $150 million. Additionally, the Company's net exposure is protected by an excess of loss treaty providing coverage of $64 million in excess of $50 million.

Significant Reinsurance Program Details

The following reinsurance programs are presented on a 100% pooling basis. The Company's share is based on its 18% participation percentage as discussed in the "Intercompany Agreements" section of this Report, under the caption "Intercompany Pooling Agreement between Lexington, AIG Excess and Landmark."

The Company has extensive property reinsurance which is placed through domestic and foreign reinsurers. The program consists of working and excess layers that cover all property business. In addition, Lexington is a named participant (with other AIG domestic insurance subsidiaries) under AIG's "external" property catastrophe program. This excess protection covers all AIG property exposures. The summary details of this program are highlighted below.

Property

Major Working Reinsurance Layers
Property quota share coverage, Limit of $10 million, 1.80% placed
Property per risk excess of loss coverage, $15 million excess of $10 million, 64.21% placed
Property per risk excess of loss coverage, $75 million excess of $25 million, 70.00% placed
Property per risk excess of loss coverage, $150 million excess of $100 million, 90.50% placed
Property per risk excess of loss coverage, $250 million excess of $250 million, 95.00% placed
Property per risk excess of loss coverage, $500 million excess of $500 million, 95.00% placed
Property per risk excess of loss coverage, $500 million excess of $1.00 billion, 95.00% placed

7% Personal lines homeowners property quota share coverage, Limit of $5 million
40% Personal lines umbrella quota share coverage, Limit of $5 million

Property Catastrophe Reinsurance
1st layer property catastrophe coverage, 60% of $250 million in excess of $1.00 billion
2nd layer property catastrophe coverage, 60% of $250 million in excess of $1.250 billion
3rd layer property catastrophe coverage, 60% of $100 million in excess of $1.500 billion
4th layer property catastrophe coverage, 50% of $200 million in excess of $1.600 billion
5th layer property catastrophe coverage, 50% of $200 million in excess of $1.800 billion
6th layer property catastrophe coverage, 60% of $250 million in excess of $2.000 billion
7th layer property catastrophe coverage, 60% of $250 million in excess of $2.250 billion
8th layer property catastrophe coverage, 60% of $250 million in excess of $2.500 billion
9th layer property catastrophe coverage, 60% of $250 million in excess of $2.750 billion
10th layer property catastrophe coverage, 60% of $250 million in excess of $3.000 billion

11th layer property catastrophe coverage, 60% of $250 million in excess of $3.250 billion
12th layer property catastrophe coverage, 60% of $250 million in excess of $3.500 billion
13th layer property catastrophe coverage, 100% of $750 million in excess of $3.750 billion

Casualty

Primary Casualty Non-Professional (claims-made basis and occurrence basis) coverage, 0.5% quota share, maximum net $995,000, maximum ceded $5,000.

Employment Practices Liability (claims-made basis and claims-incurred basis) coverage, 10% quota share, maximum net $22,500,000, maximum ceded $2,500,000.

It should be noted that the previously placed (2004 and prior) Corporate Casualty, Casualty Aggregate Stop Loss, and Supplemental Aggregate Stop Loss Agreements were not renewed for 2005.

Risk Transfer

Treaty placement is made in accordance with the AIG Risk Transfer Policy that was adopted October 1, 2005. All assumed and ceded treaties, and automatic facultative and obligatory facultative arrangements (excluding captives) must be evaluated by Reinsurance Services personnel. In the case of a captive arrangement, the risk transfer assessment will be conducted at the business unit level. If the treaty/certificate contains one or more characteristics or contractual features that are intended to mitigate risk transfer, it is summarized in a safe harbor document. The Reinsurance Officer and the Business Unit CFO, or his designee, must assist in the determination of whether or not an actuarial analysis is required and whether or not there is sufficient risk transfer to allow for reinsurance accounting treatment. Evidence of this analysis and approval by the Reinsurance Manager, a Reinsurance Officer, and the Business Unit CFO, or his designee, is required. In accordance with Statement of Financial Accounting Standards (SFAS) No. 113 (paragraph 11), a risk transfer analysis is not required if substantially all of the insurance risk relating to the reinsured portions of the underlying insurance contracts has been assumed by the reinsurer.

When a risk transfer assessment is required, it must be included in the underwriting file no later than the effective date of the agreement, and be available on request. The documentation of the risk transfer assessment will vary based on circumstances, but the general requirements are outlined in the risk transfer worksheet. The documentation must state the conclusion and the basis thereof, and be sufficient to support the conclusion.

INTERCOMPANY AGREEMENTS

The Company was party to the following intercompany agreements and arrangements as of December 31, 2008:

Amended AIG Service and Expense Agreement

Effective February 1, 1974, amended December 30, 1998 to include Lexington Insurance Company and Landmark Insurance Company, and subsequently amended January 1, 2002 to include AIG Excess, and further amended at subsequent times, the companies entered into a Service and Expense Agreement with AIG. AIG has agreed to provide, at cost, services and facilities as required. Services include: Law, Investment, EDP, Internal Audit, Actuarial, Claims, Underwriting, Accounting, Tax, and Employee Benefits.

Investment Advisory Agreement between AIG Excess and AIG Global Investment Corp.

Effective July 29, 1998, the Company retained an affiliate, AIG Global Investment, Corp. (AIGGIC) or (Manager) to provide investment advisory and investment management services with respect to its portfolio and the assets contained therein. The agreement authorizes the

Manager to supervise and direct all investments and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company in its investment management guidelines provided to the Manager. In accordance with the guidelines, the Manager may buy, sell, exchange, convert and otherwise trade in and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments, and other securities and assets when deemed appropriate and without prior consultation with the Company. Investment management fees are billed quarterly in advance, but payable in arrears 10 days after the end of each billing period, based on a rate of 0.04% of the total assets under management at the end of each calendar quarter. Total investment expenses incurred for 2008 amounted to $1,239,712.

