

Use these links to rapidly review the document

[Table of Contents](#)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

Commission File Number 1-8787



**American International Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-2592361**  
(I.R.S. Employer  
Identification No.)

**180 Maiden Lane, New York, New  
York**  
(Address of principal executive offices)

**10038**  
(Zip Code)

**Registrant's telephone number, including area code: (212) 770-7000**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 29, 2011, there were 1,796,747,575 shares outstanding of the registrant's common stock.

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**Table of Contents**

<b>Description</b>	<b>Page Number</b>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	
<a href="#">Item 1.</a> <a href="#">Financial Statements (unaudited)</a>	<a href="#">3</a>
<a href="#">Item 2.</a> <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">89</a>
<a href="#">Item 3.</a> <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">172</a>
<a href="#">Item 4.</a> <a href="#">Controls and Procedures</a>	<a href="#">172</a>
<b><u>PART II – OTHER INFORMATION</u></b>	
<a href="#">Item 1.</a> <a href="#">Legal Proceedings</a>	<a href="#">173</a>
<a href="#">Item 1A.</a> <a href="#">Risk Factors</a>	<a href="#">173</a>
<a href="#">Item 6.</a> <a href="#">Exhibits</a>	<a href="#">173</a>
<b><u>Signatures</u></b>	<a href="#">174</a>

**PART I – FINANCIAL INFORMATION**
**Item 1. Financial Statements (unaudited)**
**Consolidated Balance Sheet**

<i>(in millions, except for share data)</i>	March 31, 2011	December 31, 2010
<b>Assets:</b>		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2011 – \$229,589; 2010 – \$220,669)	\$ 238,315	\$ 228,302
Bond trading securities, at fair value	27,309	26,182
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2011 – \$1,933; 2010 – \$2,571)	3,873	4,581
Common and preferred stock trading, at fair value	163	6,652
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2011 – \$138; 2010 – \$143)	19,691	20,237
Flight equipment primarily under operating leases, net of accumulated depreciation	38,100	38,510
Other invested assets (portion measured at fair value: 2011 – \$21,729; 2010 – \$21,356)	42,900	42,210
Short-term investments (portion measured at fair value: 2011 – \$17,676; 2010 – \$23,860)	38,872	43,738
Total investments	409,223	410,412
Cash	1,801	1,558
Accrued investment income	3,060	2,960
Premiums and other receivables, net of allowance	17,509	15,713
Reinsurance assets, net of allowance	30,177	25,810
Deferred policy acquisition costs	14,636	14,668
Derivative assets, at fair value	4,997	5,917
Other assets, including restricted cash of \$3,952 in 2011 and \$30,232 in 2010 (portion measured at fair value: 2011 – \$8; 2010 – \$14)	14,594	44,520
Separate account assets, at fair value	56,470	54,432
Assets held for sale	58,780	107,453
<b>Total assets</b>	<b>\$ 611,247</b>	<b>\$ 683,443</b>
<b>Liabilities:</b>		
Liability for unpaid claims and claims adjustment expense	\$ 94,978	\$ 91,151
Unearned premiums	26,337	23,803
Future policy benefits for life and accident and health insurance contracts	31,493	31,268
Policyholder contract deposits (portion measured at fair value: 2011 – \$369; 2010 – \$445)	122,775	121,373
Other policyholder funds	6,769	6,758
Current and deferred income taxes	1,908	2,369
Derivative liabilities, at fair value	5,500	5,735
Other liabilities (portion measured at fair value: 2011 – \$1,354; 2010 – \$2,619)	31,168	29,108
Federal Reserve Bank of New York credit facility (see Note 1)	-	20,985
Other long-term debt (portion measured at fair value: 2011 – \$11,604; 2010 – \$12,143)	82,166	85,476
Separate account liabilities	56,470	54,432
Liabilities held for sale	54,236	97,312
<b>Total liabilities</b>	<b>513,800</b>	<b>569,770</b>
Commitments, contingencies and guarantees (see Note 11)		
<b>Redeemable noncontrolling interests (see Note 1):</b>		
Noncontrolling nonvoting, callable, junior preferred interests held by Department of Treasury	11,324	-
Other	278	434
<b>Total redeemable noncontrolling interests</b>	<b>11,602</b>	<b>434</b>
<b>AIG shareholders' equity (see Note 1):</b>		
Preferred stock		
Series E; \$5.00 par value; shares issued: 2011 – 0; 2010 – 400,000, at aggregate liquidation value	-	41,605
Series F; \$5.00 par value; shares issued: 2011 – 0; 2010 – 300,000, aggregate liquidation value: \$7,543	-	7,378
Series C; \$5.00 par value; shares issued: 2011 – 0; 2010 – 100,000, aggregate liquidation value: \$0.5	-	23,000
Series G; \$5.00 par value; shares issued: 2011 – 20,000, at aggregate liquidation value: 2010 – \$0	-	-
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2011 – 1,803,380,795; 2010 – 147,124,067	4,508	368
Treasury stock, at cost; 2011 – 6,660,852; 2010 – 6,660,908 shares of common stock	(873)	(873)
Additional paid-in capital	77,697	9,683
Accumulated deficit	(3,202)	(3,466)
Accumulated other comprehensive income	6,896	7,624
<b>Total AIG shareholders' equity</b>	<b>85,026</b>	<b>85,319</b>
<b>Non-redeemable noncontrolling interests (see Note 1):</b>		
Nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	-	26,358
Other (including \$185 and \$204 associated with businesses held for sale in 2011 and 2010, respectively)	819	1,562
<b>Total non-redeemable noncontrolling interests</b>	<b>819</b>	<b>27,920</b>
<b>Total equity</b>	<b>85,845</b>	<b>113,239</b>
<b>Total liabilities and equity</b>	<b>\$ 611,247</b>	<b>\$ 683,443</b>

See Accompanying Notes to Consolidated Financial Statements.

**Consolidated Statement of Income**

<b>Three Months Ended March 31,</b> <i>(dollars in millions, except per share data)</i>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Premiums	\$ 9,482	\$ 10,914
Policy fees	684	648
Net investment income	5,569	5,200
Net realized capital losses:		
Total other-than-temporary impairments on available for sale securities	(218)	(200)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Accumulated other comprehensive income	3	(459)
Net other-than-temporary impairments on available for sale securities recognized in net income	(215)	(659)
Other realized capital gains (losses)	(436)	325
Total net realized capital losses	(651)	(334)
Aircraft leasing revenue	1,156	1,243
Other income	1,196	884
<b>Total revenues</b>	<b>17,436</b>	<b>18,555</b>
<b>Benefits, claims and expenses:</b>		
Policyholder benefits and claims incurred	8,959	8,593
Interest credited to policyholder account balances	1,105	1,109
Amortization of deferred acquisition costs	1,716	2,022
Other acquisition and insurance expenses	1,551	1,610
Interest expense	1,061	1,751
Aircraft leasing expenses	670	1,004
Loss on extinguishment of debt (see Note 1)	3,313	-
Net loss on sale of properties and divested businesses	72	76
Other expenses	369	749
<b>Total benefits, claims and expenses</b>	<b>18,816</b>	<b>16,914</b>
<b>Income (loss) from continuing operations before income tax benefit</b>	<b>(1,380)</b>	<b>1,641</b>
<b>Income tax benefit</b>	<b>(200)</b>	<b>(447)</b>
<b>Income (loss) from continuing operations</b>	<b>(1,180)</b>	<b>2,088</b>
<b>Income from discontinued operations, net of income tax expense (see Note 4)</b>	<b>1,653</b>	<b>343</b>
<b>Net income</b>	<b>473</b>	<b>2,431</b>
<b>Less:</b>		
<b>Net income from continuing operations attributable to noncontrolling interests:</b>		
Noncontrolling nonvoting, callable, junior and senior preferred interests	252	519
Other	(55)	119
<b>Total net income from continuing operations attributable to noncontrolling interests</b>	<b>197</b>	<b>638</b>
<b>Net income from discontinued operations attributable to noncontrolling interests</b>	<b>7</b>	<b>10</b>
<b>Total net income attributable to noncontrolling interests</b>	<b>204</b>	<b>648</b>
<b>Net income attributable to AIG</b>	<b>\$ 269</b>	<b>\$ 1,783</b>
<b>Net income (loss) attributable to AIG common shareholders</b>	<b>\$ (543)</b>	<b>\$ 359</b>
<b>Income per common share attributable to AIG:</b>		
Basic:		
Income (loss) from continuing operations	\$ (1.41)	\$ 2.16
Income from discontinued operations	\$ 1.06	\$ 0.50
Diluted:		
Income (loss) from continuing operations	\$ (1.41)	\$ 2.16
Income from discontinued operations	\$ 1.06	\$ 0.50
<b>Weighted average shares outstanding:</b>		
Basic	1,557,748,353	135,658,680
Diluted	1,557,748,353	135,724,939

See Accompanying Notes to Consolidated Financial Statements.

**Consolidated Statement of Comprehensive Income (Loss)****Three Months Ended March 31,  
(in millions)**

	2011	2010
<b>Net income</b>	<b>\$ 473</b>	<b>\$ 2,431</b>
<b>Other comprehensive income (loss):</b>		
Unrealized appreciation of fixed maturity investments on which other-than-temporary credit impairments were taken	612	993
Income tax expense on above changes	(216)	(220)
Unrealized appreciation (depreciation) of all other investments – net of reclassification adjustments	(1,144)	2,531
Income tax benefit (expense) on above changes	413	(1,374)
Foreign currency translation adjustments	(944)	(958)
Income tax benefit on above changes	296	429
Net derivative gains arising from cash flow hedging activities – net of reclassification adjustments	18	24
Income tax expense on above changes	(5)	(2)
Change in retirement plan liabilities adjustment	250	77
Income tax expense on above changes	(115)	(24)
<b>Other comprehensive income (loss)</b>	<b>(835)</b>	<b>1,476</b>
<b>Comprehensive income (loss)</b>	<b>(362)</b>	<b>3,907</b>
<b>Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests</b>	<b>252</b>	<b>519</b>
<b>Comprehensive loss attributable to other noncontrolling interests</b>	<b>(12)</b>	<b>(31)</b>
<b>Total comprehensive income attributable to noncontrolling interests</b>	<b>240</b>	<b>488</b>
<b>Comprehensive income (loss) attributable to AIG</b>	<b>\$ (602)</b>	<b>\$ 3,419</b>

See Accompanying Notes to Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

Three Months Ended March 31, (in millions)	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 473	\$ 2,431
Income from discontinued operations	(1,653)	(343)
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
<b>Noncash revenues, expenses, gains and losses included in income:</b>		
Net (gains) losses on sales of securities available for sale and other assets	57	(553)
Net losses on sales of divested businesses	72	76
Loss on extinguishment of debt	3,313	-
Unrealized (gains) losses in earnings – net	(2,004)	773
Equity in income from equity method investments, net of dividends or distributions	(614)	(299)
Depreciation and other amortization	2,288	2,813
Provision for mortgage and other loans receivable	(3)	156
Impairments of assets	445	1,542
Amortization of costs and accrued interest and fees related to FRBNY Credit Facility	48	843
<b>Changes in operating assets and liabilities:</b>		
General and life insurance reserves	5,824	3,305
Premiums and other receivables and payables – net	(676)	(1,168)
Reinsurance assets and funds held under reinsurance treaties	(4,049)	(3,668)
Capitalization of deferred policy acquisition costs	(1,754)	(2,099)
Other policyholder funds	(104)	114
Current and deferred income taxes – net	(585)	(1,365)
Trading securities	278	21
Payment of FRBNY Credit Facility accrued compounded interest and fees	(6,363)	-
Other, net	(1,535)	(1,058)
<b>Total adjustments</b>	<b>(5,362)</b>	<b>(567)</b>
Net cash provided by (used in) operating activities – continuing operations	(6,542)	1,521
Net cash provided by operating activities – discontinued operations	1,230	1,674
<b>Net cash provided by (used in) operating activities</b>	<b>(5,312)</b>	<b>3,195</b>
<b>Cash flows from investing activities:</b>		
Proceeds from (payments for)		
Sales of available for sale investments	11,665	7,879
Maturities of fixed maturity securities available for sale and hybrid investments	4,305	2,869
Sales of trading securities	6,987	2,054
Sales or distributions of other invested assets (including flight equipment)	2,671	2,220
Sales of divested businesses, net	-	1,472
Principal payments received on and sales of mortgage and other loans receivable	759	1,675
Purchases of available for sale investments	(19,456)	(15,737)
Purchases of trading securities	(199)	(817)
Purchases of other invested assets (including flight equipment)	(1,488)	(2,120)
Mortgage and other loans receivable issued and purchased	(403)	(899)
Net change in restricted cash	26,280	(491)
Net change in short-term investments	4,180	(1,959)
Net change in derivative assets and liabilities other than Capital Markets	79	(204)
Other, net	32	(49)
Net cash provided by (used in) investing activities – continuing operations	35,412	(4,107)
Net cash provided by (used in) investing activities – discontinued operations	4,205	(409)
<b>Net cash provided by (used in) investing activities</b>	<b>39,617</b>	<b>(4,516)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from (payments for)		
Policyholder contract deposits	4,804	4,753
Policyholder contract withdrawals	(3,684)	(3,743)
Net change in short-term debt	(235)	(3,565)
Federal Reserve Bank of New York credit facility borrowings	-	8,300
Federal Reserve Bank of New York credit facility repayments	(14,622)	(4,551)
Issuance of other long-term debt	183	3,669
Repayments on other long-term debt	(3,894)	(3,905)
Proceeds from drawdown on the Department of Treasury Commitment	20,292	2,199
Repayment of Department of Treasury SPV Preferred Interests	(9,146)	-
Repayment of Federal Reserve Bank of New York SPV Preferred Interests	(26,432)	-
Issuance of Common Stock	723	-
Acquisition of noncontrolling interest	(533)	-
Other, net	(304)	(664)
Net cash provided by (used in) financing activities – continuing operations	(32,848)	2,493
Net cash used in financing activities – discontinued operations	(1,637)	(2,759)
<b>Net cash used in financing activities</b>	<b>(34,485)</b>	<b>(266)</b>
<b>Effect of exchange rate changes on cash</b>	<b>23</b>	<b>(42)</b>
Net decrease in cash	(157)	(1,629)
Cash at beginning of period	1,558	4,400
Change in cash of businesses held for sale	400	(638)
<b>Cash at end of period</b>	<b>\$ 1,801</b>	<b>\$ 2,133</b>

See Accompanying Notes to Consolidated Financial Statements.

American International Group, Inc. and Subsidiaries

## Consolidated Statement of Equity

 Three Months Ended  
 March 31, 2011

<i>(in millions)</i>	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total AIG Shareholders' Equity	Non-redeemable non-controlling Interests	Total Equity
<b>Balance, beginning of year</b>	\$ 71,983	\$ 368	\$ (873)	\$ 9,683	\$ (3,466)	\$ 7,624	\$ 85,319	\$ 27,920	\$ 113,239
Series F drawdown	20,292	-	-	-	-	-	20,292	-	20,292
Repurchase of SPV preferred interests in connection with Recapitalization*	-	-	-	-	-	-	-	(26,432)	(26,432)
Exchange of consideration for preferred stock in connection with Recapitalization*	(92,275)	4,138	-	67,460	-	-	(20,677)	-	(20,677)
Settlement of equity unit stock purchase contract	-	3	-	720	-	-	723	-	723
Net income (loss) attributable to AIG or other noncontrolling interests	-	-	-	-	269	-	269	(57)	212
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	-	-	-	-	-	-	-	74	74
Other comprehensive income (loss)	-	-	-	-	-	(871)	(871)	37	(834)
Acquisition of noncontrolling interest	-	-	-	(172)	-	143	(29)	(509)	(538)
Net decrease due to deconsolidation	-	-	-	-	-	-	-	(109)	(109)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	5	5
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(101)	(101)
Other	-	(1)	-	6	(5)	-	-	(9)	(9)
<b>Balance, end of period</b>	\$ -	\$ 4,508	\$ (873)	\$ 77,697	\$ (3,202)	\$ 6,896	\$ 85,026	\$ 819	\$ 85,845

\* See Notes 1 and 12.

See Accompanying Notes to Consolidated Financial Statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****1. Basis of Presentation and Recent Events**

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2010 (AIG's 2010 Annual Report on Form 10-K). The condensed consolidated financial information as of December 31, 2010 has been derived from audited consolidated financial statements not included herein.

Financial information for certain foreign subsidiaries is reported on different period end bases, in most cases one month prior to AIG. The effect on AIG's consolidated financial condition and results of operations of all material events occurring between January 1, 2011 and March 31, 2011 has been recorded in the first quarter of 2011. AIG determined the Great Tohoku Earthquake & Tsunami (the Tohoku Catastrophe) in Japan in March 2011 to be an intervening event that had a material effect on AIG's consolidated financial position and results of operations. Accordingly, AIG recorded catastrophe losses for these entities from the Tohoku Catastrophe of \$864 million in its Chartis International operations related to this event.

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. Interim period operating results may not be indicative of the operating results for a full year. AIG evaluated the need to recognize or disclose events that occurred subsequent to the balance sheet date. All material intercompany accounts and transactions have been eliminated.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the application of accounting policies that often involve a significant degree of judgment. AIG considers that its accounting policies that are most dependent on the application of estimates and assumptions are those relating to items considered by management in the determination of:

- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;
- recoverability of assets, including deferred policy acquisition costs (DAC) and flight equipment;
- estimated gross profits for investment-oriented products;
- impairment charges, including other-than-temporary impairments;
- liabilities for legal contingencies;
- estimates with respect to income taxes, including recoverability of deferred tax assets;
- fair value measurements of certain financial assets and liabilities, including credit default swaps (CDS) and AIG's economic interest in Maiden Lane II LLC (ML II) and equity interest in Maiden Lane III LLC (ML III) (together, the Maiden Lane Interests); and
- classification of entities as held for sale or as discontinued operations.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG's consolidated financial condition, results of operations and cash flows could be materially affected.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Reclassifications**

Due to changes in the relative composition of AIG's remaining continuing operations as a result of the substantial completion of AIG's asset disposition plan, AIG is presenting separately the following line items on its Consolidated Statement of Income (Loss) beginning in the current quarter:

<b>Current line item:</b>	<b>Previously included in line item:</b>
Policy fees <sup>(a)</sup>	Premiums and other considerations
Aircraft leasing revenues and Aircraft leasing expenses, respectively	Other income and Other expenses, respectively
Interest credited to policyholder account balances <sup>(b)</sup>	Policyholder benefits and claims incurred
Amortization of deferred acquisition costs	Policy acquisition and other insurance expenses

(a) Represents fees recognized from universal life and investment-type products, consisting of policy charges for the cost of insurance, policy administration charges, amortization of unearned revenue reserves and surrender charges.

(b) Represents interest on account-value-based policyholder deposits, consisting of amounts credited on non-equity-indexed account values, accretion to the host contract for equity indexed products, and net amortization of sales inducements.

Prior period amounts were reclassified to conform to the current period presentation for the above line items. Additionally, certain other reclassifications have been made to prior period amounts in the Consolidated Statement of Income (Loss) and Consolidated Balance Sheet to conform to the current period presentation. See Notes 3 and 4 herein for revisions and reclassifications to prior period amounts attributable to discontinued operations.

**Recent Events**

AIG completed the Recapitalization (described below) and has substantially completed its asset disposition plan and has executed multiple capital markets transactions.

**Recapitalization**

On January 14, 2011 (the Closing), AIG completed a series of integrated transactions to recapitalize AIG (the Recapitalization) with the United States Department of the Treasury (the Department of the Treasury), the Federal Reserve Bank of New York (the FRBNY) and the AIG Credit Facility Trust (the Trust), including the repayment of all amounts owed under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Facility). AIG recognized a loss on extinguishment of debt in the first quarter of 2011, representing primarily accelerated amortization of the prepaid commitment fee asset resulting from the termination of the FRBNY Credit Facility on January 14, 2011.

*Repayment and Termination of the FRBNY Credit Facility*

At the Closing, AIG repaid to the FRBNY approximately \$21 billion in cash, representing complete repayment of all amounts owed under the FRBNY Credit Facility, and the FRBNY Credit Facility was terminated. The funds for the repayment came from the net cash proceeds from AIG's sale of 67 percent of the ordinary shares of AIA Group Limited (AIA) in its initial public offering and from AIG's sale of American Life Insurance Company (ALICO). These funds were loaned to AIG, in the form of secured limited recourse debt (the SPV Intercompany Loans), from the special purpose vehicles that held the proceeds of the AIA IPO and the ALICO sale (the AIA SPV and the ALICO SPV, respectively, and collectively, the SPVs, and such loans, the SPV Intercompany Loans). The SPV Intercompany Loans are secured by pledges and any proceeds received from the sale by AIG and certain of its subsidiaries of, among other collateral, all or part of their equity interests in Nan Shan Life Insurance Company, Ltd. (Nan Shan) and International Lease Finance Corporation (ILFC and, together with Nan Shan, the Designated Entities), as well as the remaining AIA ordinary shares held by the AIA SPV. Until their

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

sale on February 1, 2011, AIG's Japan-based life insurance subsidiaries, AIG Star Life Insurance Company Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison), were also Designated Entities.

*Repurchase and Exchange of SPV Preferred Interests*

At the Closing, AIG drew down approximately \$20.3 billion (the Series F Closing Drawdown Amount) under the Department of the Treasury's commitment (the Department of the Treasury Commitment (Series F)) pursuant to the Securities Purchase Agreement, dated as of April 17, 2009 (the Series F SPA), between AIG and the Department of the Treasury relating to AIG's Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value \$5.00 per share (the Series F Preferred Stock). The Series F Closing Drawdown Amount was the full amount remaining under the Department of the Treasury Commitment (Series F), less \$2 billion that AIG designated to be available after the closing for general corporate purposes under a commitment relating to AIG's Series G Cumulative Mandatory Convertible Preferred Stock, par value \$5.00 per share (the Series G Preferred Stock), described below (the Series G Drawdown Right). The right of AIG to draw on the Department of the Treasury Commitment (Series F) (other than the Series G Drawdown Right) was terminated.

AIG used the Series F Closing Drawdown Amount to repurchase all of the FRBNY's preferred interests in the SPVs (the SPV Preferred Interests). AIG transferred the SPV Preferred Interests to the Department of the Treasury as part of the consideration for the exchange of the Series F Preferred Stock described below.

The Department of the Treasury, so long as it holds SPV Preferred Interests, has the right, subject to existing contractual restrictions, to require AIG to dispose of the remaining AIA common shares held by the AIA SPV. In addition, the consent of the Department of the Treasury, so long as it holds SPV Preferred Interests, will be required for AIG to take specified significant actions with respect to the Designated Entities, including initial public offerings, sales, significant acquisitions or dispositions and incurrence of specified levels of indebtedness. If any SPV Preferred Interests are outstanding on May 1, 2013, the Department of the Treasury will have the right to compel the sale of all or a portion of one or more of the Designated Entities on terms that it will determine.

As a result of these transactions, the SPV Preferred Interests are no longer considered permanent equity on AIG's balance sheet, and are classified as Redeemable noncontrolling nonvoting, callable, junior preferred interests in partially owned consolidated subsidiaries held by the Department of the Treasury.

*Issuance of AIG's Series G Preferred Stock*

At the Closing, AIG and the Department of the Treasury amended and restated the Series F SPA to provide for the issuance of 20,000 shares of Series G Preferred Stock by AIG to the Department of the Treasury. The Series G Preferred Stock was issued with a liquidation preference of zero, which will increase by the amount of any funds drawn down by AIG under the Series G Drawdown Right from the Closing until March 31, 2012 (or the earlier termination of the Series G Drawdown Right).

Dividends on the Series G Preferred Stock are payable on a cumulative basis at a rate per annum of 5 percent, compounded quarterly, of the aggregate liquidation preference outstanding from time to time of the Series G Preferred Stock and may be paid, at AIG's option, in cash or in increases in the liquidation preference.