Tax Allocation Agreement between AIG Excess and AIG

During November of 2008, Lexington and AIG Excess entered into amended tax allocation agreements. During April, 2009, Lexington and AIG Excess executed the amended tax allocation agreements that included statements clarifying the intent of the parties (collectively, the "Amended Agreements"). The Amended Agreements replaced tax allocation agreements pursuant to which the tax liabilities of Lexington and AIG Excess were allocated at the level of their ultimate parent, AIG. Under the Amended Agreements, tax liability of Lexington and AIG Excess is allocated at the level of AIU Holdings. AIU Holdings will also hold all tax reserves, as defined in the Amended Agreements and assume any existing tax reserves. This was reflected on the Company’s books as a deemed capital contribution. Subsequent changes in reserves will similarly be reflected as deemed capital contributions or deemed dividends, as the case may be. Finally, given that a number of the business units slated to be sold by AIG as part of its restructuring efforts are owned by the AIG Commercial Insurance companies, the Amended Agreements clarify that realized gains on any such sales will be excluded from the calculation of Company's tax liability. The Amended Agreements are effective for the tax year commencing January 1, 2008. The agreement further provides that the Company shall receive reimbursement to the extent that its losses and other credits result in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis.

Intercompany Pooling Agreement between Lexington, AIG Excess and Landmark

Since December 31, 1998, the Company has participated in an Intercompany Pooling Agreement with its affiliates, Lexington, and Landmark, collectively known as the AIG Surplus Lines Pool or Lexington Pool. In accordance with the terms of the agreement, each participant will share in the pool based on the following percentages: The Company's participation is eighteen percent (18%). The remaining participation of Lexington and Landmark is eighty percent (80%) and two percent (2%), respectively. The pooling agreement has been properly filed and approved by the Delaware and California Insurance Departments.

Refer to the "Subesequent Events" section of this Report, under the caption "Lexington Pooling Agreement."

Capital Maintenance Agreement between AIG Excess and AIG:

Effective February 26, 2009, the Company entered into a Capital Maintenance Agreement (CMA) with its ultimate parent, AIG, which supersedes the certain letter agreement, dated January 16, 2008, between AIG and the Company regarding capital maintenance. Similar agreements were entered into during 2006 and 2007. The CMA provides that in the event the

Company's Total Adjusted Capital falls below 200% of the Company's Authorized Control Level Risk Based Capital (RBC), as shown in the Company's 2008 Annual Statement, together with any adjustments or modifications required by the Company's domiciliary regulator, AIG shall, within 30 days of written notice, provide a capital contribution to the Company in an amount that equals the difference between the Company's Total Adjusted Capital and 200% of the Company's Authorized Control Level RBC. In lieu of making any capital contributions, with the prior approval of the Company's domiciliary regulator, AIG may provide a letter of credit naming the Company as beneficiary. The obligations under the CMA terminate without the need for any action twelve (12) months from the date of the CMA effective date, unless extended in writing prior thereto. Refer to the "Subsequent Events" section of this Report, under the Caption "Capital Maintenance Agreement" regarding its subsequent renewal.

Joint Asset Advisory Agreement

Effective August 12, 1998, the Company joined the Joint Asset Advisory Agreement with affiliated AIG companies. The Joint Asset Advisory Agreement outlines the appointment of AIG Capital as the administrator of the AIG Domestic Fund. The AIG Domestic fund pools all subsidiary funds to maximize investment yields on short-term funds. There are no assets governed by this agreement, which was terminated on January 27, 2010.

EXTERNAL AGREEMENTS

In addition to the above intercompany agreements, the Company had the following external agreements in effect as of the previous examination and remained in effect at December 31, 2008:

- Custodial agreement with Mellon Bank N. A. amended July 27, 2007
- Various Program Administrator (PA) Agreements
- Various Broker Agreements
- Various Third Party Administrator (TPA) Agreements
- Other Vendor Contracts

The agreements were reviewed without exception.

ACCOUNTS AND RECORDS

Accounting System and Information/IT Process Flows

All necessary accounting records of the Company are maintained on electronic data processing equipment (EDP), made available to the Company under its Service and Expense Agreement with AIG. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles. AIG's EDP equipment and information technology control environment was tested as part of the examination by INS Services, Inc., and given a control risk assessment of "Strong".

As part of this examination, INS Services, Inc.'s examination staff reviewed the information/accounting and information technology "process flow" interface of the Company's premium, policy management, and reinsurance cycles as managed in its Boston, MA facilities. The review and assessment of information technology and information/accounting process flow was reviewed by INS Services, Inc. and other examiners regarding (in part) loss, investment accounting, and financial reporting cycles of AIG. The testing of manual or "Non-machine" data and transactions regarding the Lexington Pool was performed by the Delaware examiners, without material exception.

General Background and Overview

The Company's accounting and financial reporting areas (both located in Boston, MA) are responsible for non-machine journal entries, deferred acquisition charges, closing processes, report creation, and balance sheet account reconciliations, and for reporting all results up to the AIG parent company in New York. Financial reporting generates the amounts contained in the Statutory Annual Statement, which are also reviewed and prepared in New York. This process is unchanged from the 2005 exam.

The reinsurance unit, located in Boston, MA, reports to AIGELIC's reinsurance function in New York. Reinsurance is purchased by the group in Boston in coordination with the New York reinsurance department; this process is unchanged from the 2005 exam.

Regarding investments, every statutory entity has an agreement with AIGGIC to handle this area. This process is also unchanged from the 2005 exam.

Loss reserving is handled in a similar fashion to financial reporting. There is a team of actuaries in Boston that determine the numbers at the profit center level and report up through the Company's Chief Actuary in New York.

The following narratives describe the key processes owned by the Accounting and Financial Reporting Department in Boston, as well as the primary computer applications utilized to perform its key processes:

Journal Entries – Non-Machine
Non-machine (journal) entries in relation to the financial reporting and balance sheet reconciliation process are prepared by the AIG Excess Home Office in Boston. All entries are processed through the Non-Machine Journal Portal system (NMJE Portal). NMJE Portal is a corporate mandated system designed to control and monitor all journal activity for business units within AIG's Commercial Insurance Group (CIG).

Deferred Acquisition Charges (DAC)
Deferred Acquisition Charges (DAC) calculation worksheets are prepared quarterly out of the AIG Excess office in Boston. These calculations are discussed with the Corporate Office in New York during the quarterly status meetings. The methodologies involved with the

DAC are updated annually. The current methodology for DAC calculations is designed so that the calculation is performed at a company-wide level out of the corporate office in New York.