The available funding under the Series G Drawdown Right that may be used for general corporate purposes will be reduced by the amount of net proceeds of future AIG equity offerings. Net proceeds from an equity offering in excess of the available funding under the Series G Drawdown Right will be required to be used to pay down any liquidation preference of the Series G Preferred Stock. The Series G Preferred Stock is redeemable at any time in cash at AIG's option, at a redemption price equal to the liquidation preference plus accrued and unpaid dividends.

If the Series G Preferred Stock has an outstanding liquidation preference on March 31, 2012, it will be converted into a number of shares of AIG common stock, par value \$2.50 per share (AIG Common Stock), equal to the amount of the liquidation preference on that date plus accrued and unpaid dividends divided by \$29.29.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Exchange of AIG's Series C, E and F Preferred Stock for AIG Common Stock and Series G Preferred Stock

At the Closing:

- the shares of AIG's Series C Perpetual, Convertible, Participating Preferred Stock, par value \$5.00 per share (the Series C Preferred Stock), held by the Trust were exchanged for 562,868,096 shares of newly issued AIG Common Stock which were subsequently transferred by the Trust to the Department of the Treasury;
- the shares of AIG's Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value \$5.00 per share (the Series E Preferred Stock), held by the Department of the Treasury were exchanged for 924,546,133 newly issued shares of AIG Common Stock;
- the shares of the Series F Preferred Stock held by the Department of the Treasury were exchanged for (a) the SPV Preferred Interests, (b) 20,000 shares of the Series G Preferred Stock and (c) 167,623,733 shares of newly issued AIG Common Stock; and
- as a result of the Recapitalization and at March 31, 2011, the Department of the Treasury holds 1,655,037,962 shares of AIG Common Stock, representing ownership of approximately 92.2 percent of outstanding AIG Common Stock.

The issuance of AIG Common Stock as described above significantly affected the determination of net income attributable to common shareholders and the weighted average shares outstanding, both of which are used to compute earnings per share. See Note 12 herein for further discussion.

AIG entered into a registration rights agreement with the Department of the Treasury that granted the Department of the Treasury registration rights with respect to the shares of AIG Common Stock issued at the Closing, including:

- the right to participate in any registered offering of AIG Common Stock by AIG after the Closing;
- the right to demand no more than twice in any 12-month period that AIG effect a registered market offering of its shares after the earlier of August 15, 2011 and the date of AIG's completion of a primary equity offering;
- the right to engage in at-the-market offerings; and
- subject to certain exceptions, the right to approve the terms, conditions and pricing of any registered offering in which it participates until its ownership falls below 33 percent of AIG's voting securities.

AIG has the right to:

- raise up to \$3 billion (and up to an additional \$4 billion with the consent of the Department of the Treasury) by January 14, 2012 in a registered primary offering; and
- raise the greater of \$2 billion and the amount of the projected deficit if the AIG Board of Directors determines, after consultation with the Department of the Treasury, that due to events affecting AIG's insurance subsidiaries, AIG Parent's reasonably projected aggregate liquidity (cash, cash equivalents and commitments of credit, but not the Series G Drawdown Right) will fall below \$8 billion within 12 months of the date of such determination.

Until the Department of the Treasury's ownership of AIG's voting securities falls below 33 percent, the Department of the Treasury will, subject to certain exceptions, have complete control over the terms, conditions and pricing of any offering in which it participates, including any primary offering by AIG. As a result, if AIG seeks to conduct an offering of its equity securities (other than an offering described in the preceding paragraph) the Department of the Treasury may decide to participate in the offering, and to prevent AIG from selling any equity securities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)***Issuance of Warrants to Purchase AIG Common Stock*

On January 19, 2011, as part of the Recapitalization, AIG issued to the holders of record of AIG Common Stock as of January 13, 2011, by means of a dividend, ten-year warrants to purchase a total of 74,997,778 shares of AIG Common Stock at an exercise price of \$45.00 per share. AIG retained 67,650 of these warrants for tax withholding purposes. Warrants were not issued to the Trust, the Department of the Treasury or the FRBNY.

***Sales of Businesses***

- On February 1, 2011, AIG completed the sale of AIG Star and AIG Edison to Prudential Financial, Inc., for \$4.8 billion, consisting of \$4.2 billion in cash and \$0.6 billion in the assumption of third-party debt. Of the \$4.2 billion in cash, AIG retained \$2 billion to support the capital of Chartis pursuant to an agreement with the Department of the Treasury, and caused the remaining amount to be applied to repay the Department of the Treasury's SPV Preferred Interests. AIG recognized a pre-tax gain of \$1.9 billion on the sale which is reflected in Net income from discontinued operations in the Consolidated Statement of Income.
- On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan Life Insurance Company, Ltd. (Nan Shan) for \$2.16 billion in cash.

See Note 4 to the Consolidated Financial Statements for additional information on these transactions.

***Sale of MetLife Securities***

On March 1, 2011, AIG entered into a Coordination Agreement among the ALICO SPV, AIG and MetLife, Inc. (MetLife) regarding a series of integrated transactions (the MetLife Disposition) whereby MetLife agreed to allow AIG to offer for sale the MetLife securities that AIG received when it sold ALICO to MetLife earlier than contemplated under the original terms of the ALICO sale (the ALICO Sale). The MetLife Disposition included (i) the sale of MetLife common stock, par value \$0.01 per share, and the sale of common equity units of MetLife pursuant to two separate underwritten public offerings and (ii) the sale by the ALICO SPV of MetLife preferred stock to MetLife.

In connection with the MetLife Disposition, on March 1, 2011, AIG and the ALICO SPV also entered into a letter agreement with the Department of the Treasury pursuant to which AIG and the ALICO SPV received the consent of the Department of the Treasury to the MetLife Disposition. AIG completed the MetLife Disposition on March 8, 2011 for a total of \$9.6 billion and used \$6.6 billion of the proceeds to repay all of the liquidation preference and accrued return of the Department of the Treasury's ALICO SPV Preferred Interests and a portion of the liquidation preference and accrued return of the Department of the Treasury's AIA SPV Preferred Interests. AIG recognized a loss of \$348 million on the disposition in the quarter ended March 31, 2011, representing the decline in securities value since December 31, 2010 due to market conditions. Of this amount, \$191 million is reflected in Net realized capital losses and \$157 million is reflected in Net investment income in the Consolidated Statement of Income (Loss). The remaining proceeds were placed in escrow to secure indemnities provided to MetLife under the original terms of the ALICO stock purchase agreement as described in Note 11 herein.

**Liquidity Assessment**

In assessing AIG's current financial flexibility and developing operating plans for the future, management has made significant judgments and estimates with respect to the potential financial and liquidity effects of AIG's risks and uncertainties, including but not limited to:

- the potential for declines in bond and equity markets;
- the potential effect on AIG if the capital levels of its regulated and unregulated subsidiaries prove inadequate to support current business plans;

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

- AIG's continued ability to generate cash flow from operations;
- the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies; and
- the potential for regulatory limitations on AIG's business in one or more countries.

AIG believes that it has sufficient liquidity to meet future liquidity requirements, including reasonably foreseeable contingencies and events.

**Supplementary Disclosure of Cash Flow Information**

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
<b>Supplementary disclosure of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest*	\$ (5,796)	\$ (1,047)
Taxes	\$ (384)	\$ (604)
<b>Non-cash financing/investing activities:</b>		
Interest credited to policyholder contract deposits included in financing activities	\$ 1,255	\$ 2,086
Debt assumed on consolidation of variable interest entities	\$ -	\$ 2,591
Debt assumed on acquisition	\$ -	\$ 164

\* Includes payment of FRBNY credit facility accrued compounded interest of \$4.7 billion in the three months ended March 31, 2011.

**2. Summary of Significant Accounting Policies****Recent Accounting Standards*****Future Application of Accounting Standards******A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring***

In April 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update that amends the guidance for a creditor's evaluation of whether a restructuring is a troubled debt restructuring and requires additional disclosures about a creditor's troubled debt restructuring activities. The new standard clarifies the existing guidance on the two criteria used by creditors to determine whether a modification or restructuring is a troubled debt restructuring: (i) whether the creditor has granted a concession and (ii) whether the debtor is experiencing financial difficulties. The new standard is effective for interim and annual periods beginning on July 1, 2011 with early adoption permitted. AIG is required to apply the guidance in the accounting standard retrospectively for all modifications and restructuring activities that have occurred since January 1, 2011. For receivables that are newly considered impaired under the guidance, AIG is required to measure the impairment of those receivables prospectively in the first period of adoption. In addition, AIG must begin providing the disclosures about troubled debt restructuring activities in the period of adoption. AIG is currently assessing the effect of adoption of this new standard on its consolidated financial condition, results of operations and cash flows.

***Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts***

In October 2010, the FASB issued an accounting standard update that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The new standard clarifies how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The new standard is effective for interim and annual periods beginning on January 1, 2012 with early adoption permitted. Prospective or retrospective

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

application is also permitted. AIG elected not to early adopt the standard and has not yet determined whether it will subsequently adopt it prospectively or retrospectively. Upon adoption, retrospective application would result in a reduction to beginning retained earnings for the earliest period presented, whereas prospective application would result in higher amortization expense being recognized in current and future periods relative to the retrospective method. The accounting standard update will result in a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts as AIG will only defer costs that are incremental and directly related to the successful acquisition of new or renewal business. AIG is currently assessing the effect of adoption of this new standard on its consolidated financial condition, results of operations and cash flows.

***Accounting Standards Adopted During 2011***

AIG adopted the following accounting standards during the first quarter of 2011:

***Consolidation of Investments in Separate Accounts***

In April 2010, the FASB issued an accounting standard that clarifies that an insurance company should not combine any investments held in separate account interests with its interest in the same investment held in its general account when assessing the investment for consolidation. Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. The standard also provides guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation of an investment is required and the insurer's interest is through its general account in addition to any separate accounts. The new standard became effective for AIG on January 1, 2011. The adoption of this new standard did not have a material effect on AIG's consolidated financial condition, results of operations or cash flows.

***Fair Value Measurements and Disclosures***

In January 2010, the FASB issued updated guidance that requires fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the rollforward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about the level of disaggregation and valuation techniques and inputs. This new guidance was effective for AIG beginning on January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements within the rollforward of Level 3 activity, which were effective for AIG beginning on January 1, 2011. See Note 6 herein.

**3. Segment Information**

AIG reports the results of its operations through three reportable segments: Chartis, SunAmerica Financial Group (SunAmerica) and Financial Services. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations and net (gains) losses on sales of divested businesses, because AIG believes that this provides more meaningful information on how its operations are performing.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents AIG's operations by reportable segment:

<i>(in millions)</i>	Reportable Segment				Total	Consolidation and	
	Chartis	SunAmerica	Financial Services	Other Operations		Eliminations	Consolidated
<b>Three Months Ended March 31, 2011</b>							
Total revenues	\$ 9,877	\$ 3,839	\$ 1,568	\$ 2,332	\$ 17,616	\$ (180)	\$ 17,436
Pre-tax income (loss)	(416)	940	325	(2,205)	(1,356)	(24)	(1,380)
<b>Three Months Ended March 31, 2010</b>							
Total revenues	\$ 9,181	\$ 3,226	\$ 1,290	\$ 5,241	\$ 18,938	\$ (383)	\$ 18,555
Pre-tax income (loss)	1,348	327	(202)	203	1,676	(35)	1,641

The following table presents AIG's insurance operations by operating segment:

<i>(in millions)</i>	Chartis		Total Chartis	Domestic Life Insurance	Domestic Retirement Services	Total SunAmerica
	U.S.	International				
<b>Three Months Ended March 31, 2011</b>						
Total revenues	\$ 5,422	\$ 4,455	\$ 9,877	\$ 1,962	\$ 1,877	\$ 3,839
Pre-tax income (loss)	224	(640)	(416)	338	602	940
<b>Three Months Ended March 31, 2010</b>						
Total revenues	\$ 5,403	\$ 3,778	\$ 9,181	\$ 1,934	\$ 1,292	\$ 3,226
Pre-tax income (loss)	730	618	1,348	227	100	327

The following table presents AIG's Financial Services operations by operating segment:

<i>(in millions)</i>	Aircraft			Other	Total	Consolidation and		Total Financial Services
	Leasing	Capital Markets				Eliminations		
<b>Three Months Ended March 31, 2011</b>								
Total revenues	\$ 1,159	\$ 370	\$ 40	\$ 1,569	\$ (1)	\$ 1,568		
Pre-tax income (loss)	120	277	(72)	325	-	325		
<b>Three Months Ended March 31, 2010</b>								
Total revenues	\$ 1,218	\$ (22)	\$ 121	\$ 1,317	\$ (27)	\$ 1,290		
Pre-tax income (loss)	(81)	(86)	(35)	(202)	-	(202)		

The following table presents components of AIG's Other operations:

<i>(in millions)</i>	Asset Management Operations							Change in ML III	Consolidation and Eliminations	Total Other Operations
	Parent & Other	Mortgage Guaranty	Direct Institutional		Divested Businesses					
			Investment Business	Asset Management						
<b>Three Months Ended March 31, 2011</b>										
Total revenues	\$ 690	\$ 238	\$ 561	\$ 83	\$ 35	\$ 744	\$ (19)	\$ 2,332		
Pre-tax income (loss)	(3,441)	7	448	15	22	744	-	(2,205)		
<b>Three Months Ended March 31, 2010</b>										
Total revenues	\$ 659	\$ 298	\$ 48	\$ 214	\$ 3,355	\$ 751	\$ (84)	\$ 5,241		
Pre-tax income	(1,098)	96	(147)	(74)	675	751	-	203		





**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****4. Discontinued Operations and Held-for-Sale Classification****Discontinued Operations*****AIG Star and AIG Edison Sale***

On September 30, 2010, AIG entered into a definitive agreement with Prudential Financial, Inc. for the sale of its Japan-based insurance subsidiaries, AIG Star and AIG Edison, for total consideration of \$4.8 billion, including the assumption of certain outstanding debt totaling \$0.6 billion owed by AIG Star and AIG Edison. The transaction closed on February 1, 2011 and AIG recognized a pre-tax gain of \$1.9 billion on the sale which is reflected in Income from discontinued operations, net of income tax expense, in the Consolidated Statement of Income (Loss). AIG has no continuing significant involvement with or significant continuing cash flows from AIG Star and AIG Edison. In connection with the sale, AIG recorded a goodwill impairment charge of \$1.3 billion in 2010.

***Nan Shan Sale Agreement***

On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan for \$2.16 billion to a Taiwan-based consortium. While AIG believes the consortium meets certain basic criteria established by the Financial Supervisory Commission of Taiwan, the transaction is still subject to regulatory approvals and customary closing conditions. The sale of Nan Shan is expected to be consummated in 2011. AIG continues to classify Nan Shan as a discontinued operation for all periods presented since AIG will not retain any interest or continuing involvement with Nan Shan and AIG is not expected to have significant continuing cash flows from Nan Shan.

These transactions met the criteria for held for sale accounting and discontinued operations classification.

Nan Shan, AIG Star and AIG Edison previously were components of the Foreign Life Insurance & Retirement Services reportable segment. Results from discontinued operations for the three months ended March 31, 2011 and 2010 include the results of AIG Star and AIG Edison through the date of disposal, and Nan Shan. Results from discontinued operations for the three months ended March 31, 2010 also include the results of ALICO and American General Finance, Inc. (AGF), which were sold during 2010. See Note 4 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for discussion of these sales and Note 11 herein for a discussion of guarantees and indemnifications associated with sales of businesses.

The following table summarizes income (loss) from discontinued operations:

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Premiums	\$ 2,549	\$ 5,030
Net investment income	712	1,892
Net realized capital gains (losses)	369	(151)
Other income	5	550
Total revenues	3,635	7,321
Benefits, claims and expenses	3,094	6,633
Interest expense allocation	2	19
Income from discontinued operations	539	669
Gain (loss) on sales	1,594	(107)
Income from discontinued operations, before income tax expense	2,133	562
Income tax expense	480	219
Income from discontinued operations, net of income tax expense	\$ 1,653	\$ 343

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Held-for-Sale Classification**

The aggregate held-for-sale assets and liabilities are presented separately as single line items in the asset and liability sections of the Consolidated Balance Sheet at March 31, 2011 for Nan Shan and December 31, 2010 for Nan Shan, AIG Star and AIG Edison.

The following table summarizes assets and liabilities held for sale:

<i>(in millions)</i>	March 31, 2011	December 31, 2010
<b>Assets:</b>		
Fixed maturity securities	\$ 42,016	\$ 77,905
Deferred policy acquisition costs	3,628	7,095
Mortgage and other loans receivable, net	4,111	5,584
Equity securities	2,766	4,488
Other invested assets	2,038	4,167
Short-term investments	1,488	3,670
Separate account assets	3,934	3,745
Other assets	(1,228)	544
Assets of businesses held for sale	58,753	107,198
Flight equipment*	27	255
Total assets held for sale	\$ 58,780	\$ 107,453
<b>Liabilities:</b>		
Future policy benefits for life and accident and health insurance contracts	\$ 46,220	\$ 61,767
Policyholder contract deposits	1,542	26,847
Separate account liabilities	3,934	3,745
Other long-term debt	-	525
Other liabilities	2,540	4,428
Total liabilities held for sale	\$ 54,236	\$ 97,312

\* Represents one and nine aircraft that remain to be sold under agreements for sale by ILFC as of March 31, 2011 and December 31, 2010, respectively.

**5. Business Combination**

On March 31, 2010, AIG, through a Chartis International subsidiary, purchased additional voting shares in Fuji Fire & Marine Insurance Company Limited (Fuji), a publicly traded Japanese insurance company with property/casualty insurance operations and a life insurance subsidiary. The acquisition of the additional voting shares for \$145 million increased Chartis International's total voting ownership interest in Fuji from 41.7 percent to 54.8 percent, which resulted in Chartis International obtaining control of Fuji. This acquisition was consistent with Chartis International's desire to increase its share in the substantial Japanese insurance market, which is undergoing significant consolidation, and to achieve cost savings from synergies.

In February 2011 Chartis announced a cash tender offer for all of the remaining common shares and stock acquisition rights of Fuji that it did not previously own. The tender offer period expired on March 24, 2011, and approximately 305 million shares were tendered at an offer price of 146 Yen per share (\$1.76 per share) for a purchase price of \$538 million. As of March 31, 2011, Chartis owned 98.4 percent of Fuji's outstanding voting shares.

The 2011 purchase was accounted for as an equity transaction because AIG previously consolidated Fuji due to its controlling interest. Accordingly, the difference between the fair value of the consideration paid of \$538 million and the carrying value of the noncontrolling interest acquired of \$509 million was recognized as a reduction of AIG's equity. Identifiable net assets remained unchanged and there was no gain or loss recorded in consolidated net income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****6. Fair Value Measurements****Fair Value Measurements on a Recurring Basis**

AIG measures the following financial instruments at fair value on a recurring basis:

- trading and available for sale securities portfolios;
- certain mortgage and other loans receivable;
- derivative assets and liabilities;
- non-traded equity investments and certain private limited partnerships and certain hedge funds included in Other invested assets;
- equity interest in AIA accounted for under the fair value option;
- certain short-term investments;
- securities purchased under agreements to resell included in Short-term investments;
- securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased included in Other liabilities;
- separate account assets;
- certain policyholder contract deposits;
- certain trust deposits and deposits due to banks and other depositors included in Other liabilities;
- certain long-term debt; and
- certain hybrid financial instruments included in Other liabilities.

The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

**Fair Value Hierarchy**

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

- *Level 1:* Fair value measurements that are quoted prices (unadjusted) in active markets that AIG has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. AIG does not adjust the quoted price for such instruments. Assets and liabilities measured at fair value on a recurring basis and classified as Level 1 include certain government and agency securities, actively traded listed common stocks and futures and options contracts, most separate account assets and most mutual funds.
- *Level 2:* Fair value measurements based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government and agency securities, most investment-grade and high-yield corporate bonds, certain residential mortgage-backed securities (RMBS), certain commercial mortgage-backed securities (CMBS) and certain collateralized loan obligations/asset backed securities (CLO/ABS), certain listed equities, state, municipal and provincial obligations, hybrid securities, securities purchased (sold) under agreements to resell (repurchase), certain mutual fund and hedge fund investments, certain interest rate, currency and commodity derivative contracts, guaranteed investment agreements (GIAs) for the Direct Investment business, other long-term debt and physical commodities.

- *Level 3:* Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Therefore, AIG must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain RMBS, CMBS and collateralized debt obligations/asset backed securities (CDO/ABS), corporate debt, certain municipal and sovereign debt, certain derivative contracts (including Capital Markets super senior credit default swap portfolio), policyholder contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG's non-financial instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels noted above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

**Valuation Methodologies*****Incorporation of Credit Risk in Fair Value Measurements***

- *AIG's Own Credit Risk.* Fair value measurements for certain Direct Investment business debt, GIAs, structured note liabilities and freestanding derivatives, as well as Capital Markets derivatives, incorporate AIG's own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to AIG at the balance sheet date by reference to observable AIG credit default swap or cash bond spreads. A derivative counterparty's net credit exposure to AIG is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with AIG, as well as cash collateral posted by AIG with the counterparty at the balance sheet date.

Fair value measurements for embedded policy derivatives and policyholder contract deposits take into consideration that policyholder liabilities are senior in priority to general creditors of AIG and therefore are much less sensitive to changes in AIG credit default swap or cash issuance spreads.

- *Counterparty Credit Risk.* Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for AIG to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty credit default swap spreads, when available. When not available, other directly or indirectly observable credit spreads will be used to derive the best estimates of the counterparty spreads. AIG's net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as cash collateral posted by the counterparty at the balance sheet date.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

A CDS is a derivative contract that allows the transfer of third party credit risk from one party to the other. The buyer of the CDS pays an upfront and/or periodic premium to the seller. The seller's payment obligation is triggered by the occurrence of a credit event under a specified reference security and is determined by the loss on that specified reference security. The present value of the amount of the upfront and/or periodic premium therefore represents a market-based expectation of the likelihood that the specified reference party will fail to perform on the reference obligation, a key market observable indicator of non-performance risk (the CDS spread).

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

The cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to AIG by an independent third party. AIG utilizes an interest rate based on the benchmark London Interbank Offered Rate (LIBOR) curve to derive its discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, AIG believes this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

***Fixed Maturity Securities — Trading and Available for Sale***

Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value in its trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. AIG employs independent third-party valuation service providers to gather, analyze, and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When AIG's valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, benchmark yields, interest rate yield curves, credit spreads, currency rates, quoted prices for similar securities and other market-observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

AIG has processes designed to ensure that the values received or internally estimated are accurately recorded, that the data inputs and the valuation techniques utilized are appropriate and consistently applied and that the assumptions are reasonable and consistent with the objective of determining fair value. AIG assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, AIG may validate the reasonableness of fair values by comparing information obtained from AIG's valuation service providers to other third-party valuation sources for selected securities. AIG also

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

validates prices for selected securities obtained from brokers through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

The methodology above is relevant for all fixed maturity securities; following are discussions of certain procedures unique to specific classes of securities.

*Fixed Maturity Securities issued by Government Entities*

For most debt securities issued by government entities, AIG obtains fair value information from independent third-party valuation service providers, as quoted prices in active markets are generally only available for limited debt securities issued by government entities. The fair values received from these valuation service providers may be based on a market approach using matrix pricing, which considers a security's relationship to other securities for which quoted prices in an active market may be available, or alternatively based on an income approach, which uses valuation techniques to convert future cash flows to a single present value amount.

*Fixed Maturity Securities issued by Corporate Entities*

For most debt securities issued by corporate entities, AIG obtains fair value information from third-party valuation service providers. For certain corporate debt securities, AIG obtains fair value information from brokers. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

*RMBS, CMBS, CDOs and other ABS*

Third-party valuation service providers also provide fair value information for the majority of AIG investments in RMBS, CMBS, CDOs and other ABS. Where pricing is not available from valuation service providers, AIG obtains fair value information from brokers. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to structured securities, including ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies, and weighted average coupons and maturities. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. When the volume or level of market activity for an investment in RMBS, CMBS, CDOs or other ABS is limited, certain inputs used to determine fair value may not be observable in the market.

*Maiden Lane II and Maiden Lane III*

At their inception, AIG's interests in ML II and ML III were valued and recorded at the transaction prices of \$1 billion and \$5 billion, respectively. Subsequently, the Maiden Lane Interests have been valued using a discounted cash flow methodology that uses the estimated future cash flows of the Maiden Lane assets to which the Maiden Lane Interests are entitled and the discount rates applicable to such Interests as derived by the model from the fair value of the entire asset pool. These implicit discount rates are calibrated to the changes in the estimated asset values of the underlying assets commensurate with AIG's Interests in the capital structure of the respective entities and the timing of estimated cash flows. Estimated cash flows and discount rates used in the valuations are validated, to the extent possible, using market observable information for securities with similar asset pools, structure and terms.

The fair value methodology used since inception for the Maiden Lane Interests had assumed that the underlying collateral would continue to be held and generate cash flows into the foreseeable future and did not assume a current liquidation of the assets underlying the Maiden Lane Interests. As a result of the announcement on March 31, 2011 by the FRBNY of its plan to begin selling the assets in the ML II portfolio over time through a competitive sales process, AIG modified its methodology for estimating the fair value of its interest in ML II as of March 31, 2011 to incorporate the assumption of a current liquidation. The impact of this change in methodology was an increase in fair value of \$95 million as of March 31, 2011. AIG does not believe a change in

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

the fair value methodology used for its interest in ML III is appropriate at this time based on current available information. Other methodologies employed or assumptions made in determining fair value for these investments could result in amounts that differ significantly from the amounts reported.

Adjustments to the fair value of AIG's interest in ML II are recorded in the Consolidated Statement of Income (Loss) in Net investment income for SunAmerica's domestic life insurance companies. Adjustments to the fair value of AIG's interest in ML III are recorded in the Consolidated Statement of Income (Loss) in Net investment income for AIG's Other operations.

As of March 31, 2011, AIG expects to receive cash flows (undiscounted) in excess of AIG's initial investment, and any accrued interest, on the Maiden Lane Interests after repayment of the first priority obligations owed to the FRBNY. AIG's fair value methodology considers the capital structure of the collateral securities and their expected credit losses from the underlying asset pools. The fair value of AIG's interest in ML II is most affected by the liquidation proceeds realized by the FRBNY from the sale of the collateral securities. A 10 percent change in the liquidation proceeds realized by the FRBNY would result in a change of approximately \$280 million in the fair value of the ML II interest. The fair value of AIG's interest in ML III is most affected by changes in the discount rates and changes in the estimated future collateral cash flows used in the valuation model. Changes in estimated future cash flows for ML III would primarily be the result of changes in expectations of defaults, recoveries and prepayments on underlying loans.

The LIBOR interest rate curve changes are determined based on observable prices, interpolated or extrapolated to derive a LIBOR for a specific maturity term as necessary. The spreads over LIBOR for the Maiden Lane Interests (including collateral-specific credit and liquidity spreads) can change as a result of changes in market expectations about the future performance of these investments as well as changes in the risk premium that market participants would demand at the time of the transactions.

**Changes in the discount rate or the estimated future cash flows used in the valuation would alter AIG's estimate of the fair value of AIG's interest in ML III as shown in the table below.**

<b>Three Months Ended March 31, 2011 (in millions)</b>	<b>Maiden Lane III Fair Value Change</b>
<b>Discount Rates:</b>	
200 basis point increase	\$ (751)
200 basis point decrease	865
400 basis point increase	(1,408)
400 basis point decrease	1,866
<b>Estimated Future Cash Flows:</b>	
10% increase	850
10% decrease	(868)
20% increase	1,686
20% decrease	(1,750)

If the FRBNY were to similarly announce a plan to liquidate the assets of ML III at their estimated fair values, the impact of the change in AIG's assumptions would be an increase in the fair value of AIG's interest in ML III by approximately \$370 million at March 31, 2011.

AIG believes that the ranges of discount rates used in these analyses are reasonable on the basis of implied spread volatilities of similar collateral securities and implied volatilities of LIBOR interest rates. The ranges of estimated future cash flows were determined on the basis of variability in estimated future cash flows implied by cumulative loss estimates for similar instruments. Because of these factors, the fair values of the Maiden Lane Interests are likely to vary, perhaps materially, from the amounts estimated.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)*****Equity Securities Traded in Active Markets — Trading and Available for Sale***

Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios or in Other invested assets. Market price data is generally obtained from exchange or dealer markets.

***Direct Private Equity Investments — Other Invested Assets***

AIG initially estimates the fair value of direct private equity investments by reference to the transaction price. This valuation is adjusted for changes in inputs and assumptions that are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets and/or changes in financial ratios or cash flows. For equity securities that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

***Hedge Funds, Private Equity Funds and Other Investment Partnerships — Other Invested Assets***

AIG initially estimates the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, AIG generally obtains the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. AIG considers observable market data and performs diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement.

***Separate Account Assets***

Separate account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

***Other Assets Measured at Fair Value***

***Short-term Investments*** — For short-term investments that are measured at fair value, AIG obtains fair value information from independent third-party valuation service providers. The determination of fair value for these instruments is consistent with the process for fixed maturity securities, as discussed above.

AIG also reports securities purchased under agreements to resell in Short-term investments in the Consolidated Balance Sheet. AIG estimates the fair value of receivables arising from securities purchased under agreements to resell using dealer quotations, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the coupon rate, yield curves, prepayment rates and other relevant factors.

***Loans Receivable*** — AIG estimates the fair value of mortgage and other loans receivable by using dealer quotations, discounted cash flow analyses and/or internal valuation models. The determination of fair value considers inputs such as interest rate, maturity, the borrower's creditworthiness, collateral, subordination, guarantees, past-due status, yield curves, credit curves, prepayment rates, market pricing for comparable loans and other relevant factors.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)*****Freestanding Derivatives***

Derivative assets and liabilities can be exchange-traded or traded over-the-counter (OTC). AIG generally values exchange-traded derivatives such as futures and options using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price may provide the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. AIG will update valuation inputs in these models only when corroborated by evidence such as similar market transactions, third party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

***Embedded Policy Derivatives***

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG's historical experience. With respect to embedded policy derivatives in AIG's variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG's equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. These methodologies incorporate an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

Fair value measurements for embedded derivatives associated with variable annuity and equity-indexed annuity and life contracts incorporate AIG insurance subsidiaries' own risk of non-performance by reflecting a market participant's view of AIG insurance subsidiaries' claims paying ability. AIG therefore incorporates an additional spread to the interest rate swap curve to value the embedded policy derivatives.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)*****AIGFP's Super Senior Credit Default Swap Portfolio***

AIGFP values AIGFP's CDS transactions written on the super senior risk layers of designated pools of debt securities or loans using internal valuation models, third-party price estimates and market indices. The principal market was determined to be the market in which super senior credit default swaps of this type and size would be transacted, or have been transacted, with the greatest volume or level of activity. AIG has determined that the principal market participants, therefore, would consist of other large financial institutions who participate in sophisticated over-the-counter derivatives markets. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices.

The valuation of the super senior credit derivatives is challenging given the limitation on the availability of market observable information due to the lack of trading and price transparency in certain structured finance markets. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants and the varying judgments reached by such participants when assessing volatile markets have increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

AIG's valuation methodologies for the super senior credit default swap portfolio have evolved over time in response to market conditions and the availability of market observable information. AIG has sought to calibrate the methodologies to available market information and to review the assumptions of the methodologies on a regular basis.

*Regulatory capital portfolio:* In the case of credit default swaps written to facilitate regulatory capital relief, AIG estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG continues to reassess the expected maturity of the portfolio. AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the capital regulations promulgated by the Basel Committee on Banking Supervision, known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties and thus may impact the period of time that such counterparties are expected to hold the positions. In assessing the fair value of the regulatory capital CDS transactions, AIG also considers other market data to the extent relevant and available. For further discussion, see Note 10 herein.

*Multi-sector CDO portfolios:* AIG uses a modified version of the Binomial Expansion Technique (BET) model to value AIGFP's credit default swap portfolio written on super senior tranches of multi-sector collateralized debt obligations (CDOs) of ABS. The BET model was developed in 1996 by a major rating agency to generate expected loss estimates for CDO tranches and derive a credit rating for those tranches, and remains widely used.

AIG has adapted the BET model to estimate the price of the super senior risk layer or tranche of the CDO. AIG modified the BET model to imply default probabilities from market prices for the underlying securities and not from rating agency assumptions. To generate the estimate, the model uses the price estimates for the securities comprising the portfolio of a CDO as an input and converts those estimates to credit spreads over current LIBOR-based interest rates. These credit spreads are used to determine implied probabilities of default and expected losses on the underlying securities. This data is then aggregated and used to estimate the expected cash flows of the super senior tranche of the CDO.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. CDO collateral managers provided market prices for 58.9 percent of the underlying securities used in the valuation at March 31, 2011. When a price for an individual security is not provided by a CDO collateral manager, AIG derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates. AIG employs a Monte Carlo simulation to assist in quantifying the effect on the valuation of the CDO of the unique aspects of the CDO's structure such as triggers that divert cash flows to the most senior part of the capital structure. The Monte Carlo simulation is used to determine whether an underlying security defaults in a given simulation scenario and, if it does, the security's implied random default time and expected loss. This information is used to project cash flow streams and to determine the expected losses of the portfolio.

In addition to calculating an estimate of the fair value of the super senior CDO security referenced in the credit default swaps using its internal model, AIG also considers the price estimates for the super senior CDO securities provided by third parties, including counterparties to these transactions, to validate the results of the model and to determine the best available estimate of fair value. In determining the fair value of the super senior CDO security referenced in the credit default swaps, AIG uses a consistent process that considers all available pricing data points and eliminates the use of outlying data points. When pricing data points are within a reasonable range an averaging technique is applied.

*Corporate debt/Collateralized loan obligation (CLO) portfolios:* In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIG uses a mathematical model that produces results that are closely aligned with prices received from third parties. This methodology is widely used by other market participants and uses the current market credit spreads of the names in the portfolios along with the base correlations implied by the current market prices of comparable tranches of the relevant market traded credit indices as inputs. One transaction, representing two percent of the total notional amount of the corporate debt transactions, is valued using third party quotes given its unique attributes.

AIG estimates the fair value of its obligations resulting from credit default swaps written on CLOs to be equivalent to the par value less the current market value of the referenced obligation. Accordingly, the value is determined by obtaining third-party quotes on the underlying super senior tranches referenced under the credit default swap contract.

### ***Policyholder Contract Deposits***

Policyholder contract deposits accounted for at fair value are measured using an earnings approach by taking into consideration the following factors:

- Current policyholder account values and related surrender charges;
- The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors; and
- A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholder contract deposits is recorded as Policyholder benefits and claims incurred in the Consolidated Statement of Income (Loss).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)*****Other Long-Term Debt***

When fair value accounting has been elected, the fair value of non-structured liabilities is generally determined by using market prices from exchange or dealer markets, when available, or discounting expected cash flows using the appropriate discount rate for the applicable maturity. Such instruments are generally classified in Level 2 of the fair value hierarchy as substantially all inputs are readily observable. AIG determines the fair value of structured liabilities and hybrid financial instruments (where performance is linked to structured interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. Such instruments are classified in Level 2 or Level 3 depending on the observability of significant inputs to the model. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect AIG's own credit-worthiness based on observable credit spreads of AIG.

***Other Liabilities***

Other liabilities measured at fair value include securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased. AIG estimates the fair value of liabilities arising from securities sold under agreements to repurchase under dealer quotations, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the coupon rate, yield curves, prepayment rates and other relevant factors. Fair values for securities sold but not yet purchased are based on current market prices. Fair values of spot commodities sold but not yet purchased are based on current market prices of reference spot futures contracts traded on exchanges.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents information about assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the levels of the inputs used:

March 31, 2011 (in millions)	Level 1	Level 2	Level 3	Counterparty Netting <sup>(a)</sup>	Cash Collateral <sup>(b)</sup>	Total
<b>Assets:</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 122	\$ 6,770	\$ -	\$ -	\$ -	\$ 6,892
Obligations of states, municipalities and Political subdivisions	-	43,129	702	-	-	43,831
Non-U.S. governments	963	15,248	5	-	-	16,216
Corporate debt	-	129,991	1,235	-	-	131,226
RMBS	-	19,077	6,868	-	-	25,945
CMBS	-	3,241	4,316	-	-	7,557
CDO/ABS	-	2,791	3,857	-	-	6,648
<b>Total bonds available for sale</b>	<b>1,085</b>	<b>220,247</b>	<b>16,983</b>	<b>-</b>	<b>-</b>	<b>238,315</b>
Bond trading securities:						
U.S. government and government sponsored entities	58	6,655	-	-	-	6,713
Obligations of states, municipalities and Political subdivisions	-	295	-	-	-	295
Non-U.S. governments	-	171	-	-	-	171
Corporate debt	-	995	18	-	-	1,013
RMBS	-	1,679	99	-	-	1,778
CMBS	-	1,615	523	-	-	2,138
CDO/ABS	-	4,740	10,461	-	-	15,201
<b>Total bond trading securities</b>	<b>58</b>	<b>16,150</b>	<b>11,101</b>	<b>-</b>	<b>-</b>	<b>27,309</b>
Equity securities available for sale:						
Common stock	3,535	6	63	-	-	3,604
Preferred stock	-	59	63	-	-	122
Mutual funds	74	73	-	-	-	147
<b>Total equity securities available for sale</b>	<b>3,609</b>	<b>138</b>	<b>126</b>	<b>-</b>	<b>-</b>	<b>3,873</b>
Equity securities trading	45	117	1	-	-	163
Mortgage and other loans receivable	-	138	-	-	-	138
Other invested assets <sup>(c)</sup>	12,914	1,745	7,070	-	-	21,729
Derivative assets:						
Interest rate contracts	-	9,044	1,021	-	-	10,065
Foreign exchange contracts	-	117	16	-	-	133
Equity contracts	66	176	65	-	-	307
Commodity contracts	-	50	15	-	-	65
Credit contracts	-	2	384	-	-	386
Other contracts	7	705	194	-	-	906
Counterparty netting and cash collateral	-	-	-	(3,841)	(3,024)	(6,865)
<b>Total derivative assets</b>	<b>73</b>	<b>10,094</b>	<b>1,695</b>	<b>(3,841)</b>	<b>(3,024)</b>	<b>4,997</b>
Short-term investments <sup>(d)</sup>	3,123	14,553	-	-	-	17,676
Separate account assets	53,575	2,895	-	-	-	56,470
Other assets	-	8	-	-	-	8
<b>Total</b>	<b>\$ 74,482</b>	<b>\$ 266,085</b>	<b>\$ 36,976</b>	<b>\$ (3,841)</b>	<b>\$ (3,024)</b>	<b>\$ 370,678</b>
<b>Liabilities:</b>						
Policyholder contract deposits	\$ -	\$ -	\$ 369	\$ -	\$ -	\$ 369
Derivative liabilities:						
Interest rate contracts	-	6,295	402	-	-	6,697
Foreign exchange contracts	-	244	-	-	-	244
Equity contracts	1	271	31	-	-	303
Commodity contracts	-	46	-	-	-	46
Credit contracts <sup>(e)</sup>	-	3	3,804	-	-	3,807
Other contracts	-	80	200	-	-	280
Counterparty netting and cash collateral	-	-	-	(3,841)	(2,036)	(5,877)
<b>Total derivative liabilities</b>	<b>1</b>	<b>6,939</b>	<b>4,437</b>	<b>(3,841)</b>	<b>(2,036)</b>	<b>5,500</b>
Other long-term debt	-	10,608	996	-	-	11,604
Other liabilities <sup>(f)</sup>	77	1,277	-	-	-	1,354
<b>Total</b>	<b>\$ 78</b>	<b>\$ 18,824</b>	<b>\$ 5,802</b>	<b>\$ (3,841)</b>	<b>\$ (2,036)</b>	<b>\$ 18,827</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

December 31, 2010 (in millions)	Level 1	Level 2	Level 3	Counterparty Netting <sup>(a)</sup>	Cash Collateral <sup>(b)</sup>	Total
<b>Assets:</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 142	\$ 7,208	\$ -	\$ -	\$ -	\$ 7,350
Obligations of states, municipalities and Political subdivisions	4	46,007	609	-	-	46,620
Non-U.S. governments	719	14,620	5	-	-	15,344
Corporate debt	8	124,088	2,262	-	-	126,358
RMBS	-	13,441	6,367	-	-	19,808
CMBS	-	2,807	3,604	-	-	6,411
CDO/ABS	-	2,170	4,241	-	-	6,411
<b>Total bonds available for sale</b>	<b>873</b>	<b>210,341</b>	<b>17,088</b>	<b>-</b>	<b>-</b>	<b>228,302</b>
Bond trading securities:						
U.S. government and government sponsored entities	339	6,563	-	-	-	6,902
Obligations of states, municipalities and Political subdivisions	-	316	-	-	-	316
Non-U.S. governments	-	125	-	-	-	125
Corporate debt	-	912	-	-	-	912
RMBS	-	1,837	91	-	-	1,928
CMBS	-	1,572	506	-	-	2,078
CDO/ABS	-	4,490	9,431	-	-	13,921
<b>Total bond trading securities</b>	<b>339</b>	<b>15,815</b>	<b>10,028</b>	<b>-</b>	<b>-</b>	<b>26,182</b>
Equity securities available for sale:						
Common stock	3,577	61	61	-	-	3,699
Preferred stock	-	423	64	-	-	487
Mutual funds	316	79	-	-	-	395
<b>Total equity securities available for sale</b>	<b>3,893</b>	<b>563</b>	<b>125</b>	<b>-</b>	<b>-</b>	<b>4,581</b>
Equity securities trading	6,545	106	1	-	-	6,652
Mortgage and other loans receivable	-	143	-	-	-	143
Other invested assets <sup>(c)</sup>	12,281	1,661	7,414	-	-	21,356
Derivative assets:						
Interest rate contracts	1	13,146	1,057	-	-	14,204
Foreign exchange contracts	14	172	16	-	-	202
Equity contracts	61	233	65	-	-	359
Commodity contracts	-	69	23	-	-	92
Credit contracts	-	2	377	-	-	379
Other contracts	8	923	144	-	-	1,075
Counterparty netting and cash collateral	-	-	-	(6,298)	(4,096)	(10,394)
<b>Total derivative assets</b>	<b>84</b>	<b>14,545</b>	<b>1,682</b>	<b>(6,298)</b>	<b>(4,096)</b>	<b>5,917</b>
Short-term investments <sup>(d)</sup>	5,401	18,459	-	-	-	23,860
Separate account assets	51,607	2,825	-	-	-	54,432
Other assets	-	14	-	-	-	14
<b>Total</b>	<b>\$ 81,023</b>	<b>\$ 264,472</b>	<b>\$ 36,338</b>	<b>\$ (6,298)</b>	<b>\$ (4,096)</b>	<b>\$ 371,439</b>
<b>Liabilities:</b>						
Policyholder contract deposits	\$ -	\$ -	\$ 445	\$ -	\$ -	\$ 445
Derivative liabilities:						
Interest rate contracts	-	9,387	325	-	-	9,712
Foreign exchange contracts	14	324	-	-	-	338
Equity contracts	-	286	43	-	-	329
Commodity contracts	-	68	-	-	-	68
Credit contracts <sup>(e)</sup>	-	5	4,175	-	-	4,180
Other contracts	-	52	256	-	-	308
Counterparty netting and cash collateral	-	-	-	(6,298)	(2,902)	(9,200)
<b>Total derivative liabilities</b>	<b>14</b>	<b>10,122</b>	<b>4,799</b>	<b>(6,298)</b>	<b>(2,902)</b>	<b>5,735</b>
Other long-term debt	-	11,161	982	-	-	12,143
Other liabilities <sup>(f)</sup>	391	2,228	-	-	-	2,619
<b>Total</b>	<b>\$ 405</b>	<b>\$ 23,511</b>	<b>\$ 6,226</b>	<b>\$ (6,298)</b>	<b>\$ (2,902)</b>	<b>\$ 20,942</b>

(a) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(b) Represents cash collateral posted and received. Securities collateral posted for derivative transactions that is reflected in Fixed maturity securities in the Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, were \$1.9 billion and \$124 million, respectively, at March 31, 2011 and \$1.4 billion and \$109 million, respectively, at December 31, 2010.

(c) Included in Level 1 are \$12.2 billion and \$11.1 billion at March 31, 2011 and December 31, 2010, respectively, of AIA shares publicly traded on the Hong Kong Stock Exchange. Approximately 4 percent and 5 percent of the fair value of the assets recorded as Level 3 relates to various private equity, real estate, hedge fund and fund-of-funds investments that are consolidated by AIG at March 31, 2011 and December 31, 2010, respectively. AIG's ownership in these funds represented 62.4 percent, or \$0.9 billion, of Level 3 assets at March 31, 2011 and 68.6 percent, or \$1.3 billion, of Level 3 assets at December 31, 2010.

(d) Included in Level 2 is the fair value of \$0.8 billion and \$1.6 billion at March 31, 2011 and December 31, 2010, respectively, of securities purchased under agreements to resell.

(e) Included in Level 3 is the fair value derivative liability of \$3.2 billion and \$3.7 billion at March 31, 2011 and December 31, 2010, respectively, on the Capital Markets super senior credit default swap portfolio.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

- (f) Included in Level 2 is the fair value of \$1.2 billion, \$95 million and \$10 million at March 31, 2011 of securities sold under agreements to repurchase, securities and spot commodities sold but not yet purchased and trust deposits and deposits due to banks and other depositors, respectively. Included in Level 2 is the fair value of \$2.1 billion, \$94 million and \$15 million at December 31, 2010 of securities sold under agreements to repurchase, securities and spot commodities sold but not yet purchased and trust deposits and deposits due to banks and other depositors, respectively.

**Transfers of Level 1 and Level 2 Assets and Liabilities**

AIG's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the three-month period ended March 31, 2011, AIG transferred certain assets from Level 1 to Level 2, including approximately \$121 million of investments in securities issued by foreign governments. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. AIG had no significant transfers from Level 2 to Level 1 during the three-month period ended March 31, 2011.