Closing Process

A Sarbanes-Oxley quarterly closing worksheet is prepared that details all quarterly processes and actions that need to be performed for every close. This worksheet outlines the key financial reporting lines as well as the source of data and overall monitoring controls. The Financial Reporting Unit maintains a AIG Excess Consolidation as well as individual Divisional report package to monitor financial performance. The financial package consists of monthly and quarterly Gross and Net Premium Activity Reports, quarterly Reinsurance Segmentation Report, Cash Flow and Profit/Loss Statements.

Risk Specialist Offices (RSOs)

Risk Specialist Offices (RSOs) are consolidated at the Risk Specialists Home Office in Boston on a company-level and are monitored by both Risk Specialists and AIG CIG Corporate management. Flux analyses are prepared prior to the review and are used to identify any large or unusual changes to the operating performance of the RSOs. The consolidated totals are compiled in a quarterly Standard Internal (SI) package and delivered to the New York office.

Gross and Net Written Premiums

To assist in the monitoring of Gross and Net Written Premiums, a Monthly Estimated Premium report is used, which forecasts the premium amounts for all divisions of AIG Excess weekly. The estimate and actual results are compared to budgeted amounts, prior year numbers, and to estimates by field representatives. Actual numbers are also included for prior periods to assist in improving the estimation process and as part of the review performed by management as to the reasonableness of the current period estimates. The PREMLEX Access database is used to compile and summarize all GWP and NWP information.

Cash Flows

There are a number of cash flow reports used by AIG Excess for forecasting and budgeting purposes. A daily Cash Flow Analysis report is used to reconcile the opening cash balance to the ending cash balance. This is performed by the Cash Supervisor, by identifying related cash receipts and cash disbursements. Monthly, the Cash Manager uses this report to generate the Summary Analysis and Comparison of Cash Flow Projections report, which is used to assess the monthly and year-to-date cash numbers. On this report, budgets and prior year actual are utilized as a means to monitor the cash balances to ascertain any unusual variances that may appear.

P&L Forecasts

Another significant report used by AIG Excess Management is the Quarterly P&L Forecast. This report identifies various estimate detail, based off of the significant P&L accounts. Some of the forecasts included in the report are estimates to budgets and estimates to prior year actual. This report is reviewed and discussed during the quarterly meeting with the AIG CIG's office in New York.

Reconciliations

A new reconciliation policy established by the AIG Corporate office was effective as of September 30, 2006. All AIG Excess reconciliations performed out of the Home Office in Boston are listed on an excel spreadsheet, updated quarterly. The spreadsheet details the completion status of the reconciliations, corresponding G/L account numbers, and an aging analysis. The aging section identifies the dollar amounts that have not reconciled for various periods of time, from under 90 days to over five years. This spreadsheet is used to identify those accounts that have large differences as well as to understand which reconciliations have not been completed to date. Quarterly, a meeting is held to review new G/L accounts and determine the reconciliation owners for each new account. All system-related reconciliations are prepared and reviewed in New York, and a quarterly quality review is performed by AIG CIG Corporate management. Reconciliations are performed on balance sheet accounts only. Management gains comfort over the P&L accounts through review of the two estimates performed prior to the quarter close against the actual results.

Stat-to-GAAP

The processing of Stat-to-GAAP accounting differences is performed at the Division level, with any variances sent directly to the New York office for review, rather than going through a consolidating process at AIG Excess. Typically, no separate entries are made for Stat and GAAP transactions. Stat-to-GAAP entries are identified by AIG CIG's Statutory Accounting Unit in NY who is responsible for the preparation of the annual statement for AIG Excess. All identified differences are identified in NY and communicated to AIG Excess.

Primary Computer Applications for Premiums

The primary computer applications used by AIG Excess for premium transactions are "LEXIS" (thru December 31, 2007), 'E-Surplus' (replaced LEXIS January 1, 2008) and Premium Processing System (PPS). E-Surplus was implemented January 1, 2008 and replaced LEXIS with its primary function also being to create reservations, quote, bind, book, issuance, post-bind transactions, and create bills.

PPS is utilized for premium generation, booking and collection. PPS is an AIU Holdings company-wide system.

Primary Computer Applications for Investments

The Company's investment processes are managed by two different operations, (1) Investment Operations and (2) Investment Accounting.

Investment Operations functions are performed at the AIG level through an Investment Management Agreement between the Company and AIGGIC. AIGGIC maintains a general ledger which interfaces with CIG's (which includes the Company) AXS One general ledger. CIG's Financial Accounting group is responsible for performing reconciliations.

Investment Accounting functions are performed at the Commercial Insurance Group (CIG) level.

Primary Computer Applications for Reinsurance

"E-Treaty" is an AIG mainframe tool for capturing all treaty contract data and for housing all business rules governing how AIG underwriters invoke treaty coverages, when performing day to day tasks. The underwriter is required to access the Reinsurance Entry Module (REM) that is fed by the E-Treaty to complete the policy issuance process. The REM confirms the need for reinsurance coverage and the rate information, if treaty business.

"Treaty History" is an AIG document management tool.

Primary Computer Applications for Disbursements (Claims)

Disbursements for the payment of claims are performed through the "Check-Warehouse 2000 system". AIGELIC also issues manual checks for claims. A separate checking account is set up for manual checks issued. Manual checks are issued in an emergency when it is not possible to process system checks.

Independent Accountants

The Company's financial statements are audited each year by PWC of New York. The Examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, PWC issued unqualified opinions. In connection with its 2008 audit of the Company, PWC identified two material weaknesses in the Company's internal control environment that related to its statutory financial control close process and its accounting for income taxes.

On October 2, 2009, management reported to the Board of Directors that it agreed with the external auditor's observations and detailed specific measures that have been implemented to remediate the material weaknesses.

As noted in the "Scope of Examination" section of this Report, the examiners reviewed PWC's 2008 workpapers, and incorporated their work and findings as deemed applicable to the current examination.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Frank Douglas, ACAS, MAAA, Chief Actuary of the Company, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were computed in accordance with accepted loss reserving standards and principle and are reasonable in the aggregate for unpaid loss and loss expense obligations and all unearned premium obligations of the Company related to long duration contracts under the terms of its contracts and agreements and met the requirements of the insurance laws of the state of Delaware.

The consulting firm of INS Consultants Inc. was contracted to do an independent loss reserving review, performed by James R. Neidermyer, FCAS, and MAAA. The findings from that review are discussed in Note 2 of the "Notes to Financial Statements" section of this Report.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2008, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets
Statement of Liabilities, Surplus and Other Funds
Underwriting and Investment Exhibit, Statement of Income
Capital and Surplus Account, Statement of Income
Schedule of Examination Adjustments

Any slight differences noted in the following schedules are due to rounding.