**Changes in Level 3 Recurring Fair Value Measurements**

The following tables present changes during the three-month periods ended March 31, 2011 and 2010 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in the Consolidated Statement of Income (Loss) during those periods related to the Level 3 assets and liabilities that remained in the Consolidated Balance Sheet at March 31, 2011 and 2010:

(in millions)	Fair Value Beginning of Year <sup>(b)</sup>	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
<b>Three Months Ended March 31, 2011</b>								
<b>Assets:</b>								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	\$ 609	\$ -	\$ 4	\$ 112	\$ -	\$ (23)	\$ 702	\$ -
Non-U.S. governments	5	-	-	-	-	-	5	-
Corporate debt	2,262	(3)	7	(33)	226	(1,224)	1,235	-
RMBS	6,367	(81)	533	38	11	-	6,868	-
CMBS	3,604	(27)	664	72	25	(22)	4,316	-
CDO/ABS	4,241	20	238	(455)	72	(259)	3,857	-
<b>Total bonds available for sale</b>	<b>17,088</b>	<b>(91)</b>	<b>1,446</b>	<b>(266)</b>	<b>334</b>	<b>(1,528)</b>	<b>16,983</b>	<b>-</b>
Bond trading securities:								
Corporate debt	-	-	-	-	18	-	18	-
RMBS	91	2	-	6	-	-	99	2
CMBS	506	38	-	(58)	81	(44)	523	39
CDO/ABS	9,431	1,030	5	(5)	-	-	10,461	1,027 <sup>(a)</sup>
<b>Total bond trading securities</b>	<b>10,028</b>	<b>1,070</b>	<b>5</b>	<b>(57)</b>	<b>99</b>	<b>(44)</b>	<b>11,101</b>	<b>1,068</b>
Equity securities available for sale:								
Common stock	61	15	(2)	(15)	6	(2)	63	-
Preferred stock	64	(2)	-	1	-	-	63	-
<b>Total equity securities available for sale</b>	<b>125</b>	<b>13</b>	<b>(2)</b>	<b>(14)</b>	<b>6</b>	<b>(2)</b>	<b>126</b>	<b>-</b>
Equity securities trading	1	-	-	-	-	-	1	-
Other invested assets	7,414	53	343	(350)	-	(390)	7,070	(192)
<b>Total</b>	<b>\$ 34,656</b>	<b>\$ 1,045</b>	<b>\$ 1,792</b>	<b>\$ (687)</b>	<b>\$ 439</b>	<b>\$ (1,964)</b>	<b>\$ 35,281</b>	<b>\$ 876</b>
<b>Liabilities:</b>								
Policyholder contract deposits	\$ (445)	\$ 79	\$ -	\$ (3)	\$ -	\$ -	\$ (369)	\$ (93)
Derivative liabilities, net:								
Interest rate contracts	732	(116)	-	3	-	-	619	(25)
Foreign exchange contracts	16	-	-	-	-	-	16	-
Equity contracts	22	(7)	-	38	-	(19)	34	(7)
Commodity contracts	23	3	-	(11)	-	-	15	2
Credit contracts	(3,798)	382	-	(4)	-	-	(3,420)	381
Other contracts	(112)	4	25	50	-	27	(6)	(70)
<b>Total derivative liabilities, net</b>	<b>(3,117)</b>	<b>266</b>	<b>25</b>	<b>76</b>	<b>-</b>	<b>8</b>	<b>(2,742)</b>	<b>281</b>
Other long-term debt	(982)	(54)	-	61	(21)	-	(996)	(42)
<b>Total</b>	<b>\$ (4,544)</b>	<b>\$ 291</b>	<b>\$ 25</b>	<b>\$ 134</b>	<b>\$ (21)</b>	<b>\$ 8</b>	<b>\$ (4,107)</b>	<b>\$ 146</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

<i>(in millions)</i>	Fair Value Beginning of Year <sup>(b)</sup>	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements, Net	Net Transfers	Activity of Discontinued Operations	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
<b>Three Months Ended</b>								
<b>March 31, 2010</b>								
<b>Assets:</b>								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	\$ 613	\$ (14)	\$ (7)	\$ 109	\$ 248	\$ (1)	\$ 948	\$ -
Non-U.S. governments	753	-	-	-	-	(748)	5	-
Corporate debt	4,791	(19)	86	(109)	(535)	(297)	3,917	-
RMBS	6,654	(119)	442	(142)	31	(34)	6,832	-
CMBS	4,939	(318)	638	(91)	452	(1,224)	4,396	-
CDO/ABS	4,724	21	256	(12)	31	(444)	4,576	-
Total bonds available for sale	22,474	(449)	1,415	(245)	227	(2,748)	20,674	-
Bond trading securities:								
U.S. government and government sponsored entities								
	16	-	-	-	-	(16)	-	-
Non-U.S. governments	56	-	-	(50)	2	(6)	2	-
Corporate debt	121	(5)	2	-	-	(111)	7	(5)
RMBS	4	1	-	-	-	-	5	1
CMBS	325	40	-	(7)	34	(98)	294	101
CDO/ABS	6,865	1,117	-	(87)	-	-	7,895	1,300 <sup>(a)</sup>
Total bond trading securities	7,387	1,153	2	(144)	36	(231)	8,203	1,397
Equity securities available for sale:								
Common stock	35	(2)	5	1	-	(3)	36	-
Preferred stock	54	(5)	2	-	1	-	52	-
Mutual funds	6	-	-	-	-	(6)	-	-
Total equity securities available for sale	95	(7)	7	1	1	(9)	88	-
Equity securities trading	8	-	-	-	-	(7)	1	-
Other invested assets	6,910	(128)	287	(929)	(98)	(189)	5,853	(26)
Other assets	270	-	-	(270)	-	-	-	-
Separate account assets	1	-	-	-	-	(1)	-	-
Total	\$ 37,145	\$ 569	\$ 1,711	\$ (1,587)	\$ 166	\$ (3,185)	\$ 34,819	\$ 1,371
<b>Liabilities:</b>								
Policyholder contract deposits								
	\$ (5,214)	\$ 196	\$ -	\$ (139)	\$ -	\$ 4,516	\$ (641)	\$ (185)
Derivative liabilities, net:								
Interest rate contracts	(1,469)	98	-	96	(11)	-	(1,286)	(167)
Foreign exchange contracts	29	(1)	(1)	-	-	2	29	3
Equity contracts	74	(10)	-	-	(9)	-	55	(6)
Commodity contracts	22	(2)	-	-	-	-	20	(2)
Credit contracts	(4,545)	164	-	(529)	-	-	(4,910)	165
Other contracts	(176)	41	-	(3)	-	8	(130)	(3)
Total derivatives liabilities, net	(6,065)	290	(1)	(436)	(20)	10	(6,222)	(10)
Other long-term debt	(881)	(135)	-	555	(662)	-	(1,123)	136
Total	\$ (12,160)	\$ 351	\$ (1)	\$ (20)	\$ (682)	\$ 4,526	\$ (7,986)	\$ (59)

(a) In 2011, AIG made revisions to the presentation to include income from ML III. The prior period has been revised to conform to the current period presentation.

(b) Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

Net realized and unrealized gains and losses related to Level 3 items shown above are reported in the Consolidated Statement of Income (Loss) as follows:

<i>(in millions)</i>	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Policyholder Benefits and Claims Incurred	Total
<b>Three Months Ended March 31, 2011</b>					
Bonds available for sale	\$ 81	\$ (176)	\$ 4	\$ -	\$ (91)
Bond trading securities	1,001	-	69	-	1,070
Equity securities available for sale	-	13	-	-	13
Other invested assets	46	(15)	22	-	53
Policyholder contract deposits	-	79	-	-	79
Derivative liabilities, net	-	(54)	320	-	266
Other long-term debt	-	-	(54)	-	(54)
<b>Three Months Ended March 31, 2010</b>					
Bonds available for sale	\$ 67	\$ (524)	\$ 8	\$ -	\$ (449)
Bond trading securities	897	-	256	-	1,153
Equity securities available for sale	-	(7)	-	-	(7)
Other invested assets	56	(198)	14	-	(128)
Policyholder contract deposits	-	133	-	63	196
Derivative liabilities, net	-	-	290	-	290
Other long-term debt	-	-	(135)	-	(135)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above:

Three Months Ended March 31, 2011 (in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issuances and Settlements, Net*
<b>Assets:</b>				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	\$ 113	\$ -	\$ (1)	\$ 112
Corporate debt	8	(19)	(22)	(33)
RMBS	317	(13)	(266)	38
CMBS	142	-	(70)	72
CDO/ABS	65	-	(520)	(455)
<b>Total bonds available for sale</b>	<b>645</b>	<b>(32)</b>	<b>(879)</b>	<b>(266)</b>
Bond trading securities:				
RMBS	-	-	6	6
CMBS	-	(5)	(53)	(58)
CDO/ABS	3	-	(8)	(5)
<b>Total bond trading securities</b>	<b>3</b>	<b>(5)</b>	<b>(55)</b>	<b>(57)</b>
Equity securities available for sale:				
Common stock	-	(15)	-	(15)
Preferred stock	-	-	1	1
<b>Total equity securities available for sale</b>	<b>-</b>	<b>(15)</b>	<b>1</b>	<b>(14)</b>
Other invested assets	114	(12)	(452)	(350)
<b>Total assets</b>	<b>\$ 762</b>	<b>\$ (64)</b>	<b>\$ (1,385)</b>	<b>\$ (687)</b>
<b>Liabilities:</b>				
Policyholder contract deposits	\$ -	\$ (9)	\$ 6	\$ (3)
Derivative liabilities, net:				
Interest rate contracts	-	-	3	3
Equity contracts	39	-	(1)	38
Commodity contracts	-	-	(11)	(11)
Credit contracts	-	-	(4)	(4)
Other contracts	-	-	50	50
<b>Total derivative liabilities, net</b>	<b>39</b>	<b>-</b>	<b>37</b>	<b>76</b>
Other long-term debt	-	-	61	61
<b>Total liabilities</b>	<b>\$ 39</b>	<b>\$ (9)</b>	<b>\$ 104</b>	<b>\$ 134</b>

\* There were no issuances during the three months ended March 31, 2011.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at March 31, 2011 and 2010 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

**Transfers of Level 3 Assets and Liabilities**

AIG's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available and substantial price variances in quotations among market participants exist.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability.

AIG's policy is to record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income and as shown in the table above excludes \$26 million of net losses related to assets and liabilities transferred into Level 3 during the three-month period ended March 31, 2011, and includes \$5 million of net gains related to assets and liabilities transferred out of Level 3 during the three-month period ended March 31, 2011.

*Transfers of Level 3 Assets*

During the three-month period ended March 31, 2011, transfers into Level 3 included certain CMBS and ABS, as well as private placement corporate debt. The transfers into Level 3 related to investments in certain CMBS were due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. Transfers into Level 3 for private placement corporate debt and certain ABS were primarily the result of AIG adjusting matrix pricing information downward to better reflect the additional risk premium associated with those securities that AIG believes was not captured in the matrix.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable or when a long-term interest rate significant to a valuation becomes short-term and thus observable. In addition, transfers out of Level 3 arise when investments are no longer carried at fair value as the result of a change in the applicable accounting methodology, given changes in the nature and extent of AIG's ownership interest. During the three-month period ended March 31, 2011, transfers out of Level 3 primarily related to investments in private placement corporate debt, investments in certain CMBS and ABS and certain investment partnerships. Transfers out of Level 3 for private placement corporate debt and for ABS were primarily the result of AIG using observable pricing information or a third party pricing quote that appropriately reflects the fair value of those securities, without the need for adjustment based on AIG's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. Transfers out of Level 3 for CMBS investments were primarily due to increased observations of market transactions and price information for those securities. Certain investment partnerships were transferred out of Level 3 due to these investments no longer being carried at fair value, based on AIG's use of the equity method of accounting consistent with the changes to AIG's ownership and ability to exercise significant influence over the respective investments.

*Transfers of Level 3 Liabilities*

During the three-month period ended March 31, 2011, there were no significant transfers into or out of Level 3 liabilities.

AIG uses various hedging techniques to manage risks associated with certain positions, including those classified within Level 3. Such techniques may include the purchase or sale of financial instruments that are classified within Level 1 and/or Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities classified within Level 3 presented in the table above do not reflect the related realized or unrealized gains (losses) on hedging instruments that are classified within Level 1 and/or Level 2.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**Investments in certain entities carried at fair value using net asset value per share**

The following table includes information related to AIG's investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring or non-recurring basis, AIG uses the net asset value per share as a practical expedient to measure fair value.

(in millions)	Investment Category Includes	March 31, 2011		December 31, 2010	
		Fair Value Using Net Asset Value	Unfunded Commitments	Fair Value Using Net Asset Value	Unfunded Commitments
<b>Investment Category</b>					
<i>Private equity funds:</i>					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	\$ 3,315	\$ 1,038	\$ 3,137	\$ 1,151
Non-U.S.	Investments that focus primarily on Asian and European based buyouts, expansion capital, special situations, turnarounds, venture capital, mezzanine and distressed opportunities strategies	189	67	172	67
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company	318	35	325	42
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	240	73	258	67
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies	308	129	373	147
<b>Total private equity funds</b>		<b>4,370</b>	<b>1,342</b>	<b>4,265</b>	<b>1,474</b>
<i>Hedge funds:</i>					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	948	2	1,310	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	825	-	1,038	-
Relative value	Funds that seek to benefit from market inefficiencies and value discrepancies between related investments	95	-	230	-
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	330	10	369	20
Other	Non-U.S. companies, futures and commodities, macro and multi-strategy and industry-focused strategies	766	-	708	-
<b>Total hedge funds</b>		<b>2,964</b>	<b>12</b>	<b>3,655</b>	<b>22</b>
<b>Total</b>		<b>\$ 7,334*</b>	<b>\$ 1,354</b>	<b>\$ 7,920*</b>	<b>\$ 1,496</b>

\* Includes investments of entities classified as held for sale of \$6 million and \$415 million at March 31, 2011 and December 31, 2010, respectively.

At March 31, 2011, private equity fund investments included above are not redeemable during the lives of the funds and have expected remaining lives that extend in some cases more than 10 years. At that date, 37 percent of the total above had expected remaining lives of less than three years, 53 percent between three and seven years and 10 percent between seven and 10 years. Expected lives are based upon legal maturity, which can be extended at the fund manager's discretion, typically in one-year increments.

At March 31, 2011, hedge fund investments included above are redeemable monthly (14 percent), quarterly (51 percent), semi-annually (5 percent) and annually (30 percent), with redemption notices ranging from 1 day to 180 days. More than 83 percent require redemption notices of less than 90 days. Investments representing approximately 57 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions were put in place in 2008 and do not have stated end dates. The remaining restrictions, which have pre-defined end dates, are generally expected to be lifted by the end of 2012. The partial restrictions relate to certain hedge funds that hold

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

at least one investment that the fund manager deems to be illiquid. In order to treat investors fairly and to accommodate subsequent subscription and redemption requests, the fund manager isolates these illiquid assets from the rest of the fund until the assets become liquid.

**Fair Value Measurements on a Non-Recurring Basis**

AIG also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, life settlement contracts, flight equipment primarily under operating leases, collateral securing foreclosed loans and real estate and other fixed assets, goodwill and other intangible assets. AIG uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

- *Cost and Equity-Method Investments:* When AIG determines that the carrying value of these assets may not be recoverable, AIG records the assets at fair value with the loss recognized in earnings. In such cases, AIG measures the fair value of these assets using the techniques discussed above in Valuation Methodologies — Direct Private Equity Investments — Other Invested Assets and Valuation Methodologies — Hedge Funds, Private Equity Funds and Other Investment Partnerships — Other Invested Assets.
- *Life Settlement Contracts:* AIG measures the fair value of individual life settlement contracts (which are included in Other invested assets) whenever the carrying value plus the undiscounted future costs that are expected to be incurred to keep the life settlement contract in force exceed the expected proceeds from the contract. In those situations, the fair value is determined on a discounted cash flow basis, incorporating current life expectancy assumptions. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life settlement contract and AIG's estimate of the risk margin an investor in the contracts would require.
- *Flight Equipment Primarily Under Operating Leases:* When AIG determines that the carrying value of its commercial aircraft may not be recoverable, AIG records the aircraft at fair value with the loss recognized in earnings. AIG measures the fair value of its commercial aircraft using an income approach based on the present value of all cash flows from existing contractual and projected lease payments (based on historical experience and current expectations regarding market participants), including net contingent rentals where appropriate, for the period extending to the end of the aircraft's economic life in its highest and best use configuration, plus its disposition value based on expectations of a market participant.
- *Collateral Securing Foreclosed Loans and Real Estate and Other Fixed Assets:* When AIG takes collateral in connection with foreclosed loans, AIG generally bases its estimate of fair value on the price that would be received in a current transaction to sell the asset by itself, by reference to observable transactions for similar assets.
- *Goodwill:* AIG tests goodwill for impairment annually or more frequently whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. When AIG determines that goodwill may be impaired, AIG uses techniques including market-based earning multiples of peer companies, discounted expected future cash flows, appraisals, or, in the case of reporting units being considered for sale, third-party indications of fair value of the reporting unit, if available, to determine the amount of any impairment.
- *Long-Lived Assets:* AIG tests its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. AIG measures the fair value of long-lived assets based on an in-use premise that considers the same factors used to estimate the fair value of its real estate and other fixed assets under an in-use premise.
- *Businesses Held for Sale:* When AIG determines that a business qualifies as held for sale and AIG's carrying amount is greater than the expected sale price less cost to sell, AIG records an impairment loss for the difference.

See Notes 2(d), (f), (g) and (h) to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for additional information about how AIG tests various asset classes for impairment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents assets (excluding discontinued operations) measured at fair value on a non-recurring basis on which impairment charges were recorded, and the related impairment charges:

(in millions)	Assets at Fair Value				Impairment Charges	
	Non-Recurring Basis				Three Months Ended March 31,	
	Level 1	Level 2	Level 3	Total	2011	2010
<b>March 31, 2011</b>						
Investment real estate	\$ -	\$ -	\$ 628	\$ 628	\$ 12	\$ 284
Other investments	-	3	2,078	2,081	106	52
Aircraft	-	-	122	122	114	347
Other assets	-	-	-	-	-	7
<b>Total</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ 2,828</b>	<b>\$ 2,831</b>	<b>\$ 232</b>	<b>\$ 690</b>
<b>December 31, 2010</b>						
Investment real estate	\$ -	\$ -	\$ 1,588	\$ 1,588		
Other investments	-	4	2,388	2,392		
Aircraft	-	-	4,224	4,224		
Other assets	-	-	2	2		
<b>Total</b>	<b>\$ -</b>	<b>\$ 4</b>	<b>\$ 8,202</b>	<b>\$ 8,206</b>		

**Fair Value Option**

Under the fair value option, AIG may elect to measure at fair value financial assets and financial liabilities that are not otherwise required to be carried at fair value. Subsequent changes in fair value for designated items are reported in earnings.

The following table presents the gains or losses recorded related to the eligible instruments for which AIG elected the fair value option:

(in millions)	Gain (Loss) Three Months Ended March 31,	
	2011	2010
<b>Assets:</b>		
Mortgage and other loans receivable	\$ (5)	\$ 40
Trading securities	902	1,437
Trading – Maiden Lane II	251	160
Trading – Maiden Lane III	744	751
Retained interest in AIA	1,062	-
Other invested assets	2	(10)
Short-term investments	14	(4)
<b>Liabilities:</b>		
Policyholder contract deposits	-	44
Debt	17	(485)
Other liabilities	(112)	34
<b>Total gain*</b>	<b>\$ 2,875</b>	<b>\$ 1,967</b>

\* Excludes discontinued operations gains or losses on instruments that are required to be carried at fair value. For instruments required to be carried at fair value, AIG recognized gains of \$1.0 billion and losses of \$8 million for the three months ended March 31, 2011 and 2010, respectively, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets for which the fair value option was not elected. Included in these amounts were unrealized market valuation gains of \$323 million and \$119 million for the three months ended March 31, 2011 and 2010, respectively, related to Capital Markets super senior credit default swap portfolio.

Interest income and expense and dividend income on assets and liabilities elected under the fair value option are recognized and classified in the Consolidated Statement of Income (Loss) depending on the nature of the instrument and related market conventions. For Direct Investment business-related activity, interest, dividend

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

income and interest expense are included in Other income. Otherwise, interest and dividend income are included in Net investment income in the Consolidated Statement of Income (Loss). Gains and losses on AIG's Maiden Lane interests are recorded in Net investment income. See Note 2(a) to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for additional information about AIG's policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

During the three-month periods ended March 31, 2011 and 2010, AIG recognized losses of \$11 million and \$378 million, respectively, attributable to the observable effect of changes in credit spreads on AIG's own liabilities for which the fair value option was elected. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, AIG's observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

**The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term borrowings for which the fair value option was elected:**

(in millions)	March 31, 2011			December 31, 2010		
	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
<b>Assets:</b>						
Mortgage and other loans receivable	\$ 138	\$ 187	\$ (49)	\$ 143	\$ 203	\$ (60)
<b>Liabilities:</b>						
Long-term debt	\$ 10,259	\$ 8,655	\$ 1,604	\$ 10,778	\$ 8,977	\$ 1,801

At March 31, 2011 and December 31, 2010, there were no significant mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due and in non-accrual status.

**Fair Value Information about Financial Instruments Not Measured at Fair Value**

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts and lease contracts) is discussed below:

- *Mortgage and other loans receivable:* Fair values of loans on real estate and collateral loans were estimated for disclosure purposes using discounted cash flow calculations based upon discount rates that AIG believes market participants would use in determining the price that they would pay for such assets. For certain loans, AIG's current incremental lending rates for similar type loans is used as the discount rate, as it is believed that this rate approximates the rates that market participants would use. The fair values of policy loans were not estimated as AIG believes it would have to expend excessive costs for the benefits derived.
- *Other Invested Assets:* The majority of Other invested assets that are not measured at fair value represent investments in hedge funds, private equity funds and other investment partnerships for which AIG uses the equity method of accounting. The carrying value of AIG's investment in these funds is measured based on AIG's share of the funds' reported net asset value.
- *Cash and short-term investments:* The carrying values of these assets approximate fair values because of the relatively short period of time between origination and expected realization.
- *Policyholder contract deposits associated with investment-type contracts:* Fair values for policyholder contract deposits associated with investment-type contracts not accounted for at fair value were estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. Where no similar contracts are being offered, the discount rate is the appropriate tenor swap rate (if available) or current risk-free interest rate consistent with the currency in which the cash flows are denominated.
- *Long-term debt:* Fair values of these obligations were determined for disclosure purposes by reference to quoted market prices, where available and appropriate, or discounted cash flow calculations based upon AIG's current market-observable implicit-credit-spread rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents the carrying value and estimated fair value of AIG's financial instruments not measured at fair value:

<i>(in millions)</i>	March 31, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets:</b>				
Mortgage and other loans receivable	\$ 19,553	\$ 19,956	\$ 20,094	\$ 20,285
Other invested assets*	19,819	19,448	19,472	18,864
Short-term investments	21,196	21,196	19,878	19,878
Cash	1,801	1,801	1,558	1,558
<b>Liabilities:</b>				
Policyholder contract deposits associated with investment-type contracts	103,691	113,360	102,585	112,710
Long-term debt (including Federal Reserve Bank of New York credit facility)	70,562	71,059	94,318	93,745

\* Excludes aircraft asset investments held by non-Financial Services subsidiaries.

**7. Investments**
**Securities Available for Sale**

The following table presents the amortized cost or cost and fair value of AIG's available for sale securities:

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI <sup>(a)</sup>
<b>March 31, 2011</b>					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 6,822	\$ 153	\$ (83)	\$ 6,892	\$ -
Obligations of states, municipalities and political subdivisions	42,676	1,545	(390)	43,831	(31)
Non-U.S. governments	15,821	486	(91)	16,216	-
Corporate debt	123,810	8,563	(1,147)	131,226	13
Mortgage-backed, asset-backed and collateralized:					
RMBS	26,087	874	(1,016)	25,945	(251)
CMBS	7,755	408	(606)	7,557	92
CDO/ABS	6,618	470	(440)	6,648	117
Total mortgage-backed, asset-backed and collateralized	40,460	1,752	(2,062)	40,150	(42)
<b>Total bonds available for sale<sup>(b)</sup></b>	<b>229,589</b>	<b>12,499</b>	<b>(3,773)</b>	<b>238,315</b>	<b>(60)</b>
Equity securities available for sale:					
Common stock	1,722	1,910	(28)	3,604	-
Preferred stock	93	29	-	122	-
Mutual funds	118	30	(1)	147	-
<b>Total equity securities available for sale</b>	<b>1,933</b>	<b>1,969</b>	<b>(29)</b>	<b>3,873</b>	<b>-</b>
<b>Total<sup>(c)</sup></b>	<b>\$ 231,522</b>	<b>\$ 14,468</b>	<b>\$ (3,802)</b>	<b>\$ 242,188</b>	<b>\$ (60)</b>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than- Temporary Impairments in AOCI <sup>(a)</sup>
December 31, 2010					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 7,239	\$ 184	\$ (73)	\$ 7,350	\$ -
Obligations of states, municipalities and political subdivisions	45,297	1,725	(402)	46,620	2
Non-U.S. governments	14,780	639	(75)	15,344	(28)
Corporate debt	118,729	8,827	(1,198)	126,358	99
Mortgage-backed, asset-backed and collateralized:					
RMBS	20,661	700	(1,553)	19,808	(648)
CMBS	7,320	240	(1,149)	6,411	(218)
CDO/ABS	6,643	402	(634)	6,411	32
Total mortgage-backed, asset-backed and collateralized	34,624	1,342	(3,336)	32,630	(834)
<b>Total bonds available for sale<sup>(b)</sup></b>	<b>220,669</b>	<b>12,717</b>	<b>(5,084)</b>	<b>228,302</b>	<b>(761)</b>
Equity securities available for sale:					
Common stock	1,820	1,931	(52)	3,699	-
Preferred stock	400	88	(1)	487	-
Mutual funds	351	46	(2)	395	-
<b>Total equity securities available for sale</b>	<b>2,571</b>	<b>2,065</b>	<b>(55)</b>	<b>4,581</b>	<b>-</b>
<b>Total<sup>(c)</sup></b>	<b>\$ 223,240</b>	<b>\$ 14,782</b>	<b>\$ (5,139)</b>	<b>\$ 232,883</b>	<b>\$ (761)</b>

(a) Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive loss. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(b) At March 31, 2011 and 2010, bonds available for sale held by AIG that were below investment grade or not rated totaled \$16.2 billion and \$18.6 billion, respectively.

(c) Excludes \$43.7 billion and \$80.5 billion of available for sale securities at fair value from businesses held for sale at March 31, 2011 and December 31, 2010, respectively. See Note 4 herein.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**Unrealized losses on Securities Available for Sale**

The following table summarizes the fair value and gross unrealized losses on AIG's available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

(in millions)	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>March 31, 2011*</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 2,753	\$ 83	\$ -	\$ -	\$ 2,753	\$ 83
Obligations of states, municipalities and political subdivisions	8,842	284	615	106	9,457	390
Non-U.S. governments	3,514	79	220	12	3,734	91
Corporate debt	22,148	650	6,340	497	28,488	1,147
RMBS	6,868	116	5,334	900	12,202	1,016
CMBS	1,292	97	2,260	509	3,552	606
CDO/ABS	831	41	2,401	399	3,232	440
Total bonds available for sale	46,248	1,350	17,170	2,423	63,418	3,773
Equity securities available for sale:						
Common stock	309	28	-	-	309	28
Preferred stock	8	-	-	-	8	-
Mutual funds	4	1	-	-	4	1
Total equity securities available for sale	321	29	-	-	321	29
<b>Total</b>	<b>\$ 46,569</b>	<b>\$ 1,379</b>	<b>\$ 17,170</b>	<b>\$ 2,423</b>	<b>\$ 63,739</b>	<b>\$ 3,802</b>
<b>December 31, 2010*</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 2,142	\$ 73	\$ -	\$ -	\$ 2,142	\$ 73
Obligations of states, municipalities and political subdivisions	9,300	296	646	106	9,946	402
Non-U.S. governments	1,427	34	335	41	1,762	75
Corporate debt	18,246	579	7,343	619	25,589	1,198
RMBS	4,461	105	6,178	1,448	10,639	1,553
CMBS	462	19	3,014	1,130	3,476	1,149
CDO/ABS	996	48	2,603	586	3,599	634
Total bonds available for sale	37,034	1,154	20,119	3,930	57,153	5,084
Equity securities available for sale:						
Common stock	576	52	-	-	576	52
Preferred stock	11	1	-	-	11	1
Mutual funds	65	2	-	-	65	2
Total equity securities available for sale	652	55	-	-	652	55
<b>Total</b>	<b>\$ 37,686</b>	<b>\$ 1,209</b>	<b>\$ 20,119</b>	<b>\$ 3,930</b>	<b>\$ 57,805</b>	<b>\$ 5,139</b>

\* Excludes fixed maturity and equity securities of businesses held for sale. See Note 4 herein.

At March 31, 2011, AIG held 7,121 and 111 of individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,278 of individual securities were in a continuous unrealized loss position for longer than 12 months. AIG did not recognize in earnings the unrealized losses on these fixed

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

maturity securities at March 31, 2011, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

**Contractual Maturities of Securities Available for Sale**

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

March 31, 2011 (in millions)	Total Fixed Maturity Available for Sale Securities		Fixed Maturity Securities in a Loss Position	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 8,865	\$ 8,959	\$ 1,177	\$ 1,163
Due after one year through five years	51,671	53,983	12,377	12,122
Due after five years through ten years	60,868	63,733	13,575	13,104
Due after ten years	67,725	71,490	19,014	18,043
Mortgage-backed, asset-backed and collateralized	40,460	40,150	21,048	18,986
<b>Total</b>	<b>\$ 229,589</b>	<b>\$ 238,315</b>	<b>\$ 67,191</b>	<b>\$ 63,418</b>

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The following table presents the gross realized gains and gross realized losses from sales or redemptions of AIG's available for sale securities:

Three Months Ended March 31, (in millions)	2011		2010	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturities	\$ 188	\$ 55	\$ 381	\$ 42
Equity securities	105	2	205	7
<b>Total</b>	<b>\$ 293</b>	<b>\$ 57</b>	<b>\$ 586</b>	<b>\$ 49</b>

For the three-month period ended March 31, 2011, the aggregate fair value of available for sale securities sold was \$11.5 billion, which resulted in net realized capital gains of \$236 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**Trading Securities**

The following table presents the fair value of AIG's trading securities:

(in millions)	March 31, 2011		December 31, 2010	
	Fair Value	Percent of Total	Fair Value	Percent of Total
<b>Fixed Maturities:</b>				
U.S. government and government sponsored entities	\$ 6,713	24%	\$ 6,902	21%
Non-U.S. governments	171	1	125	1
Corporate debt	1,013	4	912	3
State, territories and political subdivisions	295	1	316	1
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,778	6	1,928	6
CMBS	2,138	8	2,078	6
CDO/ABS and other collateralized	6,616	24	6,331	19
Total mortgage-backed, asset-backed and collateralized	10,532	38	10,337	31
ML II	1,530	5	1,279	4
ML III	7,055	26	6,311	19
Total fixed maturities	27,309	99	26,182	80
<b>Equity securities:</b>				
MetLife	-	-	6,494	20
All other	163	1	158	-
Total equity securities	163	1	6,652	20
Total	\$ 27,472	100%	\$ 32,834	100%

**Evaluating Investments for Other-Than-Temporary Impairments**

For a discussion of AIG's policy for evaluating investments for other-than-temporary impairments, see pages 276-279 of Note 7 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K.

**Credit Impairments**

The following table presents a rollforward of the credit impairments recognized in earnings for available for sale fixed maturity securities held by AIG<sup>(a)</sup>:

Three Months Ended March 31, (in millions)	2011	2010
Balance, beginning of year	\$ 6,786	\$ 7,803
Increases due to:		
Credit impairments on new securities subject to impairment losses	52	137
Additional credit impairments on previously impaired securities	150	468
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(170)	(387)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	-	(2)
Accretion on securities previously impaired due to credit <sup>(b)</sup>	(100)	(95)
Hybrid securities with embedded credit derivatives reclassified to Bond trading securities	(179)	-
Other <sup>(c)</sup>	1	(651)
Balance, end of period	\$ 6,540	\$ 7,273

(a) Includes structured, corporate, municipal and sovereign fixed maturity securities.

(b) Represents accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities as well as the accretion due to the passage of time.

(c) In 2010, primarily consists of activity associated with held for sale entities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**8. Lending Activities**

The following table presents the composition of Mortgage and other loans receivable:

<i>(in millions)</i>	March 31, 2011	December 31, 2010
Commercial mortgages	\$ 13,432	\$ 13,571
Residential mortgages*	8	9
Life insurance policy loans	3,100	3,133
Commercial loans, other loans and notes receivable	3,994	4,402
Total mortgage and other loans receivable	20,534	21,115
Allowance for losses	(843)	(878)
Mortgage and other loans receivable, net	\$ 19,691	\$ 20,237

\* Primarily consists of foreign mortgage loans.

Commercial mortgages primarily represent lending for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (26 percent and 11 percent, respectively, at March 31, 2011). Over 98 percent and 97 percent of the commercial mortgages were current as to payments of principal and interest at March 31, 2011 and December 31, 2010, respectively.

The following table presents the credit quality indicators for the U.S. commercial mortgage loans:

March 31, 2011 <i>(dollars in millions)</i>	Number of Loans	Class							Total	Percent of Total
		Apartments	Offices	Retail	Industrial	Hotel	Others			
<b>Credit Quality Indicator:</b>										
In good standing	1,017	\$ 1,672	\$ 4,678	\$ 2,190	\$ 2,007	\$ 925	\$ 1,397	\$ 12,869	96%	
Restructured <sup>(a)</sup>	11	49	183	-	4	-	47	283	2	
90 days or less delinquent	2	-	4	9	-	-	-	13	-	
>90 days delinquent or in process of foreclosure	17	11	101	10	5	27	77	231	2	
Total <sup>(b)</sup>	1,047	\$ 1,732	\$ 4,966	\$ 2,209	\$ 2,016	\$ 952	\$ 1,521	\$ 13,396	100%	
Valuation allowance		\$ 71	\$ 132	\$ 52	\$ 53	\$ 31	\$ 61	\$ 400	3%	

(a) Performing under restructured terms, which may have included extended maturity dates and revised interest rates.

(b) Does not reflect valuation allowances.

**Methodology used to estimate the allowance for credit losses**

For commercial mortgage loans, impaired value is based on the fair value of underlying collateral which is determined based on the expected net future cash flows of the collateral, less estimated costs to sell. An allowance is typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance amounts are established for incurred but not specifically identified impairments, based on the analysis of internal risk ratings and current loan values. Internal risk ratings are assigned based on the consideration of risk factors including debt service coverage, loan-to-value ratio or the ratio of the loan balance to the estimated value of the property, property occupancy, profile of the borrower and of the major property tenants, economic trends in the market where the property is located, and condition of the property. These factors and the resulting risk ratings also provide a basis for determining the level of monitoring performed at both the individual loan and the portfolio level. When all or a portion of a commercial mortgage loan is deemed uncollectible, the uncollectible portion of the carrying value of the loan is charged off against the allowance.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

AIG may restructure the terms of commercial real estate, mortgage and other loans receivable. Restructuring may involve extending the maturity of a loan or otherwise changing the interest rate or other terms of a loan. When the restructuring is related to financial difficulties of the borrower and the new terms are not consistent with current market terms, AIG considers the loan to be, and accounts for it as, a troubled debt restructuring.

A significant majority of commercial mortgage loans in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for AIG to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

The following table presents a rollforward of the changes in the allowance for losses on Mortgage and other loans receivable:

Three Months Ended March 31, (in millions)	2011			2010		
	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	\$ 470	\$ 408	\$ 878	\$ 432	\$ 2,012	\$ 2,444
Loans charged off	(29)	(5)	(34)	(121)	(35)	(156)
Recoveries of loans previously charged off	33	-	33	-	8	8
Net charge-offs	4	(5)	(1)	(121)	(27)	(148)
Provision for loan losses	(21)	18	(3)	121	(2)	119
Other	(31)	-	(31)	(1)	103	102
Reclassified to Assets of businesses held for sale	-	-	-	(48)	(38)	(86)
Allowance, end of period	\$ 422*	\$ 421	\$ 843	\$ 383	\$ 2,048	\$ 2,431

\* Of the total, \$125 million relates to individually assessed credit losses on \$660 million of commercial mortgage loans. Allowance includes \$22 million for non-U.S. commercial mortgage loans.

**9. Variable Interest Entities**

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights and do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but is based on other criteria discussed below.

While AIG enters into various arrangements with VIEs in the normal course of business, AIG's involvement with VIEs is primarily via its insurance companies as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs. In all instances, AIG consolidates the VIE when it determines it is the primary beneficiary. This analysis includes a review of the VIE's capital structure, contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and AIG's involvements with the entity. AIG also evaluates the design of the VIE and the related risks the entity was designed to expose the variable interest holders to in evaluating consolidation.

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other variable interest entities, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of AIG's decision-making ability and its ability to influence activities that significantly affect the economic performance of the VIE.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**Exposure to Loss**

AIG's total off-balance sheet exposure associated with VIEs, primarily consisting of financial guarantees and commitments to real estate and investment funds, was \$0.4 billion and \$1.0 billion at March 31, 2011 and December 31, 2010, respectively.

The following table presents AIG's total assets, total liabilities and off-balance sheet exposure associated with its variable interests in consolidated VIEs:

(in billions)	VIE Assets*		VIE Liabilities		Off-Balance Sheet Exposure	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
AIA/ALICO SPVs	\$ 15.3	\$ 48.6	\$ 0.6	\$ 0.9	\$ -	\$ -
Real estate and investment funds	2.5	3.8	0.9	1.2	0.1	0.1
Commercial paper conduit	0.5	0.5	0.2	0.2	-	-
Affordable housing partnerships	2.8	2.9	0.4	0.4	-	-
Other	4.6	4.7	2.1	2.1	-	-
VIEs of businesses held for sale	-	0.4	-	-	-	-
<b>Total</b>	<b>\$ 25.7</b>	<b>\$ 60.9</b>	<b>\$ 4.2</b>	<b>\$ 4.8</b>	<b>\$ 0.1</b>	<b>\$ 0.1</b>

\* Each of the VIE's assets can be used only to settle specific obligations of that VIE.

AIG calculates its maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where AIG has also provided credit protection to the VIE with the VIE as the referenced obligation and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by AIG generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except in limited circumstances when AIG has provided a guarantee to the VIE's interest holders.

The following table presents total assets of unconsolidated VIEs in which AIG holds a variable interest, as well as AIG's maximum exposure to loss associated with these VIEs:

(in billions)	Total VIE Assets	Maximum Exposure to Loss		
		On-Balance Sheet	Off-Balance Sheet	Total
<b>March 31, 2011</b>				
Real estate and investment funds	\$ 18.0	\$ 2.5	\$ 0.3	\$ 2.8
Affordable housing partnerships	0.6	0.6	-	0.6
Maiden Lane Interests	41.1	8.6	-	8.6
Other	1.7	0.1	-	0.1
VIEs of businesses held for sale	0.6	0.6	-	0.6
<b>Total</b>	<b>\$ 62.0</b>	<b>\$ 12.4</b>	<b>\$ 0.3</b>	<b>\$ 12.7</b>
<b>December 31, 2010</b>				
Real estate and investment funds	\$ 18.5	\$ 2.5	\$ 0.3	\$ 2.8
Affordable housing partnerships	0.6	0.6	-	0.6
Maiden Lane Interests	40.1	7.6	-	7.6
Other	1.6	0.1	0.5	0.6
VIEs of businesses held for sale	2.0	0.4	0.1	0.5
<b>Total</b>	<b>\$ 62.8</b>	<b>\$ 11.2</b>	<b>\$ 0.9</b>	<b>\$ 12.1</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Balance Sheet Classification**

AIG's interests in the assets and liabilities of consolidated and unconsolidated VIEs were classified in the Consolidated Balance Sheet as follows:

<i>(in billions)</i>	Consolidated VIEs		Unconsolidated VIEs	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
<b>Assets:</b>				
Available for sale securities	\$ 0.3	\$ 3.3	\$ -	\$ -
Trading securities	1.7	8.1	8.7	7.7
Mortgage and other loans receivable	0.4	0.7	-	-
Other invested assets	18.7	18.3	3.1	3.1
Other asset accounts	4.6	30.1	-	0.1
Assets held for sale	-	0.4	0.6	0.3
<b>Total</b>	<b>\$ 25.7</b>	<b>\$ 60.9</b>	<b>\$ 12.4</b>	<b>\$ 11.2</b>
<b>Liabilities:</b>				
Other long-term debt	\$ 2.2	\$ 2.6	\$ -	\$ -
Other liability accounts	2.0	2.2	-	-
<b>Total</b>	<b>\$ 4.2</b>	<b>\$ 4.8</b>	<b>\$ -</b>	<b>\$ -</b>

See Notes 6, 7 and 11 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for additional information on RMBS, CMBS, and other asset-backed securities.

**10. Derivatives and Hedge Accounting**

AIG uses derivatives and other financial instruments as part of its financial risk management programs and as part of its investment operations. AIGFP had also transacted in derivatives as a dealer and had acted as an intermediary between the relevant AIG subsidiary and the counterparty. In a number of situations, AIG has replaced AIGFP with AIG Markets, Inc. (AIG Markets) for purposes of acting as an intermediary between the AIG subsidiary and the third-party counterparty as part of the wind-down of AIGFP's portfolios.

Derivatives are financial arrangements among two or more parties with returns linked to or "derived" from some underlying equity, debt, commodity, or other asset, liability, or foreign exchange rate or other index or the occurrence of a specified payment event. Derivatives, with the exception of bifurcated embedded derivatives, are reflected in the Consolidated Balance Sheet in Derivative assets, at fair value and Derivative liabilities, at fair value. A bifurcated embedded derivative is recorded at fair value whereas the corresponding host contract is recorded on an amortized cost basis. A bifurcated embedded derivative is presented with the host contract in the Consolidated Balance Sheet.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the notional amounts and fair values of AIG's derivative instruments:

(in millions)	March 31, 2011				December 31, 2010			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>
<b>Derivatives designated as hedging instruments:</b>								
Interest rate contracts <sup>(c)</sup>	\$ 1,271	\$ 237	\$ 583	\$ 47	\$ 1,471	\$ 156	\$ 626	\$ 56
<b>Derivatives not designated as hedging instruments:</b>								
Interest rate contracts <sup>(c)</sup>	114,443	9,828	85,282	6,650	150,966	14,048	118,783	9,657
Foreign exchange contracts	2,187	133	2,989	244	2,495	203	4,105	338
Equity contracts	4,661	307	1,347	303	5,002	358	1,559	329
Commodity contracts	932	65	762	46	944	92	768	67
Credit contracts	2,042	386	59,334	3,807	2,046	379	62,715	4,180
Other contracts	26,695	906	16,939	649	27,333	1,075	16,297	753
<b>Total derivatives not designated as hedging instruments</b>	<b>150,960</b>	<b>11,625</b>	<b>166,653</b>	<b>11,699</b>	<b>188,786</b>	<b>16,155</b>	<b>204,227</b>	<b>15,324</b>
<b>Total derivatives</b>	<b>\$ 152,231</b>	<b>\$ 11,862</b>	<b>\$ 167,236</b>	<b>\$ 11,746</b>	<b>\$ 190,257</b>	<b>\$ 16,311</b>	<b>\$ 204,853</b>	<b>\$ 15,380</b>

(a) Notional amount represents a standard of measurement of the volume of derivatives business of AIG. Notional amount is generally not a quantification of market risk or credit risk and is not recorded in the Consolidated Balance Sheet. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps and certain credit contracts. For credit contracts, notional amounts are net of all underlying subordination.

(b) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(c) Includes cross currency swaps.

The following table presents the fair values of derivative assets and liabilities in the Consolidated Balance Sheet:

(in millions)	March 31, 2011				December 31, 2010			
	Derivative Assets		Derivative Liabilities <sup>(a)</sup>		Derivative Assets		Derivative Liabilities <sup>(b)</sup>	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Capital Markets derivatives	\$ 130,093	\$ 8,394	\$ 137,346	\$ 9,333	\$ 168,033	\$ 12,268	\$ 173,226	\$ 12,379
All other derivatives	22,138	3,468	29,890	2,413	22,224	4,043	31,627	3,001
<b>Total derivatives, gross</b>	<b>\$ 152,231</b>	<b>11,862</b>	<b>\$ 167,236</b>	<b>11,746</b>	<b>\$ 190,257</b>	<b>16,311</b>	<b>\$ 204,853</b>	<b>15,380</b>
Counterparty netting <sup>(c)</sup>		(3,841)		(3,841)		(6,298)		(6,298)
Cash collateral <sup>(d)</sup>		(3,024)		(2,036)		(4,096)		(2,902)
<b>Total derivatives, net</b>		<b>4,997</b>		<b>5,869</b>		<b>5,917</b>		<b>6,180</b>
Less: Bifurcated embedded derivatives		-		369		-		445
<b>Total derivatives on balance sheet</b>		<b>\$ 4,997</b>		<b>\$ 5,500</b>		<b>\$ 5,917</b>		<b>\$ 5,735</b>

(a) Included in All other derivatives are bifurcated embedded derivatives, which are recorded in Policyholder contract deposits.

(b) Included in All other derivatives are bifurcated embedded derivatives, which are recorded in Policyholder contract deposits, Bonds available for sale, at fair value, and Common and preferred stock, at fair value.

(c) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(d) Represents cash collateral posted and received.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Hedge Accounting**

AIG designated certain derivatives entered into by AIGFP and AIG Markets with third parties as either fair value or cash flow hedges of certain debt issued by AIG Parent and ILFC. The fair value hedges included (i) interest rate swaps that were designated as hedges of the change in the fair value of fixed rate debt attributable to changes in the benchmark interest rate and (ii) foreign currency swaps designated as hedges of the change in fair value of foreign currency denominated debt attributable to changes in foreign exchange rates and in certain cases also the benchmark interest rate. With respect to the cash flow hedges, (i) interest rate swaps were designated as hedges of the changes in cash flows on floating rate debt attributable to changes in the benchmark interest rate, and (ii) foreign currency swaps were designated as hedges of changes in cash flows on foreign currency denominated debt attributable to changes in the benchmark interest rate and foreign exchange rates.

AIG assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Regression analysis is employed to assess the effectiveness of these hedges both on a prospective and retrospective basis. AIG does not utilize the shortcut method to assess hedge effectiveness. For net investment hedges, a qualitative methodology is utilized to assess hedge effectiveness.

AIG uses debt instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with AIG's non-U.S. dollar functional currency foreign subsidiaries. AIG assesses the hedge effectiveness and measures the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. AIG records the change in the carrying amount of these investments in the foreign currency translation adjustment within Accumulated other comprehensive income (loss). Simultaneously, the effective portion of the hedge of this exposure is also recorded in foreign currency translation adjustment and the ineffective portion, if any, is recorded in earnings. If (i) the notional amount of the hedging debt instrument matches the designated portion of the net investment and (ii) the hedging debt instrument is denominated in the same currency as the functional currency of the hedged net investment, no ineffectiveness is recorded in earnings. For the three months ended March 31, 2011 and 2010, AIG recognized gains (losses) of \$(24) million and \$48 million, respectively, included in Foreign currency translation adjustment in Accumulated other comprehensive loss related to the net investment hedge relationships.

**The following table presents the effect of AIG's derivative instruments in fair value hedging relationships in the Consolidated Statement of Income (Loss):**

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
Interest rate contracts <sup>(a)(b)</sup> :		
Loss recognized in earnings on derivatives	\$ (7)	\$ (16)
Gain recognized in earnings on hedged items <sup>(c)</sup>	48	44
Gain (loss) recognized in earnings for ineffective portion and amount excluded from effectiveness testing	(1)	9

(a) Gains and losses recognized in earnings on derivatives for the effective portion and hedged items are recorded in Other income. Gains and losses recognized in earnings on derivatives for the ineffective portion and amounts excluded from effectiveness testing are recorded in Net realized capital losses and Other income, respectively.

(b) Includes \$(1) million and \$4 million for the three-month periods ended March 31, 2011 and 2010, respectively, related to the ineffective portion and \$5 million for the three-month period ended March 31, 2010, for amounts excluded from effectiveness testing.