Analysis of Assets

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 2,811,071,819		$ 2,811,071,819	1
Common stocks	349,955,261		349,955,261	1
Cash and short-term investments	394,134,482		394,134,482	1
Other invested assets	139,495,589		139,495,589	1
Investment income due and accrued	38,029,605		38,029,605	
Uncollected premiums and agents'				
balances in course of collection	94,611,480	14,708,807	79,902,673	
Premiums deferred and not yet due	50,887,488		50,887,488	
Amounts recoverable from reinsurers	62,113,662		62,113,662	
Funds held by or deposited with reinsured companies	182,686		182,686	
Federal and foreign income tax recoverable	58,277,458		58,277,458	
Net deferred tax asset	113,589,711	65,588,491	48,001,220	
Furniture and equipment	251,101	251,101	-	
Receivables from parent, subsidiaries and affiliates	11,247		11,247	
Aggregate-Write-ins:				
Outstanding loss drafts	26,452,932		26,452,932	
Loss Funds on Deposit	803,689		803,689	
Loss Clearing	279,778		279,778	
Allowance Provision - FAS 5	(17,141,554)		(17,141,554)	
Remaining items from overflow page	224,138		224,138	
Total Assets	$ 4,123,230,572	$ 80,548,399	$ 4,042,682,173	

Statement of Liabilities, Surplus and Other Funds

		Notes
Losses	$ 1,558,946,171	2
Reinsurance payable on paid losses and loss adjustment expenses	8,020,743	
Loss adjustment expenses	262,481,900	2
Commissions payable, contingent commissions and other charges	(3,256,339)	
Other expenses	8,045,537	
Taxes, licenses and fees	2,694,534	
Unearned premiums	538,946,704	
Ceded reinsurance premiums payable	59,748,866	
Funds held by company under reinsurance treaties	3,797,320	
Remittances and items not allocated	7,481,428	
Provision for reinsurance	10,243,780	
Payable to parent, subsidiaries and affiliates	133,484,155	
Aggregate write-ins for liabilities:		
Deposit accounting liability	12,059,673	
Other liabilities	1,437,442	
Deferred Commission Earnings	947,617	
Items from overflow page	(312,246)	
Total Liabilities	$ 2,604,767,285	
Aggregate write-ins for special surplus funds	$ 65,725	
Common Capital Stock	5,000,000	
Gross Paid in and Contributed Surplus	245,907,450	
Unassigned Funds	1,186,941,713	
Surplus as regards policyholders	$ 1,437,914,888	
Total Liabilities, Capital and Surplus	$ 4,042,682,173	

Underwriting and Investment Exhibit - Statement of Income

UNDERWRITING INCOME	
Premiums earned	$ 939,715,733
DEDUCTIONS	
Losses incurred	$ 630,757,528
Loss adjustment expenses incurred	125,428,592
Other underwriting expenses incurred	140,064,822
Total underwriting deductions	896,250,942
Net underwriting gain or (loss)	$ 43,464,791
INVESTMENT INCOME	
Net investment income earned	$ 130,249,123
Net realized capital gains or (losses)	(13,900,801)
Net investment gain or (loss)	$ 116,348,322
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	$(10,896,013)
Aggregate write-ins for miscellaneous income	672,761
Total other income	(10,223,252)
Net income before dividends to policyholders and before federal income taxes	149,589,861
Dividends to policyholders	0
Net income after dividends to policyholder but before federal income taxes	149,589,861
Federal and foreign income taxes incurred	15,898,365
Net income	$ 133,691,496

Capital and Surplus Account – Statement of Income

Surplus as regards policyholders, December 31, 2007	$ 1,248,076,159
GAINS AND (LOSSES) IN SURPLUS	
Net income	133,691,496
Change in net unrealized capital gains or (losses)	50,439,887
Change in net unrealized foreign exchange capital gain	0
Change in net deferred income tax	(602,117)
Change in non-admitted assets	(497,526)
Change in provision for reinsurance	5,404,316
Surplus adjustments:	
Paid in	51,402,673
Dividends to stockholders	(50,000,000)
Change in surplus as regards policyholders for the year	189,838,729
Surplus as regards policyholder, December 31, 2008	$ 1,437,914,888

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination changes were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Assets
(1) Investments

Investment Operations functions are performed on the AIG level through an Investment Advisory Agreement between AIG Global Investment Corp. (AIGGIC) and the Company.

Total invested assets as of December 31, 2008 were comprised of the following:

	2008 A/S	% of Admitted Assets
Bonds	$2,811,071,819	69.5%
Preferred Stocks	0	0%
Common Stocks	349,955,261	8.7%
Cash & Short-term investments	394,134,482	9.7%
Other Invested Assets	139,495,589	3.5%
Receivable for Securities	0	0%
Total Invested Assets	$3,694,657,151	91.4%

The following reflects the changes in invested assets from the Prior Examination:

	2008 A/S	2005 A/S	Amount Change	% Change
Bonds	$2,811,071,819	$1,941,392,795	$869,679,024	45%
Preferred stocks	0	25,497,500	(25,497,500)	-100%
Common Stocks	349,955,261	209,460,091	140,495,170	67%
Cash & Short-term investments	394,134,482	33,767,672	360,366,810	1067%
Other Invested Assets	139,495,589	40,034,689	99,460,900	248%
Receivable for Securities	0	675,658	(675,658)	-100%
Total Invested Assets	$3,694,657,151	$2,250,828,405	$1,443,828,746	64%

The Company’s bonds represented 76.1% of invested assets and 69.5% of admitted assets as of December 31, 2008 and were comprised primarily of tax-exempt securities. The Company’s strategy is to invest in high quality fixed-income investments while maintaining sufficient diversification to avoid inappropriate exposure to any one issuer and/or industry.

Cash and short-term investments increased by $299 million, or 314.3%, to $394.1 million as of December 31, 2008 compared to the corresponding 2007 amount as a result of an increase in short-term investments of $248.6 million due to the purchase of holdings in the AIG Money Market Fund.

The Company’s other invested assets represented 3.8% of invested assets and 3.5% of admitted assets as of December 31, 2008 and were comprised of investments in partnerships and joint ventures. Other invested assets increased by $4.5 million, or 3.3%, to $139.5 million as of December 31, 2008 compared to the corresponding 2007 amount primarily due to $24.3 million of net acquisition activity and $19.8 million decrease in unrealized appreciation as of December 31, 2008 compared to 2007.

Net Investment Gains

Net investment gains increased by $8.8 million, or 8.2%, to $116.3 million for the year ended December 31, 2008 compared to the corresponding 2007 amount. This increase was caused by a $20.7 million increase in net investment income earned primarily relating to bond income resulting from an increase invested asset base in 2008.

Affiliated Investments

From time to time, the Company may own investments in partnerships across various other AIG affiliated entities with a combined percentage greater than 10.0%. As of December 31, 2008, the Company's total investments in partnerships with affiliated entities where AIG interest was greater than 10.0% was $91,435,409. The Company owns no other affiliated common stock other than what is disclosed in the Holding Company Section of this Report.

Private Equity Investment Portfolio

As of December 31, 2008, the Company's estimated possible additional capital investment related to their private equity portfolio investments reported in the Annual Statement Schedule BA was $128,981,038. As reported in their 2009 Annual Statement Schedule BA, the actual additional capital investments made after acquisition were $31,422,337.

As of December 31, 2009, the Company's Annual Statement Schedule BA reported the estimated possible additional capital investment related to their private equity portfolio investments was $108,777,747. The Company reported they expect only a small portion will be called during 2010.

Subprime Mortgage Related Risk Exposure

At December 31, 2008, the Company had no direct exposure through investments in subprime mortgage loans. The Company has no direct underwriting exposure to subprime mortgage risk and does not write Mortgage Guaranty or Financial Guaranty insurance coverage.

Liabilities

(2)	Losses	$1,558,946,171
	Loss Adjustment Expenses	262,481,900
	Total	$1,821,428,071

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Lexington Pool's loss and loss adjustment expense reserves as of December 31, 2008. The Consulting Actuary's analysis was performed on a pooled basis using a risk-focused approach according to the guidelines contained in the NAIC Handbook – 2008 Edition. The review does not address the collectability of reinsurance recoverables. Should any of Lexington Pool's reinsurers fail to fulfill obligations as stated in their contracts, a contingent liability would need to be established.

The conclusions set forth in the Consulting Actuary's report are based on information provided by the Lexington Pool, including the 2008 Annual Statements, the related 2008 Statements of Actuarial Opinion signed by Frank Douglas, ACAS, MAAA of AIGELIC and the actuarial report that accompanied the opinions as well as workpapers prepared by AIGELIC's actuarial staff.

As a result of the risk assessment process utilized by INS, it was determined that substantive testing of the loss and LAE reserves was warranted. The Consulting Actuary performed an analysis on the Lexington Pool's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. Procedures undertaken by the examination staff on control testing and accuracy testing indicate that the underlying loss and LAE data provided to the Consulting Actuary was reliable. The Consulting Actuary also reviewed the Lexington Pool's exhibit which balances the year-end 2008 data to Schedule P, on an all-lines total basis. The exhibit showed that the year-end amounts were closely reconciled to the Schedule P amounts.

The review concluded that on a net basis, total loss and LAE reserves are $10.112 billion. This is $7.428 million less than the Lexington's Pool's held amount of $10.119 billion. On a gross basis, the INS estimate is $13.573 billion which is $65.646 million less than the Lexington Pool's held amount, $13.638 billion.

Based on work performed, the Consulting Actuary found the Lexington Pool's carried December 31, 2008 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regard to prior examination report comments and recommendations.

Gross Paid-in and contributed Surplus

Prior Recommendation #1: It is recommended that the Company report EDP equipment in accordance with NAIC Annual Statement Instructions, 18 Del.C. §1101(13), SSAP 4(3)(a), and SSAP 16.

Current Exam Finding: A review of Capital Contributions during this examination period did not reveal any contributions consisting of EDP Equipment. Exception is deemed to be cleared.

Bylaws

Prior Recommendation #2: It is recommended that the Company comply with its bylaws regarding the role of its President and the Executive Committee.

Current Exam Finding: The Company dissolved its Executive Committee in November 2008. Exception is deemed cleared.

Conflict of Interest

Prior Recommendation #3: It is recommended that the Company ensure that procedures requiring the execution of conflict of interest statements for Officers, Directors and key employees be updated yearly in accordance with AIG's Code of Conduct and AIG's Code of Conduct Re-Certification and Questionnaire. Further, it is recommended that the Company maintain copies of all completed conflict of interest questionnaires on-site and available for future examination in accordance with NAIC Annual Statement Instructions and 18 Del.C. §526(a).

Current Exam Finding: It is again noted that the Company did not obtain a Conflict of Interest Statement from Bernard Aidinoff, the sole Non-AIG Director of the Company. However, it is also acknowledged that Mr. Aidinoff was not re-elected as a director in the second quarter of

2009, and was not replaced. This matter has been discussed with management and documented in the ECM Memo.

Custodial Agreement

Prior Recommendation #4: It is recommended that the Custodial Agreement with Mellon Bank be amended to incorporate required clauses which must be included in Custodial or Safekeeping Agreements in accordance with the NAIC Examiners Handbook. In addition, the laws under which the agreement is governed should be changed to the laws of the state of Delaware.

Current Exam Finding: As of March 31, 2007, an amended Custodial Agreement was accepted by the Delaware Department of Insurance. Exception is deemed cleared.

Accounts and Records

Prior Recommendation #5: It is again recommended that the Company comply with 18 Del.C. §320(c), and maintain/retain all records necessary for the performance of Delaware's tri-annual examinations.

Current Exam Finding: The level of cooperation and speed of delivery of requested documentation has been greatly improved since the prior exam. Exception is deemed cleared.

Annual Statement Preparation

Prior Recommendation #6: It is recommended that the Company complete its annual statement blank in accordance with NAIC Annual Statement Instructions and 18 Del.C. §526(a), verifying that all financial and non-financial data is reported accurately, completely, and appropriately.

Current Exam Finding: During the course of this Examination, the Examiners did not note any materially misstated line items, or propose any financial adjustments. Exception is deemed to be cleared.

Sub-ledgers

Prior Recommendation #7: It is recommended that the Company ensure that sub-ledger detail reconciles to the General Ledger, and that any unidentifiable differences are reconciled in a timely manner.