(c) Includes \$42 million and \$19 million for the three-month periods ended March 31, 2011 and 2010, respectively, representing the amortization of debt basis adjustment following the discontinuation of hedge accounting on certain positions.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents the effect of AIG's derivative instruments in cash flow hedging relationships in the Consolidated Statement of Income (Loss):

Three Months Ended March 31, (in millions)	2011	2010
<b>Interest rate contracts<sup>(a)</sup>:</b>		
Gain recognized in OCI on derivatives	\$ -	\$ 38
Gain (loss) reclassified from Accumulated OCI into earnings <sup>(b)</sup>	(18)	19
Loss recognized in earnings on derivatives for ineffective portion	-	(6)

(a) Gains and losses reclassified from Accumulated other comprehensive loss are recorded in Other income. Gains or losses recognized in earnings on derivatives for the ineffective portion are recorded in Net realized capital losses.

(b) The effective portion of the change in fair value of a derivative qualifying as a cash flow hedge is recorded in Accumulated other comprehensive income until earnings are affected by the variability of cash flows in the hedged item. At March 31, 2011, \$41 million of the deferred net loss in Accumulated other comprehensive loss is expected to be recognized in earnings during the next 12 months.

**Derivatives Not Designated as Hedging Instruments**

The following table presents the effect of AIG's derivative instruments not designated as hedging instruments in the Consolidated Statement of Income (Loss):

Three Months Ended March 31, (in millions)	Gains (Losses) Recognized in Earnings	
	2011	2010
<b>By Derivative Type:</b>		
Interest rate contracts <sup>(a)</sup>	\$ (274)	\$ (908)
Foreign exchange contracts	20	272
Equity contracts	(104)	126
Commodity contracts	5	(6)
Credit contracts	347	144
Other contracts <sup>(b)</sup>	(18)	130
<b>Total</b>	<b>\$ (24)</b>	<b>\$ (242)</b>
<b>By Classification:</b>		
Premiums	\$ 25	\$ 19
Net investment income	2	4
Net realized capital gains (losses)	32	(514)
Other income	(83)	249
<b>Total</b>	<b>\$ (24)</b>	<b>\$ (242)</b>

(a) Includes cross currency swaps.

(b) Includes embedded derivative gains of \$107 million and \$147 million, respectively, for the three months ended March 31, 2011 and March 31, 2010.

**Capital Markets Derivatives**

AIGFP enters into derivative transactions to mitigate market risk in its exposures (interest rates, currencies, commodities, credit and equities) arising from its transactions. In most cases, AIGFP did not hedge its exposures related to the credit default swaps it had written. As a dealer, AIGFP structured and entered into derivative transactions to meet the needs of counterparties who may have been seeking to hedge certain aspects of such counterparties' operations or obtain a desired financial exposure.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

Capital Markets derivative transactions involving interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying notional amounts. AIGFP typically became a principal in the exchange of interest payments between the parties and, therefore, is exposed to counterparty credit risk and may be exposed to loss, if counterparties default. Currency, commodity and equity swaps are similar to interest rate swaps but involve the exchange of specific currencies or cash flows based on the underlying commodity, equity securities or indices. Also, they may involve the exchange of notional amounts at the beginning and end of the transaction. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

AIGFP follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with investment securities by entering into offsetting positions, on a security-by-security basis within its derivatives portfolio, thereby offsetting a significant portion of the unrealized appreciation and depreciation. In addition, to reduce its credit risk, AIGFP has entered into credit derivative transactions with respect to \$334 million of securities to economically hedge its credit risk.

The timing and the amount of cash flows relating to Capital Markets foreign exchange forwards and exchange traded futures and options contracts are determined by each of the respective contractual agreements.

Futures and forward contracts are contracts that obligate the holder to sell or purchase foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. As a writer of options, AIGFP generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index by entering into offsetting transactions with third-party market participants. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts.

**Capital Markets Super Senior Credit Default Swaps**

AIGFP entered into credit default swap transactions with the intention of earning revenue on credit exposure. In the majority of Capital Markets credit default swap transactions, AIGFP sold credit protection on a designated portfolio of loans or debt securities. Generally, AIGFP provides such credit protection on a "second loss" basis, meaning that AIGFP would incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceeds a specified threshold amount or level of "first losses."

Typically, the credit risk associated with a designated portfolio of loans or debt securities has been tranching into different layers of risk, which are then analyzed and rated by the credit rating agencies. At origination, there is usually an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers ranging generally from a BBB-rated layer to one or more AAA-rated layers. A significant majority of AIGFP transactions that were rated by rating agencies had risk layers or tranches rated AAA at origination and are immediately junior to the threshold level above which AIGFP's payment obligation would generally arise. In transactions that were not rated, AIGFP applied equivalent risk criteria for setting the threshold level for its payment obligations. Therefore, the risk layer assumed by AIGFP with respect to the designated portfolio of loans or debt securities in these transactions is often called the "super senior" risk layer, defined as a layer of credit risk senior to one or more risk layers rated AAA by the credit rating agencies, or, if the transaction is not rated, structured to be the equivalent thereto.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents the net notional amount, fair value of derivative (asset) liability and unrealized market valuation gain (loss) of the Capital Markets super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions, by asset class:

(in millions)	Net Notional Amount		Fair Value of Derivative (Asset) Liability at		Unrealized Market Valuation Gain (Loss)	
	March 31,	December 31,	March 31,	December 31,	Three Months Ended March 31,	
	2011 <sup>(a)</sup>	2010 <sup>(a)</sup>	2011 <sup>(b)(c)</sup>	2010 <sup>(b)(c)</sup>	2011 <sup>(c)</sup>	2010 <sup>(c)</sup>
<b>Regulatory Capital:</b>						
Corporate loans	\$ 3,395	\$ 5,193	\$ -	\$ -	\$ -	\$ -
Prime residential mortgages	30,514	31,613	(196)	(190)	6	33
Other	1,211	1,263	8	17	9	6
<b>Total</b>	<b>35,120</b>	<b>38,069</b>	<b>(188)</b>	<b>(173)</b>	<b>15</b>	<b>39</b>
<b>Arbitrage:</b>						
Multi-sector CDOs <sup>(d)</sup>	6,158	6,689	3,076	3,484	273	158
Corporate debt/CLOs <sup>(e)</sup>	12,674	12,269	134	171	37	(7)
<b>Total</b>	<b>18,832</b>	<b>18,958</b>	<b>3,210</b>	<b>3,655</b>	<b>310</b>	<b>151</b>
Mezzanine tranches <sup>(f)</sup>	2,705	2,823	200	198	(2)	(71)
<b>Total</b>	<b>\$ 56,657</b>	<b>\$ 59,850</b>	<b>\$ 3,222</b>	<b>\$ 3,680</b>	<b>\$ 323</b>	<b>\$ 119</b>

(a) Net notional amounts presented are net of all structural subordination below the covered tranches.

(b) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(c) Includes credit valuation adjustment losses of \$6 million and \$113 million in the three-month periods ended March 31, 2011 and 2010, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.

(d) During 2011, AIGFP liquidated one multi-sector super senior CDS transaction with a net notional amount of \$188 million. The primary underlying collateral components, which consisted of individual ABS CDS transactions, were sold in an auction to counterparties, including AIGFP, at their approximate fair value at the time of the liquidation. AIGFP was the winning bidder on approximately \$107 million of individual ABS CDS transactions, which are reported in written single name credit default swaps as of March 31, 2011. As a result, a \$121 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. During 2011, AIGFP also paid \$14 million to its counterparties with respect to multi-sector CDOs. Upon payment, a \$14 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also include \$5.2 billion and \$5.5 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2011 and December 31, 2010, respectively.

(e) Corporate debt/CLOs include \$1.4 billion and \$1.3 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at March 31, 2011 and December 31, 2010, respectively.

(f) Net of offsetting purchased CDS of \$1.5 billion and \$1.4 billion in net notional amount at March 31, 2011 and December 31, 2010, respectively.

All outstanding CDS transactions for regulatory capital purposes and the majority of the arbitrage portfolio have cash-settled structures in respect of a basket of reference obligations, where AIGFP's payment obligations, other than for posting collateral, may be triggered by payment shortfalls, bankruptcy and certain other events such as write-downs of the value of underlying assets. For the remainder of the CDS transactions in respect of the arbitrage portfolio, AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

The expected weighted average maturity of AIGFP's super senior credit derivative portfolios as of March 31, 2011 was 1.5 years for the regulatory capital corporate loan portfolio, 3.6 years for the regulatory capital prime residential mortgage portfolio, 4.5 years for the regulatory capital other portfolio, 5.9 years for the multi-sector CDO arbitrage portfolio and 4.8 years for the corporate debt/CLO portfolio.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)***Regulatory Capital Portfolio*

The regulatory capital portfolio represents derivatives written for financial institutions in Europe, for the purpose of providing regulatory capital relief rather than for arbitrage purposes. In exchange for a periodic fee, the counterparties receive credit protection with respect to a portfolio of diversified loans they own, thus reducing their minimum capital requirements. These CDS transactions were structured with early termination rights for counterparties allowing them to terminate these transactions at no cost to AIGFP at a certain period of time or upon a regulatory event such as certain changes to regulatory capital standards. During the three-month period ended March 31, 2011, \$1.4 billion in net notional amount was terminated or matured at no cost to AIGFP.

The regulatory capital relief CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with a regulatory capital relief transaction only if realized credit losses in respect of the underlying portfolio exceed AIGFP's attachment point.

All of the regulatory capital transactions directly or indirectly reference tranching pools of large numbers of whole loans that were originated by the financial institution (or its affiliates) receiving the credit protection, rather than structured securities containing loans originated by other third parties. In the vast majority of transactions, the loans are intended to be retained by the originating financial institution and in all cases the originating financial institution is the purchaser of the CDS, either directly or through an intermediary.

The super senior tranches of these CDS transactions continue to be supported by high levels of subordination, which, in most instances, have increased since origination. The weighted average subordination supporting the prime residential mortgage and corporate loan referenced portfolios at March 31, 2011 was 15.53 percent and 20.87 percent, respectively. The highest realized losses to date in any single residential mortgage and corporate loan pool were 2.68 percent and 0.52 percent, respectively. Each of the corporate loan transactions consists of several hundred secured and unsecured loans diversified by industry and, in some instances, by country, and have per-issuer concentration limits. Both types of transactions generally allow some substitution and replenishment of loans, subject to defined constraints, as older loans mature or are prepaid. These replenishment rights generally expire within the first few years of the trade, after which the proceeds of any prepaid or maturing loans are applied first to the super senior tranche (sequentially), thereby increasing the relative level of subordination supporting the balance of AIGFP's super senior CDS exposure.

The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the capital regulations promulgated by the Basel Committee on Banking Supervision known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties from these transactions and thus may impact the period of time that such counterparties are expected to hold the positions. In prior years, it had been expected that financial institution counterparties would complete a transition from Basel I to an intermediate standard known as Basel II, which could have had similar effects on the benefits of these transactions, at the end of 2009. Basel III has now superseded Basel II, but the details of its implementation by the various European Central Banking districts have not been finalized. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame. AIGFP continues to reassess the expected maturity of this portfolio. As of March 31, 2011, AIGFP estimated that the weighted average expected maturity of the portfolio was 3.40 years.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)***Arbitrage Portfolio*

The arbitrage portfolio includes arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

The outstanding multi-sector CDO portfolio at March 31, 2011 was written on CDO transactions (including synthetic CDOs) that generally held a concentration of RMBS, CMBS and inner CDO securities. At March 31, 2011, approximately \$2.9 billion net notional amount (fair value liability of \$1.6 billion) of this portfolio was written on super senior multi-sector CDOs that contain some level of sub-prime RMBS collateral, with a concentration in the 2005 and earlier vintages of sub-prime RMBS. AIGFP's portfolio also included both high grade and mezzanine CDOs.

The majority of multi-sector CDO CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with such transactions only if realized credit losses in respect of the underlying portfolio exceed AIGFP's attachment point. As of March 31, 2011, only one transaction, with a net notional amount of \$381 million, has breached its attachment point. AIGFP has paid a total of \$83 million, of which \$14 million was paid in the first quarter of 2011. In the remainder of the portfolio, AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

Included in the multi-sector CDO portfolio are maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term 2a-7 eligible investments under the Investment Company Act of 1940 (2a-7 Puts). Holders of securities are required, in certain circumstances, to tender their securities to the issuer at par. If an issuer's remarketing agent is unable to resell the securities so tendered, AIGFP must purchase the securities at par so long as the security has not experienced a payment default or certain bankruptcy events with respect to the issuer of such security have not occurred. During 2010, AIGFP terminated all 2a-7 Puts in respect of notes held by holders other than AIGFP and its affiliates. AIGFP is not a party to any commitments to issue any additional 2a-7 Puts.

The corporate arbitrage portfolio consists principally of CDS transactions written on portfolios of senior unsecured corporate obligations that were generally rated investment grade at inception of the CDS. These CDS transactions require cash settlement. Also, included in this portfolio are CDS transactions with a net notional amount of \$1.4 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

Certain of the super senior credit default swaps provide the counterparties with an additional termination right if AIG's rating level falls to BBB or Baa2. At that level, counterparties to the CDS transactions with a net notional amount of \$1.5 billion at March 31, 2011 have the right to terminate the transactions early. If counterparties exercise this right, the contracts provide for the counterparties to be compensated for the cost to replace the transactions, or an amount reasonably determined in good faith to estimate the losses the counterparties would incur as a result of the termination of the transactions.

Because of long-term maturities of the CDS in the arbitrage portfolio, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the super senior credit default swap portfolio.

*Collateral*

Most of AIGFP's super senior credit default swaps are subject to collateral posting provisions, which typically are governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements (Master Agreements) and related Credit Support Annexes (CSA). These provisions differ among counterparties and asset classes. AIGFP has received collateral calls from counterparties in respect of certain super senior credit default swaps, of which a large majority relate to multi-sector CDOs. To a lesser extent, AIGFP has also received

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

collateral calls in respect of certain super senior credit default swaps entered into by counterparties for regulatory capital relief purposes and in respect of corporate arbitrage.

The amount of future collateral posting requirements is a function of AIG's credit ratings, the rating of the reference obligations and the market value of the relevant reference obligations, with the latter being the most significant factor. While a high level of correlation exists between the amount of collateral posted and the valuation of these contracts in respect of the arbitrage portfolio, a similar relationship does not exist with respect to the regulatory capital portfolio given the nature of how the amount of collateral for these transactions is determined. Given the lack of observable data and the uncertainty regarding the potential effects on market prices of measures undertaken by the federal government to address the credit market disruption, AIGFP is unable to reasonably estimate the amounts of collateral that it may be required to post in the future.

At March 31, 2011 and December 31, 2010, the amounts of collateral postings with respect to AIGFP's super senior credit default swap portfolio (prior to offsets for other transactions) were \$3.4 billion and \$3.8 billion, respectively.

***AIGFP Written Single Name Credit Default Swaps***

AIGFP has also entered into credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits, with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long-short strategy allowing AIGFP to earn the net spread between CDS it wrote and ones it purchased. At March 31, 2011, the net notional amount of these written CDS contracts was \$494 million. AIGFP has hedged these exposures by purchasing offsetting CDS contracts of \$199 million in net notional amount. The net unhedged position of \$295 million represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 16.68 years. At March 31, 2011, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was \$77 million.

Upon a triggering event (e.g., a default) with respect to the underlying credit, AIGFP would normally have the option to settle the position through an auction process (cash settlement) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit obligor (physical settlement).

AIGFP wrote these written CDS contracts under Master Agreements. The majority of these Master Agreements include CSA, which provide for collateral postings at various ratings and threshold levels. At March 31, 2011, AIGFP had posted \$97 million of collateral under these contracts.

***All Other Derivatives***

AIG's non-Capital Markets businesses also use derivatives and other instruments as part of their financial risk management. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed income securities, outstanding medium- and long-term notes as well as other interest rate sensitive assets and liabilities. Foreign exchange derivatives (principally foreign exchange forwards and options) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures, and foreign currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. The derivatives are effective economic hedges of the exposures that they are meant to offset.

In addition to hedging activities, AIG also enters into derivative instruments with respect to investment operations, which include, among other things, credit default swaps and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds.

***Matched Investment Program Written Credit Default Swaps***

AIG's Matched Investment Program (MIP) operations, which are reported in AIG's Other operations category as part of Asset Management — Direct Investment business, are currently in run-off. Through the MIP, AIG has



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

entered into CDS contracts as a writer of protection, with the intention of earning spread income on credit exposure in an unfunded form. The portfolio of CDS contracts were single-name exposures and, at inception, were predominantly high-grade corporate credits.

These contracts were written through AIG Markets, which then transacted directly with unaffiliated third parties under ISDA agreements. As of March 31, 2011, the notional amount of written CDS contracts was \$1.4 billion with an average credit rating of BBB+. At that date, the average remaining maturity of the written CDS contracts was 1.3 years and the fair value of the derivative liability (which represents the carrying value) of the MIP's written CDS contracts was \$18.8 million.

The majority of the ISDA agreements include CSA provisions, which provide for collateral postings at various ratings and threshold levels. At March 31, 2011, \$1.3 million of collateral was posted for CDS contracts related to the MIP. The notional amount represents the maximum exposure to loss on the written CDS contracts. However, because of the average investment grade rating and expected default recovery rates, actual losses are expected to be less.

Upon a triggering event (e.g., a default) with respect to the underlying credit, AIG Markets would normally have the option to settle the position on behalf of the MIP through an auction process (cash settlement) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit (physical settlement).

***Credit Risk-Related Contingent Features***

AIG transacts in derivative transactions directly with unaffiliated third parties under ISDA agreements. Many of the ISDA agreements also include CSA provisions, which provide for collateral postings at various ratings and threshold levels. In addition, AIG attempts to reduce credit risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis.

The aggregate fair value of AIG's derivative instruments, including those of AIGFP, that contain credit risk-related contingent features that were in a net liability position at March 31, 2011, was approximately \$4.5 billion. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2011, was \$4.8 billion.

AIG estimates that at March 31, 2011, based on AIG's outstanding financial derivative transactions, including those of AIGFP at that date, a one-notch downgrade of AIG's long-term senior debt ratings to BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit the counterparties to elect early termination of contracts, resulting in a negligible amount of corresponding collateral postings and termination payments; a one-notch downgrade to Baa2 by Moody's Investors' Services, Inc. (Moody's) and an additional one-notch downgrade to BBB by S&P would result in approximately \$300 million in additional collateral postings and termination payments and a further one-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately \$200 million in additional collateral postings and termination payments. Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of March 31, 2011. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Management's estimates are also based on the assumption that counterparties will terminate based on their net exposure to AIG. The actual termination payments could significantly differ from management's estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Hybrid Securities with Embedded Credit Derivatives**

AIG invests in hybrid securities (such as credit-linked notes). Upon the issuance of credit-linked notes, the cash received by the issuer is generally used to invest in highly rated securities in addition to entering into a derivative contract that exchanges the return on its highly-rated securities for the return on a separate portfolio of assets. The investments owned by the issuer serve as collateral for the derivative instrument written by the issuer. The return on the separate portfolio received by the issuer is used to pay the return owed on the credit-linked notes. These hybrid securities expose AIG to risks similar to the risks in RMBS, CMBS, CDOs and ABS, but such risk is derived from the separate portfolio rather than from direct mortgage or loan investments owned by the issuer. As with other investments in RMBS, CMBS, CDOs and other ABS, AIG invested in these hybrid securities with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. Similar to AIG's other investments in RMBS, CMBS, CDOs and ABS, AIG's investments in these hybrid securities are exposed to losses only up to the amount of AIG's initial investment in the hybrid security, as losses on the derivative contract will be paid via the collateral held by the entity that issues the hybrid security. Losses on the embedded derivative contracts may be triggered by events such as bankruptcy, failure to pay or restructuring associated with the obligations referenced by the derivative, and these losses in turn result in the reduction of the principal amount to be repaid to AIG and other investors in the hybrid securities. Other than AIG's initial investment in the hybrid securities, AIG has no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

Effective July 1, 2010, AIG elected to account for its investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in earnings. Through June 30, 2010, these hybrid securities had been accounted for as available for sale securities, and had been subject to other than temporary impairment accounting as applicable.

AIG's investments in these hybrid securities are reported as Bond trading securities in the Consolidated Balance Sheet. The fair value of these hybrid securities was \$155 million at March 31, 2011. These securities have a current par amount of \$561 million and have remaining stated maturity dates that extend to 2056.

**11. Commitments, Contingencies and Guarantees**

In the normal course of business, various commitments and contingent liabilities are entered into by AIG and certain of its subsidiaries. In addition, AIG guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters including those referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or its consolidated results of operations or consolidated cash flows for an individual reporting period.

**(a) Litigation and Investigations**

*Overview.* AIG and its subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. In AIG's insurance operations (including United Guaranty Corporation (UGC)), litigation arising from claims settlement activities is generally considered in the establishment of AIG's liability for unpaid claims and claims adjustment expense. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

Various regulatory and governmental agencies have been reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries into, among other matters, AIG's liquidity, compensation paid to certain employees, payments made to counterparties, and certain

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

business practices and valuations of current and former operating insurance subsidiaries. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

***AIG's Subprime Exposure, Capital Markets Credit Default Swap Portfolio and Related Matters***

AIG, AIGFP and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to AIG's exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to AIG's securities lending program and related disclosure and other matters (Subprime Exposure Issues).

***Consolidated 2008 Securities Litigation.*** Between May 21, 2008 and January 15, 2009, eight purported securities class action complaints were filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York), alleging claims under the Securities Exchange Act of 1934 (the Exchange Act) or claims under the Securities Act of 1933 (the Securities Act). On March 20, 2009, the Court consolidated all eight of the purported securities class actions as *In re American International Group, Inc. 2008 Securities Litigation* (the Consolidated 2008 Securities Litigation).

On May 19, 2009, lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG's stock. The alleged false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and on September 27, 2010 the Court denied the motions to dismiss.

On November 24, 2010 and December 10, 2010, AIG and all other defendants filed answers to the consolidated complaint denying the material allegations therein and asserting their defenses.

On April 1, 2011, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a motion to certify a class of plaintiffs.

As of May 2, 2011, plaintiffs have not specified an amount of alleged damages, discovery has only recently commenced and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

***ERISA Actions — Southern District of New York.*** Between June 25, 2008, and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. On March 19, 2009, the Court consolidated these eight actions as *In re American International Group, Inc. ERISA Litigation II*. On June 26, 2009, lead plaintiffs' counsel filed a consolidated amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA), on behalf of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG's common stock. In the consolidated amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

matters, including the Subprime Exposure Issues. On September 18, 2009, defendants filed motions to dismiss the consolidated amended complaint.

On March 31, 2011, the Court granted defendants' motions to dismiss with respect to one plan at issue, and denied defendants' motions to dismiss with respect to the other two plans at issue.

As of May 2, 2011, plaintiffs have not specified an amount of alleged damages, discovery has not commenced, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

*Consolidated 2007 Derivative Litigation.* On November 20, 2007 and August 6, 2008, purported shareholder derivative actions were filed in the Southern District of New York naming as defendants directors and officers of AIG and its subsidiaries and asserting claims on behalf of nominal defendant AIG. The actions have been consolidated as *In re American International Group, Inc. 2007 Derivative Litigation* (the Consolidated 2007 Derivative Litigation). On June 3, 2009, lead plaintiff filed a consolidated amended complaint naming additional directors and officers of AIG and its subsidiaries as defendants. As amended, the factual allegations include the Subprime Exposure Issues and AIG and AIGFP employee retention payments and related compensation issues. The claims asserted on behalf of nominal defendant AIG include breach of fiduciary duty, waste of corporate assets, unjust enrichment, contribution and violations of Sections 10(b) and 20(a) of the Exchange Act. On August 5 and 26, 2009, AIG and defendants filed motions to dismiss the consolidated amended complaint. On December 18, 2009, a separate action, previously commenced in the United States District Court for the Central District of California (Central District of California) and transferred to the Southern District of New York on June 5, 2009, was consolidated into the Consolidated 2007 Derivative Litigation and dismissed without prejudice to the pursuit of the claims in the Consolidated 2007 Derivative Litigation.