Current Exam Finding: Through the risk mitigation strategies and related control testing performed for each of the key activities, it was determined that account reconciliations were being maintained on a current basis. Exception deemed clear.

Reinsurance Payable on Paid Loss and LAE

Prior Recommendation #8: It is again recommended that the Company report assumed reinsurance payable on paid losses and loss adjustment in compliance with SSAP 62 paragraph 40, NAIC Annual Statement Instructions, and 18 Del.C. §526(a).

Current Exam Finding: Based on a review of Annual Statement, Assumed Reinsurance Payable is now being separately recorded in compliance with SSAP 62, Paragraph 40. Exception is deemed cleared.

Reinsurance balances with affiliates

Prior Recommendation #9: It is recommended that the Company accurately report reinsurance balances with affiliates in its Annual Statement Schedule F in accordance with 18 Del.C.

§526(a), NAIC Annual Statement Instructions, and that all inter-company balances mirror the associated affiliate balances.

Current Exam Finding: During the course of this Examination, the Examiners did not note any material exceptions with regards to the accuracy of schedule F. Exception is deemed cleared.

Reinsurance remediation

Prior Recommendation #10: It is recommended that the Company correct reinsurance control inadequacies that have been identified during its remediation process, and continue to identify, quantify and correct misstated balances.

Current Exam Finding: The Company has made significant progress in remediation efforts since the last examination; however, due to the complexity, full system integration is not anticipated until 2009. Exception is however deemed cleared.

Reinsurance

Prior Recommendation #11: It is recommended that the Company properly allocate and record all contingent reserves or adjustments associated with the reinsurance contracts in dispute or where collection has not occurred in accordance with the contract terms and/or regulatory requirements, as well as SSAP No. 62, paragraphs 54-56, NAIC Annual Statement Instructions, and 18 Del.C. §526(a).

Current Exam Finding: The DBG Companies (now referred to as the Chartis U.S. Companies), excluding the Surplus Lines Pool Companies, voluntarily set up a FAS 5 reserve for disputed reinsurance receivables in 2005. During the examination risk mitigation strategies and test of controls performed for the reinsurance key activity, it was determined that significant progress had been made in the Company’s reinsurance remediation efforts. As a result, the prior examination exception is deemed cleared.

Reinsurance Recoverable

Prior Recommendation #12: It is recommended that the Company establish complete and adequate credit exposure FAS 5 reserves for reinsurance recoverable exposures.

Current Exam Finding: As previously stated, significant progress had been made in the Company’s reinsurance remediation efforts. As a result, the prior examination exception is deemed cleared.

Reinsurance – Schedule F Reporting

Prior Recommendation #13: It is recommended that the Company report in Schedule F, Part 3 its respective summary of reinsurers with balances less than $100,000 in Schedule F in accordance with NAIC *Annual Statement Instructions* and 18 Del.C. §526(a), rather than booking the aggregate total to LIC.

Current Exam Finding: Examiners reviewed Schedule F, Part 3 and noted that the Company is now reporting amounts less than $100,000 due from the reinsurer. Therefore, exception is deemed cleared.

Uncollected Premiums & Agents Balances

Prior Recommendation #14: It is recommended that the Company report cash received but not allocated to a specific policy as "Remittances and items not allocated" in accordance with NAIC *Annual Statement Instructions*, SSAP 67, paragraph 9, and 18 Del.C. § 526(a).

Current Exam Finding: The examiner reviewed the general ledger and noted that the Company has placed the unapplied cash into the proper account for “Remittances and items not allocated”. Therefore, exception is deemed to be cleared.

Outstanding Loss Drafts (“OLD”)

Prior Recommendation #15: It is recommended that the Company reconcile its OLD general ledger account, and properly report balances in appropriate balance sheet line items in accordance with NAIC Annual Statement Instructions, and 18 Del.C. § 526(a).

Current Exam Finding: The examiner reviewed the general ledger and noted that the Company now reports this item as "A2301 Write in Outstanding loss drafts”. Therefore, exception is deemed cleared.

OLD – Checks under $50

Prior Recommendation #16: It is recommended that Management expand its operational guidelines to encompass adequate tracking of outstanding loss checks $50 and under, and facilitate appropriate contact with the Payee via phone or mail.

Current Exam Finding: During this examination, a review was performed of outstanding checks as of December 31, 2008 and noted that the Company was tracking outstanding checks under $50. Exception is deemed cleared.

Escheat

Prior Recommendation #17: It is recommended that the Company commit resources to provide the following with regards to escheating uncashed checks:

- Develop written procedures for escheating checks $50 and under, when these are determined escheatable under state time tables;
- Undertake procedures to track outstanding checks ($50 and under), and include these checks in the Abandoned Property Reports;
- Review its escheat system for proper tracking and reporting of Escheatable funds, as a means to locate checks that have not been or remain unremitted to the appropriate states;
- Verify that remittance of all outstanding loss checks from 1996 and prior (over and under $50) have been escheated to the appropriate state. If the applicable state cannot be determined, the escheatable item should be escheated to the Company's state of domicile.

Current Exam Finding: A review was performed of the Company's Escheat guidelines, and was found to be comprehensive and adequate. A review of the Company's December 2008 Abandoned Property Report and listing of outstanding checks as of December 31, 2008 by bank account did not note any items in excess of three (3) years old. Exception is deemed cleared.

Other assets

Prior Recommendation #18: It is recommended that the Company ensure balances classified as Receivables/Payables for Securities are classified in accordance with NAIC Annual Statement Instructions and SSAP 21.

Current Exam Finding: Through risk mitigation strategies and testing of controls for the Investment key activity, it was determined that the Company was properly classifying Receivables/Payables for Securities in accordance with NAIC Annual Statement Instructions and SSAP 21. Exception is deemed cleared.

Agents Balances

Prior Recommendation #19: It is recommended that the Company properly age agents' balances and determine the Over 90 non-admitted portion in accordance with 18 Del.C. §1101 (5) and

SSAP 6, paragraph 9; but, in particular, ensuring that the Over 90 is calculated in compliance with SSAP 6, paragraph 9(c). Netting of debits and credits between agents and between unrelated policies is not allowed in accordance with SSAP 6.