On March 30, 2010, the Court dismissed the action due to plaintiff's failure to make a pre-suit demand on AIG's Board of Directors. On March 17, 2011, the United States Court of Appeals for the Second Circuit (the Second Circuit) affirmed the Southern District of New York's dismissal of the Consolidated 2007 Derivative Litigation due to plaintiff's failure to make a pre-suit demand.

*Other Derivative Actions.* Separate purported derivative actions, alleging similar claims as the Consolidated 2007 Derivative Litigation, have been brought asserting claims on behalf of the nominal defendant AIG in various jurisdictions. These actions are described below:

- *Supreme Court of New York, Nassau County.* On February 29, 2008, a purported shareholder derivative complaint was filed in the Supreme Court of Nassau County, naming as defendants certain directors and officers of AIG and its subsidiaries. On March 9, 2009, this action was stayed.
- *Supreme Court of New York, New York County.* On March 20, 2009, a purported shareholder derivative complaint was filed in the Supreme Court of New York County naming as defendants certain directors and officers of AIG and recipients of AIGFP retention payments. The complaint has not been served on any defendant.
- *Delaware Court of Chancery.* On September 17, 2008, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery, naming as defendants certain directors and officers of AIG and its subsidiaries. On July 17, 2009 the case was stayed. On May 4, 2011, the parties filed a stipulation with the court agreeing to lift the stay, and granting plaintiff leave to file an amended complaint.
- *Delaware Court of Chancery.* On January 15, 2009, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery, naming as defendants certain directors of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP. On April 27, 2011, the Court signed a stipulation and dismissed the complaint without prejudice.
- *Superior Court for the State of California, Los Angeles County.* On April 1, 2009 and November 20, 2009, two purported shareholder derivative complaints were filed in the Superior Court for the State of California, Los Angeles County, naming as defendants certain directors and officers of AIG and its subsidiaries. On

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

February 9, 2010, the case filed on November 20, 2009 was stayed. On January 10, 2011, the case filed on April 1, 2009 was voluntarily dismissed.

*Southern District of New York.* On January 4, 2011, Wanda Mimms, a participant in the AIG Incentive Savings Plan (the "Plan"), filed a purported derivative action on behalf of the Plan in the United States District Court for the Southern District of New York against PricewaterhouseCoopers, LLP (PwC) and asserting a claim for professional malpractice in conducting audits of AIG's 2007 financial statements. The complaint, as amended on April 20, 2011, also asserts a claim for breach of fiduciary duty under ERISA against members of the Plan's Retirement Board for failing to pursue a claim for professional malpractice on behalf of the Plan against PwC.

As of May 2, 2011, plaintiff has not specified an amount of alleged damages and no motions to dismiss have been filed by defendants. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

*Canadian Securities Class Action — Ontario Superior Court of Justice.* On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported class action against AIG, AIGFP, certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. If the Court grants the application, a class plaintiff will be permitted to file a statement of claim against defendants. The proposed statement of claim would assert a class period of November 10, 2006 through September 16, 2008 (later amended to March 16, 2006 through September 16, 2008) and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act.

On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in another action with respect to similar issues raised in the action pending against AIG.

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of \$500 million, and punitive damages of \$50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of May 2, 2011, the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim and no discovery has occurred. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

***Other Litigation Related to AIGFP***

On September 30, 2009, Brookfield Asset Management, Inc. and Brysons International, Ltd. (together, Brookfield) filed a complaint against AIG and AIGFP in the Southern District of New York. Brookfield seeks a declaration that a 1990 interest rate swap agreement between Brookfield and AIGFP (guaranteed by AIG) terminated upon the occurrence of certain alleged events that Brookfield contends constituted defaults under the swap agreement's standard "bankruptcy" default provision. Brookfield claims that it is excused from all future payment obligations under the swap agreement on the basis of the purported termination. At March 31, 2011, the estimated present value of expected future cash flows discounted at LIBOR was \$1.3 billion, which represents AIG's maximum contractual loss from the alleged termination of the contract. It is AIG's position that no termination event has occurred and that the swap agreement remains in effect. A determination that a termination event has occurred could result in AIG losing its entitlement to all future payments under the swap agreement and result in a loss to AIG of the full value at which AIG is carrying the swap agreement.

A determination that AIG triggered a "bankruptcy" event of default under the swap agreement could also, depending on the Court's precise holding, affect other AIG or AIGFP agreements that contain the same or similar default provisions. Such a determination could also affect derivative agreements or other contracts between third parties, such as credit default swaps under which AIG is a reference credit, which could affect the trading price of AIG securities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

On December 17, 2009 defendants filed a motion to dismiss. On September 28, 2010, the Court issued a decision granting defendants' motion in part and denying it in part, holding that the complaint: (i) failed to allege that an event of default had occurred based upon defendants' failure to pay or inability to pay debts as they became due; but, (ii) sufficiently alleged that an event of default had occurred based upon other sections of the swap agreement's "bankruptcy" default provision. On January 26, 2011, Brookfield filed an amended complaint that seeks to reassert, on the basis of additional factual allegations, the claims that were dismissed from the initial complaint. On February 9, 2011, AIG filed a motion to dismiss the claim that Brookfield seeks to reassert in its amended complaint.

***Securities Lending Dispute with Transatlantic Holdings Inc.***

On May 24, 2010, Transatlantic Holdings, Inc. (Transatlantic) and two of its subsidiaries, Transatlantic Reinsurance Company and Trans Re Zurich Reinsurance Company Ltd. (collectively, Claimants), commenced an arbitration proceeding before the American Arbitration Association in New York against AIG and two of its subsidiaries (the AIG Respondents). Claimants allege breach of contract, breach of fiduciary duty, and common law fraud in connection with certain securities lending agency agreements between AIG's subsidiaries and Claimants. Claimants allege that AIG and its subsidiaries should be liable for the losses that Claimants purport to have suffered in connection with securities lending and investment activities, and seek damages of \$350 million and other unspecified damages.

On June 29, 2010, AIG brought a petition in the Supreme Court of the State of New York, seeking to enjoin the arbitration on the ground that AIG is not a party to the securities lending agency agreements with Claimants. On July 29, 2010, the parties agreed to resolve that petition by consolidating the arbitration commenced by Claimants with a separate arbitration, commenced by AIG on June 29, 2010, in which AIG is seeking damages of Euro 17.6 million (\$24.9 million at the March 31, 2011 exchange rate) from Transatlantic for breach of a Master Separation Agreement among Transatlantic, AIG and one of its subsidiary companies.

On September 13, 2010, the AIG Respondents submitted an answer to Claimants' claims asserting, among other things, that there was no breach of the securities lending agency agreements, and that Claimants' other allegations including purported breach of fiduciary duty and fraud are not meritorious. Transatlantic submitted an answer denying liability with respect to AIG's claim on September 13, 2010. The arbitration hearing is scheduled for December 2011. As of May 2, 2011, because of the stage of the proceeding, and the wide difference in damages sought by the parties, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from this arbitration.

***Employment Litigation against AIG and AIG Global Real Estate Investment Corporation***

On December 9, 2009, AIG Global Real Estate Investment Corporation's (AIGGRE) former President, Kevin P. Fitzpatrick, several entities he controls, and various other single purpose entities (the SPEs) filed a complaint in the Supreme Court of the State of New York, New York County against AIG and AIGGRE (the Defendants). The case was removed to the Southern District of New York, and an amended complaint was filed on March 8, 2010. The amended complaint asserts that the Defendants violated fiduciary duties to Fitzpatrick and his controlled entities and breached Fitzpatrick's employment agreement and agreements of SPEs that purportedly entitled him to carried interest fees arising out of the sale or disposition of certain real estate. Fitzpatrick has also brought derivative claims on behalf of the SPEs, purporting to allege that the Defendants breached contractual and fiduciary duties in failing to fund the SPEs with various amounts allegedly due under the SPE agreements. Fitzpatrick has also requested injunctive relief, an accounting, and that a receiver be appointed to manage the affairs of the SPEs. He has further alleged that the SPEs are subject to a constructive trust. Fitzpatrick also has alleged a violation of ERISA relating to retirement benefits purportedly due. Fitzpatrick has claimed that he is currently owed damages totaling approximately \$196 million, and that potential future amounts owed to him are approximately \$78 million, for a total of approximately \$274 million. Fitzpatrick further claims unspecified amounts of carried interest on certain additional real estate assets of AIG and its affiliates. He also seeks punitive damages for the alleged breaches of fiduciary duties. Defendants assert that Fitzpatrick has been paid all amounts

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

currently due and owing pursuant to the various agreements through which he seeks recovery. As set forth above, the possible range of loss to AIG is \$0 to \$274 million, although Fitzpatrick claims that he is also entitled to additional unspecified amounts of carried interest and punitive damages.

Defendants filed counterclaims against Fitzpatrick and a motion to dismiss. On September 28, 2010, the Court dismissed the Defendants' counterclaims, and denied Defendants' motion to dismiss. On March 14, 2011, both plaintiffs and defendants filed motions for partial summary judgment.

***ALICO Life International Limited's Italian Internal Fund Suspensions***

Certain policyholders of certain unit-linked funds offered by the Italian branch of ALICO Life International Limited (ALIL), the Irish subsidiary of ALICO, have either commenced or threatened litigation against ALIL's Italian branch as a result of the suspension of withdrawals from and diminution in value of those funds since late 2008, alleging damages for misrepresentation, mis-selling, improper or inadequate disclosures and other related claims against ALIL. Most of the lawsuits remain in the early stages of litigation.

In March 2010, ALIL learned that the public prosecutor in Milan had opened a formal investigation into the actions of employees and former employees of ALIL, as well as employees of ALIL's major distributor, based on a policyholder's complaint. The policyholder's complaint underlying the investigation was withdrawn in November 2010.

On March 16, 2011, ALIL publicly announced a settlement offer to policyholders who were invested in the suspended funds at the time of suspension. Policyholders have until May 27, 2011 to accept the settlement offer. If all eligible policyholders accepted the settlement, ALIL would be required to pay up to Euro 143 million (\$203 million at the March 31, 2011 exchange rate) pursuant to the settlement offer. AIG has an accrual for the estimated net cost of the settlement offer as of March 31, 2011.

Under the terms of the ALICO stock purchase agreement, pursuant to which MetLife acquired ALICO as of November 1, 2010, AIG has agreed to indemnify MetLife and its affiliates in respect of any third party claims and regulatory fines associated with ALIL's suspended funds. Such indemnities, including payments made pursuant to the settlement offer described above, will be paid from the funds held in escrow pursuant to the terms of the ALICO stock purchase agreement.

***False Claims Act Complaint.***

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a First Amended Complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Societe Generale. The amended complaint alleges that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility, the Maiden Lane Interests through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The complaint seeks unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and amended complaints were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal.

As of May 2, 2011, AIG has not yet been served with the complaint, defendants have not had an opportunity to answer or seek dismissal of the action, and, if the case does go forward, the Relators have not specified an amount of alleged damages. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)*****Settlement Agreement with the Starr Parties***

On November 25, 2009, a settlement agreement and memorandum of understanding (the AIG/Greenberg MOU) was entered into by AIG, on the one hand, and AIG's former Chief Executive Officer, Maurice R. Greenberg, AIG's former Chief Financial Officer, Howard I. Smith, C.V. Starr & Company, Inc. (C.V. Starr) and Starr International Company, Inc. (SICO), on the other hand (the Starr Parties). Under the terms of the AIG/Greenberg MOU, the parties have agreed to release each other from all claims, including any claims by Greenberg and Smith against AIG for indemnification of future legal fees and expenses, or settlement costs.

In addition, pursuant to the AIG/Greenberg MOU:

- SICO agreed to undertake to dismiss with prejudice an action it brought against AIG in the Tribuna del Circuito Civil, Panama City, Panama. On February 10, 2010, the parties filed a joint request to dismiss the case. On March 2, 2010, the Court posted its approval of the dismissal of claims and the action was terminated.
- AIG agreed to undertake to dismiss with prejudice its direct claims against Greenberg and Smith in the Delaware 2004/2005 Derivative Litigation. On February 5, 2010, AIG, Greenberg and Smith submitted a stipulation to the Court dismissing AIG's direct claims against Greenberg and Smith.

The Starr Parties had taken the position that the AIG/Greenberg MOU also releases certain of the derivative claims being pursued by the shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation and the New York 2004/2005 Derivative Litigation. AIG had taken the opposite position. This issue as well as any others between the Starr Parties and AIG have been resolved by the settlement among the parties to the derivative actions, reached on August 25, 2010 (see The Delaware 2004/2005 Derivative Litigation herein for a description of the settlement).

***2006 Regulatory Settlements and Related Regulatory Matters***

**2006 Regulatory Settlements.** In February 2006, AIG reached a resolution of claims and matters under investigation with the DOJ, the SEC, the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers' compensation premium taxes and other assessments. These settlements did not, however, resolve investigations by regulators from other states into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately \$1.64 billion, \$225 million of which represented fines and penalties.

In addition to the escrowed funds, \$800 million was deposited into, and subsequently disbursed by, a fund under the supervision of the SEC, to resolve claims asserted against AIG by investors, including the securities class action and shareholder lawsuits described below. Amounts held in escrow totaling approximately \$338 million, including interest thereon (The Workers' Compensation Fund), are included in Other assets at March 31, 2011, and are specifically designated to satisfy liabilities related to workers' compensation premium reporting issues.

Also, as part of the settlements, AIG agreed to retain, for a period of three years which has been extended through June 30, 2011, an independent consultant to conduct a review that included, among other things, the adequacy of AIG's internal control over financial reporting, the policies, procedures and effectiveness of AIG's regulatory, compliance and legal functions and the remediation plan that AIG implemented as a result of its own internal review.

**Other Regulatory Settlements.** AIG's 2006 regulatory settlements with the SEC, DOJ, NYAG and DOI did not resolve investigations by regulators from other states into insurance brokerage practices. AIG entered into



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

agreements effective in early 2008 with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia; the Commonwealths of Massachusetts and Pennsylvania; and the District of Columbia; as well as the Florida Department of Financial Services and the Florida Office of Insurance Regulation, relating to their respective industry-wide investigations into producer compensation and insurance placement practices. The settlements called for total payments of \$26 million by AIG, of which \$4.4 million was paid under previous settlement agreements. During the term of the settlement agreements, which run through early 2018, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. AIG will also continue to cooperate with the industry-wide investigations. On April 7, 2010, it was announced that AIG and the Ohio Attorney General entered into a settlement agreement to resolve the Ohio Attorney General's claim concerning producer compensation and insurance placement practices. AIG paid the Ohio Attorney General \$9 million as part of that settlement.

*NAIC Examination of Workers' Compensation Premium Reporting.* During 2006, the Settlement Review Working Group of the National Association of Insurance Commissioners (NAIC), under the direction of the States of Indiana, Minnesota and Rhode Island, began an investigation into AIG's reporting of workers' compensation premiums. In late 2007, the Settlement Review Working Group recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania, and Rhode Island. All other states (and the District of Columbia) have agreed to participate in the multi-state examination. The examination focused on legacy issues related to AIG's writing and reporting of workers' compensation insurance prior to 1996 and current compliance with legal requirements applicable to such business.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. The regulatory settlement agreement, which has been agreed to by all 50 states and the District of Columbia, includes, among other terms, (i) AIG's payment of \$100 million in regulatory fines and penalties; (ii) AIG's payment of \$46.5 million in outstanding premium taxes; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulations governing the setting of workers' compensation insurance premium rates and the reporting of workers' compensation premiums; and (iv) AIG's agreement to pay up to \$150 million in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. The \$146.5 million in fines, penalties and premium taxes can be funded out of the \$338 million held in the Workers' Compensation Fund to the extent that such monies have not already been used to fund the class action settlement discussed below. The regulatory settlement is contingent upon and will not become effective until, among other events: (i) a final, court-approved settlement is reached in all the lawsuits that comprise the Workers' Compensation Premium Reporting Litigation, discussed below, including the putative class action, except that such settlement need not resolve claims between AIG and the Liberty Mutual Group in order for the regulatory settlement to become effective and (ii) a settlement is reached and consummated between AIG and certain state insurance guaranty funds that may assert claims against AIG for underpayment of guaranty-fund assessments.

AIG has established a reserve equal to the amounts payable under the proposed settlement.

***Litigation Related to the Matters Underlying the 2006 Regulatory Settlements***

AIG and certain present and former directors and officers of AIG have been named in various actions related to the matters underlying the 2006 Regulatory Settlements. These actions are described below.

*The Consolidated 2004 Securities Litigation.* Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as *In re American International Group, Inc. Securities Litigation* (the Consolidated 2004 Securities Litigation). Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The lead plaintiff in the Consolidated 2004 Securities Litigation is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG's publicly traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as Starr, SICO, General Reinsurance Corporation (General Re), and PricewaterhouseCoopers LLP (PwC), among others. The lead plaintiff alleges, among other things, that AIG: (1) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (2) concealed that it used "income smoothing" products and other techniques to inflate its earnings; (3) concealed that it marketed and sold "income smoothing" insurance products to other companies; and (4) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that Greenberg manipulated AIG's stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 20(a) and Section 20A of the Exchange Act.

In October 2009, the lead plaintiff advised the Court that it had entered into a settlement agreement with Greenberg, Smith, Christian M. Milton, Michael J. Castelli, SICO and Starr. At the lead plaintiff's request, the Court has entered an order dismissing all of the lead plaintiff's claims against these defendants "without prejudice" to any party. The settlement agreement between lead plaintiff and these defendants was filed with the Court on January 6, 2011.

On February 22, 2010, the Court issued an opinion granting, in part, lead plaintiffs' motion for class certification. The Court rejected lead plaintiffs' request to include in the class purchasers of certain AIG bonds and declined to certify a class with respect to certain counts of the complaint and dismissed those claims for lack of standing. With respect to the remaining claims under the Exchange Act on behalf of putative class members who had purchased AIG Common Stock, the Court declined to certify a class as to certain defendants other than AIG and rejected lead plaintiffs' claims that class members could establish injury based on disclosures on two of the six dates lead plaintiffs had proposed, but certified a class consisting of all shareholders who purchased or otherwise acquired AIG Common Stock during the class period of October 28, 1999 to April 1, 2005, and who possessed that stock over one or more of the dates October 14, 2004, October 15, 2004, March 17, 2005 or April 1, 2005, as well as persons who held AIG Common Stock in two companies at the time they were acquired by AIG in exchange for AIG Common Stock, and were allegedly damaged thereby. In light of the class certification decision, on March 5, 2010, the Court denied as moot General Re's and lead plaintiffs' motion to certify their proposed settlement, and on March 18, 2010, PwC withdrew its motion to approve its proposed settlement with lead plaintiffs. Lead plaintiffs and AIG each filed petitions requesting permission to file an interlocutory appeal of the class certification decision. AIG, General Re, Richard Napier and Ronald Ferguson each filed opposition briefs to lead plaintiffs' petition.

On May 17, 2010, PwC and lead plaintiffs jointly moved for final approval of their settlement as proposed prior to class certification. On November 30, 2010, the Court approved the settlement between lead plaintiffs and PwC. On December 13, 2010, four shareholders filed a notice of appeal of the final judgment. The appeal is currently pending in the Second Circuit.

On June 23, 2010, General Re and lead plaintiffs jointly moved for preliminary approval of their settlement. On September 10, 2010, the Court issued an opinion denying the motion for preliminary approval and, on September 23, 2010, the Court dismissed the lead plaintiffs' causes of action with respect to General Re. On October 21, 2010, lead plaintiffs filed a notice of appeal of the Court's September 23, 2010 order dismissing the claims against the Gen Re defendants, as well as the March 4, 2010 order refusing to preliminarily approve a settlement with the Gen Re defendants, and the February 22, 2010 class certification order to the extent it denied class certification for the claims against the Gen Re defendants.

On June 28, 2010, the Second Circuit granted AIG's petition seeking permission to file an interlocutory appeal of the class certification decision, and denied the petition by lead plaintiffs. On September 1, 2010, AIG and lead plaintiffs entered into a stipulation to withdraw AIG's interlocutory appeal without prejudice to reinstate the appeal in the future, which has been endorsed by the Second Circuit. On February 4, 2011, AIG and lead

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

plaintiffs entered into a stipulation to extend the time by which the appeal must be reinstated, which has been endorsed by the U.S. Court of Appeals for the Second Circuit.

On July 14, 2010, AIG approved the terms of a settlement (the Settlement) with lead plaintiffs. The Settlement is conditioned on, among other things, court approval and a minimum level of shareholder participation. Under the terms of the Settlement, if consummated, AIG will pay an aggregate of \$725 million, \$175 million of which is to be paid into escrow within ten days of preliminary court approval. AIG's obligation to fund the remainder of the settlement amount is conditioned on its having consummated one or more common stock offerings raising net proceeds of at least \$550 million prior to final court approval (Qualified Offering). AIG has agreed to use best efforts, consistent with the fiduciary duties of AIG's management and Board of Directors, to effect a Qualified Offering, but the decision as to whether market conditions or pending or contemplated corporate transactions make it commercially reasonable to proceed with such an offering will be within AIG's unilateral discretion. In the event that AIG effects a registered secondary offering of common stock on behalf of the Department of the Treasury resulting in the Department of the Treasury receiving proceeds of at least \$550 million, then market access will be deemed to have been demonstrated and AIG shall be deemed to have consummated a Qualified Offering. AIG, in its sole discretion, also may fund the \$550 million from other sources. If AIG does not fund the \$550 million before final court approval of the Settlement, lead plaintiffs may terminate the agreement, elect to acquire freely transferable shares of AIG Common Stock with a market value of \$550 million provided AIG is able to obtain all necessary approvals, or extend the period for AIG to complete a Qualified Offering. As of March 31, 2011, AIG had an accrued liability for the full amount of the Settlement.

On July 20, 2010, at the joint request of AIG and lead plaintiffs, the District Court entered an order staying all deadlines in the case. On November 30, 2010, AIG and lead plaintiffs executed their agreement of settlement and compromise. On November 30, 2010, lead plaintiffs filed a motion for preliminary approval of the settlement with AIG, which is currently pending.

*The New York 2004/2005 Derivative Litigation.* Between October 25, 2004 and July 14, 2005, seven separate derivative actions were filed in the Southern District of New York, five of which were consolidated into a single action (the New York 2004/2005 Derivative Litigation). The complaint in this action contains nearly the same types of allegations made in the Consolidated 2004 Securities Litigation. The named defendants include current and former officers and directors of AIG, as well as Marsh & McLennan Companies, Inc. (Marsh), SICO, Starr, ACE Limited and subsidiaries (Ace), General Re, PwC, and certain employees or officers of these entity defendants. Plaintiffs assert claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, insider selling, auditor breach of contract, auditor professional negligence and disgorgement from Greenberg and Smith of incentive-based compensation and AIG share proceeds under Section 304 of the Sarbanes-Oxley Act, among others. Plaintiffs seek, among other things, compensatory damages, corporate governance reforms, and a voiding of the election of certain AIG directors. AIG's Board of Directors appointed a special committee of independent directors (Special Committee) to review the matters asserted in the operative consolidated derivative complaint. The Court entered an order staying this action pending resolution of the Delaware 2004/2005 Derivative Litigation discussed below. The Court also entered an order that termination of certain named defendants from the Delaware action applies to this action without further order of the Court. On February 26, 2009, the Court dismissed those AIG officer and director defendants against whom the shareholder plaintiffs in the Delaware action had not pursued claims.

Under the AIG/Greenberg MOU, AIG agreed to undertake to dismiss with prejudice its claims against Greenberg and Smith in the New York 2004/2005 Derivative Litigation. The Starr Parties had taken the position that the AIG/Greenberg MOU released the derivative claims being pursued by the shareholder plaintiffs; AIG had taken the opposite position.