Current Exam Finding: During the current examination, substantive testing was performed on the aging of Uncollected Premiums as of December 31, 2008 with no material exceptions being noted. Exception is deemed cleared.

Uncollected Premiums & Agents Balances

Prior Recommendation #20: It is recommended that the Company report amounts unrelated to agents' balances, i.e., Cash Loss Advances (CLA), in accordance with NAIC Annual Statement Instructions, 18 Del.C. §526(a) and SSAP 6, verifying that all financial and non-financial data is reported accurately, completely, and appropriately.

Current Exam Finding: Through the risk mitigation strategies and related control testing performed for the Financial Reporting key activity, it was determined that the Company was correctly reporting amounts unrelated to agents' balances, i.e., Cash Loss Advances (CLA), in accordance with NAIC Annual Statement Instructions, 18 Del.C. §526(a) and SSAP 6. As a result, exception is deemed cleared.

Related party transactions

Prior Recommendation #21: It is recommended that the Company ensure compliance with settlement terms of the Inter-company Pooling Agreement and (AIG) Service and Expense Agreement, by settling intercompany balances in accordance with its Intercompany Pooling and Service and Expense Agreements.

<u>Current Exam Finding:</u> Substantive test work was performed on the settling of Intercompany balances without exception. Exception is deemed cleared.

Reinsurance – Profit & Sliding Scale Commission

<u>Prior Recommendation #22:</u> It is recommended that the Company properly accrue for all profit and sliding scale commission that may be contained in the Company's executed reinsurance contracts.

<u>Current Exam Finding:</u> During the examination risk mitigation strategies and test of controls performed for the reinsurance key activity, it was determined that significant progress had been made in the Company's reinsurance remediation efforts. As a result, the prior examination exception is deemed cleared.

Provision for reinsurance

<u>Prior Recommendation #23:</u> It is recommended that the Company categorize the authorized and unauthorized reinsurance in accordance with the authorized reinsurer listings of the Delaware Department of Insurance. Any changes in the security mechanisms that support the Delaware rating should also be considered in the assignment of the authorized status.

<u>Current Exam Finding:</u> Examiner traced a sample of Reinsurers listed as "Authorized" on Schedule F, Part-3 to Delaware's approved list without exception. Exception is deemed cleared.

Drafts outstanding

<u>Prior Recommendation #24:</u> It is recommended that the Company report issued, but uncashed checks, as well as other liabilities and assets, which do not meet the definition of Drafts Outstanding, in appropriate balance sheet line items in accordance with NAIC Annual Statement Instructions, SSAP 2, and 18 Del.C. § 526(a).

Current Exam Finding: Through a review of the General Ledger accounts, Examiner verified that the Company is now reporting these items on line A2301 Outstanding Loss Drafts. Exception is deemed cleared.

Other liabilities

Prior Recommendation #25: It is recommended that the Company implement policies, procedures and controls to ensure timely reconciliation and accurate reporting of financial information.

Current Exam Finding: Through risk mitigation strategies and testing of controls for the Investment key activity, it was determined that the Company had implemented procedures and controls to ensure timely reconciliation, and accurate reporting of financial information. Exception is deemed cleared.

SUMMARY OF RECOMMENDATIONS

There were no specific recommendations as a result of this examination.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	**December 31, 2005**	**December 31, 2008**	**Increase Decrease**
Assets	$2,498,257,883	$4,042,682,173	$1,544,424,290
Liabilities	1,806,994,958	2,604,767,285	797,772,327
Aggregate write-ins for special surplus funds	687,405	65,725	(621,680)
Common Capital Stock	5,000,000	5,000,000	0
Gross Paid In and Contributed Surplus	194,500,000	245,907,450	51,407,450
Unassigned Funds (Surplus)	491,075,520	1,186,941,713	695,866,193
Total Surplus as Regards Policyholders	691,262,925	1,437,914,888	746,651,963
Totals	$2,498,257,883	$4,042,682,173	$1,544,424,290

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and its Information Technology consulting firm, INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of examiners representing the state of California, as well as the Company's outside audit firm, PWC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

Don Hollier, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

AIG's Chairman & CEO Changes

In May 2009, AIG's Chairman and CEO Edward Liddy, resigned pending the appointment of a replacement. Mr. Liddy was appointed as AIG's Chairman and CEO in September 2008. In August 2009, AIG's Board of Directors elected Robert Benmosche as AIG's President and CEO.

AIG General Insurance Operations Rebranding

In July 2009, AIG rebranded its General Insurance Operations as "Chartis." Chartis consists of Commercial Insurance (operating as Chartis U.S.), Foreign General Insurance (operating as Chartis International) and Private Client Group (part of Chartis U.S.). Through this rebranding, the following name changes were made to members of the Holding Company listed in the organizational chart under the preceding Report section "Holding Company System."

Original Company Name	New Company Name	Jurisdiction
AIU Holdings, Inc. (f/k/a AIG Property and Casualty Group, Inc.)	Chartis Inc.	Delaware
AIG Casualty Company	Chartis Property Casualty Company	Pennsylvania
AIG Excess Liability Insurance Company	**Chartis Select Insurance Company**	**Delaware**
AIG Excess Liability Insurance International Limited	Chartis Excess Limited	Ireland
American International Specialty Lines Insurance Company	Chartis Specialty Insurance Company	Illinois

Capital Maintenance Agreements

On February 23, 2010, the Company entered into a Capital Maintenance Agreement (CMA) with its Ultimate Parent, AIG. The CMA provides that in the event that the Company's Total Adjusted Capital falls below 200% of the Company's Authorized Control Level Risk Based Capital (RBC), as shown in the Company's 2009 Annual Statement, together with any adjustments or modifications required by the Company's domiciliary regulator, AIG will, within thirty days of written notice, thereof provide a capital contribution to the Company in an amount that equals the difference between the Company's Total Adjusted Capital and 200% of the Company's Authorized Control Level RBC. In lieu of making any such capital contribution, with the approval of the Company’s domiciliary insurance department, AIG may provide a letter of credit naming the Company as beneficiary. The current CMA supersedes and replaces a similar agreement that related to the Company’s December 31, 2008 surplus position.

Lexington Pooling Agreement

During 2009, an Amended Pooling Agreement between Lexington, Chartis Select Insurance Company (formerly known as AIG Excess Liability Insurance Company Ltd., (Chartis Select) or (CSIC), Chartis Specialty Insurance Company (formerly known as American International Specialty Lines Insurance Company, (Chartis Specialty) or (CSLIC) and Landmark was submitted to the Delaware, Illinois and California departments for approval.

Under the agreement, CSLIC was added to the existing AIG Surplus Lines Pool and would cede one hundred percent 100% of its existing policyholder assets and liabilities to Lexington. In turn, CSLIC will assume a 10% share of the pool and Lexington's participation will be reduced from 80% to 70%. Landmark's and Chartis Select’s participation percentage is not affected. The Amended Pooling Agreement changes the Pool participants' percentages as follows:

70% - Lexington
18% - Chartis Select (CSIC)
10% - Chartis Specialty (CSLIS)
2% - Landmark

The amended agreement, with an effective date of January 1, 2010, was approved by the Delaware, California and Illinois Departments of Insurance.

Limits Greater Than 10% of Policyholder Surplus

It was discovered in management's year-end review of operations that embedded terrorism was not covered under its reinsurance purchases resulting in a handful of accounts where the largest net exposure was greater than 10% of policyholder surplus just on the embedded terrorism portion of the policy. In 2009, the Company purchased a reinsurance cover with an affiliated company thereby reducing the largest net exposure to under 10% of surplus. This transaction was approved by the Delaware Department of Insurance.

Contribution of Chartis to newly-formed Special Purpose Vehichle (SPV)

On April 21, 2009, AIG announced its intent to contribute Chartis Inc., the Company's intermediate parent company (formerly AIG Property Casualty Group / AIU Holdings, Inc.), and Chartis International, LLC (formerly AIG Holdings / AIU Holdings, LLC) to a newly-formed SPV in exchange for membership interests in the SPV, subject to receipt of applicable regulatory approvals. On July 27, 2009, AIG announced the formation of the SPV, and on January 29, 2010, AIG contributed Chartis Inc. to the SPV. AIG contributed Chartis International, LLC to the SPV on March 12, 2010.

Appointment of Chief Risk Officer

On January 19, 2010, Chartis Inc. (f/k/a AIG Property Casualty / AIU Holdings, Inc.) announced that Samir Shah had been named Senior Vice President and Chief Risk Officer for Chartis, responsible for the organization's worldwide Enterprise Risk Management strategies (ERM).

EVENTS RELATED TO AIG

Federal Government's Ongoing Role and Summary of Support of AIG

Beginning in September 2008, the U.S. Department of Treasury (U.S. Treasury) and the Federal Reserve Bank of NY (NY Fed) began taking a series of actions related to AIG in order to address liquidity and capital needs as a result of its derivative investment exposure through AIG's Financial Products division. These actions helped to stabilize AIG and prevent a disorderly failure, which could have severely disrupted financial markets and contributed to a further worsening of economic conditions. As a result of these concerns, the NY Fed authorized debt and equity assistance totaling approximately $87.5 billion, and $25.0 billion, respectively. The U.S. Treasury provided equity assistance totaling approximately $69.835 billion. Assistance provided by both federal entities totaled approximately $182.335 billion.

As of December 31, 2009, AIG reflected total outstanding balances to both the NY Fed and U.S. Treasury of approximately $94.759 billion. As a significant creditor, the NY Fed monitors the implementation of AIG's restructuring and divestiture plan and participates as an observer in the corporate governance of AIG. As a significant stockholder, the U.S. Treasury has appointed three (3) trustees to the AIG Credit Facility Trust (Trust), which holds the approximately 79.77% controlling equity interest in AIG for the sole benefit of the U. S.

Treasury. The trustees have absolute discretion and control over the AIG stock and exercise all rights, powers and privileges of a shareholder of AIG, all in the best interest of the U.S. taxpayers and with a view towards maximizing the value of the AIG stock held by the Trust.

AIG - Formation of AIU Holdings, Inc. (k/n/a Chartis Inc.)

On March 2, 2009, AIG announced that it intended to form a General Insurance holding company, including its Commercial Insurance Group (including the Company), Foreign General unit, and other property and casualty operations, to be called AIU Holdings, Inc., with a board of directors, management team, and brand distinct from AIG.

Sale of ALICO to MetLife, Inc.

In March 2010, AIG announced the sale of ALICO to MetLife, Inc. (MetLife) for approximately $15.5 billion. The transaction has been approved by the boards of directors of both MetLife and AIG, and is expected to close by the end of the year. The transaction is subject to certain domestic and international regulatory approvals and customary closing conditions.

Transatlantic Holdings, Inc. Stock Offering

As part of their restructuring plan, in March 2010, AIG announced the closing of the public offering for approximately 8 million shares of Transatlantic Holdings, Inc. (Transatlantic) stock owned by American Home Assurance Company, for aggregate gross proceeds of approximately $452 million. Transatlantic is no longer a member of the AIG holding company system.

U.S. Treasury Appointment of Independent Directors to the AIG Board of Directors

On April 10, 2010, pursuant to terms of certain preferred equity interest agreements with AIG, the U.S. Treasury has appointed two independent directors to the AIG Board of Directors. The U.S. Treasury had the right to appoint directors if AIG did not pay required quarterly dividends for a total of four periods. AIG failed to make the required dividend payments and as a result, the U. S. Treasury made appointments accordingly.

AIG as a Going Concern

As reflected in the Company's 2009 Annual Statement "Notes to Financial Statement" (#10), and in connection with AIG and subsidiaries preparation of its 2009 annual report on Form 10-K, AIG management assessed whether AIG has the ability to continue as a going concern with the following statement:

"Based on the U.S. government's continuing commitment, the already completed transactions and the other expected transactions with the NY Fed, AIG management's plans to stabilize AIG's businesses and dispose of certain assets, and after consideration of the risks and uncertainties of such plans, AIG management believes that it will have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months. It is possible that the actual outcome of one or more of AIG management's plans could be materially different, or that one or more of AIG management's significant judgments or estimates about the potential effects of these risks and uncertainties could prove to be materially incorrect or that the transactions with the NY Fed fail to achieve the desired objectives. If one or more of these possible outcomes is realized and financing is not available, AIG may need additional U.S. government support to meet its obligations as they come due. If additional support is not available in such circumstances, there could be substantial doubt about AIG’s ability to operate as a going concern. If AIG were not able to continue as a going concern, it would not be expected to have a material effect on the Company’s ability to continue as a going concern.”