This action was resolved by the settlement among the parties to the derivative actions reached on August 25, 2010. See the Delaware 2004/2005 Derivative Litigation for a description of the settlement. By order dated March 11, 2011, the Court dismissed this action with prejudice. On April 13, 2011, the period for filing an appeal expired with no appeals filed. This matter has been concluded.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

*The Delaware 2004/2005 Derivative Litigation.* From October 2004 to April 2005, AIG shareholders filed five derivative complaints in the Delaware Chancery Court. All of these derivative lawsuits were consolidated into a single action as *In re American International Group, Inc. Consolidated Derivative Litigation* (the Delaware 2004/2005 Derivative Litigation). The amended consolidated complaint named 43 defendants (not including nominal defendant AIG) who, as in the New York 2004/2005 Derivative Litigation, were current and former officers and directors of AIG, as well as other entities and certain of their current and former employees and directors. The factual allegations, legal claims and relief sought in this action are similar to those alleged in the New York 2004/2005 Derivative Litigation, except that the claims are only under state law.

In early 2007, the Court approved an agreement that AIG be realigned as plaintiff, and, on June 13, 2007, acting on the direction of the Special Committee, AIG filed an amended complaint against former directors and officers Greenberg and Smith, alleging breach of fiduciary duty and indemnification. Also on June 13, 2007, the Special Committee filed a motion to terminate the litigation as to certain defendants, while taking no action as to others. Defendants Greenberg and Smith filed answers to AIG's complaint and brought third-party complaints against certain current and former AIG directors and officers, PwC and INS Regulatory Insurance Services, Inc. On September 28, 2007, AIG and the shareholder plaintiffs filed a combined amended complaint in which AIG continued to assert claims against defendants Greenberg and Smith and took no position as to the claims asserted by the shareholder plaintiffs in the remainder of the combined amended complaint. In that pleading, the shareholder plaintiffs are no longer pursuing claims against certain AIG officers and directors. On February 12, 2008, the Court granted AIG's motion to stay discovery pending the resolution of claims against AIG in the Consolidated 2004 Securities Litigation.

On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which added claims against former AIG directors and officers Greenberg, Edward Matthews, and Thomas Tizzio for breach of fiduciary duty based on alleged bid-rigging in the municipal derivatives market. On June 13, 2008, certain defendants filed motions to dismiss the shareholder plaintiffs' portions of the complaint. On February 10, 2009, the Court denied the motions to dismiss filed by Greenberg, Matthews, and Tizzio; granted the motion to dismiss filed by PwC without prejudice; and granted the motion to dismiss filed by certain former employees of AIG without prejudice for lack of personal jurisdiction. On March 6, 2009, the Court granted an Order of Dismissal, Notice and Order of Voluntary Dismissal and Stipulation and Order of Dismissal to dismiss those individual defendants who were similarly situated to the individuals dismissed by the Court for lack of personal jurisdiction. On March 12, 2009, Defendant Greenberg filed his verified answer to AIG's complaint; cross-claims against Marsh, ACE, General Re, and Tizzio and a third-party complaint against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. Defendant Smith has also filed his answer to AIG's complaint, which was amended on July 9, 2009 to add cross-claims against Tizzio and third-party claims against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. On June 17, 2009, the Court issued an opinion granting the motions to dismiss filed by General Re, Marsh, ACE, and Susan Rivera. On July 13, 2009 and July 17, 2009, the Court entered final judgments in favor of PwC, General Re, Marsh, ACE, and Susan Rivera. Shortly thereafter, the shareholder plaintiffs filed separate appeals: one addressing the dismissal of PwC, and the other addressing the dismissals of ACE, General Re, and Marsh. The Delaware Supreme Court certified the question to the New York Court of Appeals as to whether, under certain circumstances, New York's *in pari delicto* doctrine would bar a derivative claim against a corporation's accountants for negligently failing to uncover a fraud by the corporation. On October 21, 2010 the New York Court of Appeals affirmatively answered the certified question.

On November 10, 2009, the Delaware Supreme Court granted AIG's motion to consolidate the appeal of its dismissal from the *In re Marsh Derivative Litigation* (see below, "*Derivative Action — Delaware Chancery Court (Marsh)*") with the appeal of the dismissals of Marsh, General Re and ACE from the Delaware 2004/2005 Derivative Litigation, and subsequently issued an order notifying the parties that the appeal would be heard by the Court *en banc*. On December 29, 2010, the Delaware Supreme Court affirmed the Chancery Court's decision dismissing claims against AIG, General Re, Marsh, and ACE.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

On February 5, 2010, a stipulation of dismissal was filed with the Court dismissing AIG's direct claims against Greenberg and Smith, pursuant to the AIG/Greenberg MOU. On February 10, 2010, the shareholder plaintiffs informed the Court that they did not object to the dismissal of AIG's direct claims against Greenberg and Smith, but stated that the dismissal did not apply to their claim against Greenberg and Smith, and further stated that they intended to seek attorneys' fees for having initiated the claims against Greenberg and Smith. The Starr Parties had taken the position that the AIG/Greenberg MOU releases the derivative claims being pursued by the shareholder plaintiffs; AIG had taken the opposite position.

On August 25, 2010, AIG and the parties to the various derivative litigations relating to the matters underlying the 2006 Regulatory Settlements entered into a settlement agreement to resolve the New York 2004/2005 Derivative Litigation, the 2004/2005 Delaware Derivative Litigation and the Supreme Court of New York Derivative Action as well as AIG's outstanding disputes with the Starr Parties (the Derivative Actions Settlement). The settlement was conditioned on a separate agreement with AIG's directors and officers liability (D&O) insurers, under which the insurers would pay \$150 million, \$90 million of which would fund the settlement of the derivative claims and which, after the deduction of expenses and plaintiffs' counsel's attorneys' fees, would be paid to AIG. The remaining \$60 million would go to Greenberg and Smith in satisfaction of any obligation that AIG or the insurers had with respect to their legal fees. On November 11, 2010, the insurers and the parties fully executed the insurance settlement agreement.

On January 25, 2011 the Delaware Court approved the Derivative Actions Settlement and dismissed the suit with prejudice. The action has concluded. Pursuant to the terms of the Derivative Action Settlement agreement, after dismissal of the Delaware 2004/2005 Derivative Litigation, the plaintiffs in the New York 2004/2005 Derivative Litigation and the Supreme Court of New York Derivative Action sought dismissal of those actions. By April 14, 2011, all derivative actions relating to the matters underlying the 2006 Regulatory Settlements had been dismissed with prejudice and no appeals taken. On April 14, 2011, AIG received the proceeds from the Derivative Actions Settlement, totaling approximately \$66 million which will be recorded as income in the second quarter of 2011. Any outstanding issues between AIG and the Starr Parties relating to the AIG/Greenberg MOU have been mooted. In addition, pursuant to the insurance settlement agreement, an interpleader action filed by Great American Insurance Company related to competing claims on its D&O coverage policy was dismissed pursuant to stipulation, which was so-ordered by the court on April 20, 2011.

*Derivative Action — Supreme Court of New York.* On February 11, 2009, shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation filed a derivative complaint in the Supreme Court of New York against the individual defendants who moved to dismiss the complaint in the Delaware 2004/2005 Derivative Litigation on personal jurisdiction grounds. The defendants include current and former officers and employees of AIG, Marsh, and General Re; AIG is named as a nominal defendant. The complaint in this action contains similar allegations to those made in the Delaware 2004/2005 Derivative Litigation described above. Defendants filed motions to dismiss the complaint on May 1, 2009. The shareholder plaintiffs have reached an agreement staying discovery as well as any motions to dismiss the General Re and Marsh defendants pending final adjudication of any claims against those parties in the Delaware 2004/2005 Derivative Litigation. The individual defendants have also filed motions to dismiss. Pursuant to the stipulation of settlement executed by the parties (see *The New York 2004/2005 Derivative Litigation herein*), the Court denied all pending motions to dismiss as moot.

This action was also resolved by the settlement among the parties to the derivative actions, reached on August 25, 2010. See *The Delaware 2004/2005 Derivative Litigation* for a description of the settlement. By order dated February 10, 2011, the Court dismissed this action with prejudice. On March 24, 2011, the period for filing an appeal expired with no appeals filed. This matter has concluded.

*The Multi-District Litigation.* Commencing in 2004, policyholders brought multiple federal antitrust and RICO class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in one or more broad conspiracies to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

litigation and transferred to the United States District Court for the District of New Jersey (District of New Jersey) for coordinated pretrial proceedings. The consolidated actions have proceeded in that Court in two parallel actions, In re Insurance Brokerage Antitrust Litigation (the Commercial Complaint) and In re Employee Benefits Insurance Brokerage Antitrust Litigation (the Employee Benefits Complaint, and, together with the Commercial Complaint, the Multi-District Litigation).

The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs' behalf with a number of insurance companies named as defendants, including AIG subsidiaries. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges that defendants engaged in a number of overlapping "broker-centered" conspiracies to allocate customers through the payment of contingent commissions to brokers and through purported "bid-rigging" practices. It also alleges that the insurer and broker defendants participated in a "global" conspiracy not to disclose to policyholders the payment of contingent commissions. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys' fees as a result of the alleged RICO and Sherman Antitrust Act violations.

The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from January 1, 1998 to December 31, 2004. The Employee Benefits Complaint names AIG, as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, track the allegations of customer allocation through steering and bid-rigging made in the Commercial Complaint.

The District Court, in connection with the Commercial and Employee Benefits Complaints, granted (without leave to amend) defendants' motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The Court declined to exercise supplemental jurisdiction over the state law claims in the Commercial Complaint and therefore dismissed it in its entirety. Plaintiffs appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit (the Third Circuit) on October 10, 2007. On January 14, 2008, the District Court granted summary judgment to defendants on plaintiffs' ERISA claims in the Employee Benefits Complaint. On February 12, 2008, plaintiffs filed a notice of appeal to the Third Circuit with respect to the dismissal of the antitrust and RICO claims in the Employee Benefits Complaint.

On August 16, 2010, the Third Circuit affirmed the dismissal of the Employee Benefits Complaint in its entirety, affirmed in part and vacated in part the District Court's dismissal of the Commercial Complaint, and remanded the case for further proceedings consistent with the opinion. Specifically, the Third Circuit affirmed the dismissal of plaintiffs' broader antitrust and RICO claims, but the Court reversed the District Court's dismissal of alleged "Marsh-centered" antitrust and RICO claims based on allegations of bid-rigging involving excess casualty insurance. The Court remanded these Marsh-centered claims to the District Court for consideration as to whether plaintiffs had adequately pleaded them. Because the Third Circuit vacated in part the judgment dismissing the federal claims in the Commercial Complaint, the Third Circuit also vacated the District Court's dismissal of the state-law claims in the Commercial Complaint.

On October 1, 2010, defendants named in the Commercial Complaint filed motions to dismiss the remaining remanded claims in the District of New Jersey. That motion is currently pending. On March 18, 2011, AIG and certain other defendants announced that they had entered into a memorandum of understanding (MOU) with class plaintiffs to settle the claims asserted against them in the Commercial Complaint. Under the terms of the MOU, it is anticipated that AIG will pay approximately \$7 million of a total aggregate settlement amount of approximately \$37 million. The settlement is conditioned on, among other things, the execution of a formal

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

settlement agreement, court approval, and a minimum level of participation in the settlement fund by eligible purchasers of excess casualty insurance policies. Plaintiffs' attorneys' fees and litigation expenses, and the aggregate costs of notice and claims administration in connection with the settlement, would be paid from the settlement fund. As of March 31, 2011, AIG has an accrued liability for its portion of the settlement.

A number of complaints making allegations similar to those in the Multi-District Litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the Multi-District Litigation. These additional consolidated actions are still pending in the District of New Jersey, but are currently stayed. In one of those consolidated actions, *Palm Tree Computer Systems, Inc. v. Ace USA*, which is brought by two named plaintiffs on behalf of a proposed class of insurance purchasers, the plaintiffs allege specifically with respect to their claim for breach of fiduciary duty against the insurer defendants that neither named plaintiff nor any member of the proposed class suffered damages "exceeding \$74,999 each." Plaintiffs do not specify damages as to other claims against the insurer defendants in the complaint. The plaintiffs in *Palm Tree* have not yet sought certification of the class, as that case has been stayed by the District Court in New Jersey. Because discovery has not been completed and the District Court has not determined if a class action is appropriate or the size or scope of any class, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Palm Tree* litigation. In another consolidated action, *The Heritage Corp. of South Florida v. National Union Fire Ins. Co.*, an individual plaintiff alleges damages "in excess of \$75,000." Because discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Heritage Corp.* litigation. For the remaining consolidated actions, as of May 2, 2011, plaintiffs have not specified an amount of alleged damages arising from these actions. AIG is therefore unable to reasonably estimate the possible loss or range of losses, if any, arising from these matters.

The AIG defendants have also sought to have state court actions making similar allegations stayed pending resolution of the Multi-District Litigation proceeding. These efforts have generally been successful, although four cases have proceeded; one each in Florida and New Jersey state courts that have settled, and one each in Texas and Kansas state courts have proceeded (although discovery is stayed in both actions). In the Texas action, plaintiff filed its Fourth Amended Petition on July 13, 2009 and on August 14, 2009, defendants filed renewed special exceptions. Plaintiff in the Texas action alleges a "maximum" of \$125 million in total damages (after trebling). Because the Court has not rendered a decision on defendants' renewed special exceptions and discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the Texas action. In the Kansas action, defendants are appealing to the Kansas Supreme Court the trial court's denial of defendants' motion to dismiss on statute of limitations grounds. Briefing on the appeal was completed in December 2010. In the Kansas action, the plaintiff alleges damages in an amount "greater than \$75,000" for each of the three claims directed against AIG in the complaint. Because the Kansas Supreme Court has not decided the appeal of the trial court's denial of defendants' motion to dismiss, and discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, from the Kansas action.

*Workers' Compensation Premium Reporting.* On May 24, 2007, the National Council on Compensation Insurance (NCCI), on behalf of the participating members of the National Workers' Compensation Reinsurance Pool (the NWCRP), filed a lawsuit in the United States District Court for the Northern District of Illinois (Northern District of Illinois) against AIG with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint alleged claims for violations of RICO, breach of contract, fraud and related state law claims arising out of AIG's alleged underpayment of these assessments between 1970 and the present and sought damages purportedly in excess of \$1 billion. On August 6, 2007, the Court denied AIG's motion seeking to dismiss or stay the complaint or, in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the Court denied AIG's motion to dismiss the complaint.

On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against NCCI (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

companies that are members of the NWCRP alleging violations of RICO, as well as claims for conspiracy, fraud, and other state law claims. The counterclaim-defendants and third-party defendants filed motions to dismiss on June 9, 2008. On January 26, 2009, AIG filed a motion to dismiss all claims in the complaint for lack of subject-matter jurisdiction. On February 23, 2009, the Court issued a decision and order sustaining AIG's counterclaims and sustaining, in part, AIG's third-party claims. The Court also dismissed certain of AIG's third-party claims without prejudice.

On April 13, 2009, third-party defendant Liberty Mutual filed third-party counterclaims against AIG, certain of its subsidiaries, and former AIG executives. On August 23, 2009, the Court granted AIG's motion to dismiss the NCCI complaint for lack of standing. On September 25, 2009, AIG filed its First Amended Complaint, reasserting its RICO claims against certain insurance companies that both underreported their workers' compensation premium and served on the NWCRP Board, and repleading its fraud and other state law claims. Defendants filed a motion to dismiss the First Amended Complaint on October 30, 2009. On October 8, 2009, Liberty Mutual filed an amended counterclaim against AIG. The amended counterclaim is substantially similar to the complaint initially filed by NCCI, but also seeks damages related to non-NWCRP states, guaranty funds, and special assessments, in addition to asserting claims for other violations of state law. The amended counterclaim also removes as defendants the former AIG executives. On October 30, 2009, AIG filed a motion to dismiss the Liberty amended counterclaim.

On April 1, 2009, Safeco Insurance Company of America and Ohio Casualty Insurance Company filed a complaint in the Northern District of Illinois, on behalf of a purported class of all NWCRP participant members, against AIG and certain of its subsidiaries with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint was styled as an "alternative complaint," should the Court grant AIG's motion to dismiss the NCCI lawsuit for lack of subject-matter jurisdiction. The allegations in the class action complaint are substantially similar to those filed by the NWCRP, but the complaint names former AIG executives as defendants and asserts a RICO claim against those executives. On August 28, 2009, the class action plaintiffs filed an amended complaint, removing the AIG executives as defendants. On October 30, 2009, AIG filed a motion to dismiss the amended complaint. On July 16, 2010, Safeco Insurance Company and Ohio Casualty Insurance Company filed their motion for class certification, which AIG opposed on October 8, 2010.

On July 1, 2010, the Court ruled on the pending motions to dismiss that were directed at all parties' claims. With respect to the underreporting NWCRP companies' and board members' motion to dismiss AIG's first amended complaint, the Court denied the motion to dismiss all counts except AIG's claim for unjust enrichment, which it found to be precluded by the surviving claims for breach of contract. With respect to NCCI and the NWCRP's motion to dismiss AIG's first amended complaint, the Court denied the NCCI and the NWCRP's motions to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. With respect to AIG's motions to dismiss Liberty's counterclaims and the class action complaint, the Court denied both motions, except that it dismissed the class claim for promissory estoppel. On July 30, 2010, the NWCRP filed a motion for reconsideration of the Court's ruling denying its motion to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. The Court denied the NWCRP's motion for reconsideration on September 16, 2010. The plaintiffs filed a motion for class certification on July 16, 2010. AIG opposed the motion.

On January 5, 2011, AIG executed a term sheet with a group of intervening plaintiffs, made up of seven participating members of the NWCRP that filed a motion to intervene in the class action for the purpose of settling the claims at issue on behalf of a settlement class. The proposed class-action settlement would require AIG to pay \$450 million to satisfy all liabilities to the class members arising out of the workers' compensation premium reporting issues, a portion of which would be funded out of the remaining amount held in the Workers' Compensation Fund less any amounts previously withdrawn to satisfy AIG's regulatory settlement obligations, as addressed above. On January 13, 2011, their motion to intervene was granted. On January 19, 2011, the intervening class plaintiffs filed their Complaint in Intervention. On January 28, 2011, AIG and the intervening class plaintiffs entered into a settlement agreement embodying the terms set forth in the January 5, 2011 term



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

sheet and filed a joint motion for certification of the settlement class and preliminary approval of the settlement. If approved by the Court (and such approval becomes final), the settlement agreement will resolve and dismiss with prejudice all claims that have been made or that could have been made in the consolidated litigations pending in the Northern District of Illinois arising out of workers' compensation premium reporting, including the class action, other than claims that are brought by any class member that opts out of the settlement. On April 29, 2011, Liberty Mutual Group filed papers in opposition to preliminary approval of the proposed settlement and in opposition to certification of a settlement class, in which it alleged AIG's actual exposure, should the class action continue through judgment, to be in excess of \$3 billion. AIG disputes and will defend against this allegation. The \$450 million settlement amount along with the \$146.5 million in fines, penalties, and premium taxes discussed in the NAIC Examination of Workers' Compensation Premium Reporting matter above may be funded in part from the \$338 million held in the Workers' Compensation Fund. In the event that the proposed class action settlement is not approved, or that certain class members opt out of the settlement and continue to pursue their claims against AIG, the litigation will resume. AIG has an accrued liability equal to the amounts payable under the settlement. Amounts held in escrow totaling approximately \$338 million, including interest thereon, are included in Other assets at March 31, 2011, and are specifically designated to satisfy liabilities related to workers' compensation premium reporting issues.

***Litigation Matters Relating to AIG's Insurance Operations***

**Caremark.** AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action intervened in the first-filed action, and the second-filed action was dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In addition, the intervenors originally alleged that various lawyers and law firms who represented parties in the underlying class and derivative litigation (the Lawyer Defendants) were also liable for fraud and suppression, misrepresentation, and breach of fiduciary duty.

The complaints filed by the plaintiffs and the intervenors request compensatory damages for the 1999 class in the amount of \$3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression, assert that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement, that the claims are barred by the statute of limitations, and that the statute cannot be tolled in light of the public disclosure of the excess coverage. The plaintiffs and intervenors, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations.

In November 2007, the trial court dismissed the intervenors' complaint against the Lawyer Defendants, and the Alabama Supreme Court affirmed that dismissal in September 2008. After the case was sent back down to the trial court, the intervenors retained additional counsel and filed an Amended Complaint in Intervention that named only Caremark and AIG and various subsidiaries as defendants, purported to bring claims against all defendants for deceit and conspiracy to deceive, and purported to bring a claim against AIG and its subsidiaries for aiding and abetting Caremark's alleged deception. The defendants moved to dismiss the Amended Complaint in Intervention, and the plaintiffs moved to disqualify all of the lawyers for the intervenors because, among other things, the newly retained firm had previously represented Caremark. The intervenors, in turn, moved to disqualify the lawyers for the plaintiffs in the first-filed action. The cross-motions to disqualify were withdrawn after the two sets of plaintiffs agreed that counsel for the original plaintiffs would act as lead counsel, and intervenors also withdrew their Amended Complaint in Intervention. The trial Court approved all of the foregoing steps and, in April 2009, established a schedule for class action discovery that was to lead to a hearing on class certification in March 2010. The Court has since appointed a special master to oversee class action discovery and has directed the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

parties to submit a new discovery schedule after certain discovery disputes are resolved. Class discovery is ongoing, and no schedule for the class certification hearing has been set.

As of May 2, 2011, the parties have not completed class action discovery, general discovery has not commenced, and the court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

**(b) Commitments*****Flight Equipment***

At March 31, 2011, ILFC had committed to purchase 236 new aircraft deliverable from 2011 through 2019, at an estimated aggregate purchase price of approximately \$17.6 billion. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price.

During 2011, ILFC entered into a contract for the purchase of 75 A320 New Engine Option (neo) and 25 A321neo aircraft from Airbus with deliveries beginning in 2015 and canceled its previous purchase commitment for ten A380s. In addition, ILFC signed a purchase agreement for 33 737-800 aircraft from Boeing with deliveries beginning in 2012.

***Other Commitments***

In the normal course of business, AIG enters into commitments to invest in limited partnerships, private equities, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled \$3.4 billion at March 31, 2011.

**(c) Contingencies*****Liability for unpaid claims and claims adjustment expense***

Although AIG regularly reviews the adequacy of the established Liability for unpaid claims and claims adjustment expense, there can be no assurance that AIG's ultimate Liability for unpaid claims and claims adjustment expense will not develop adversely and materially exceed AIG's current Liability for unpaid claims and claims adjustment expense. Estimation of ultimate net claims, claims adjustment expenses and Liability for unpaid claims and claims adjustment expense is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation, in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims.

**(d) Guarantees*****Subsidiaries***

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP arising from transactions entered into by such companies.

In connection with AIGFP's leasing business, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

outstanding at March 31, 2011 was \$901 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of a scheduled payment to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay.

**Asset Dispositions***General*

AIG is subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to its asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by AIG. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

AIG is unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, AIG believes that it is unlikely it will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Consolidated Balance Sheet. See Notes 1 and 4 herein for additional information on sales of businesses and asset dispositions.

*ALICO Sale*

Pursuant to the terms of the ALICO stock purchase agreement, AIG has agreed to provide MetLife with certain indemnities, the most significant of which include:

- Indemnification related to breaches of general representations and warranties with an aggregate deductible of \$125 million and a maximum payout of \$2.25 billion. The indemnification extends for 21 months after November 1, 2010.
- Indemnifications related to specific product, investment, litigation and other matters that are excluded from the general representations and warranties indemnity. These indemnifications provide for various deductible amounts, which in certain cases are zero, and maximum exposures, which in certain cases are unlimited, and extend for various periods after the completion of the sale.
- Tax indemnifications related to insurance reserves that extend for taxable periods ending on or before December 31, 2013 and that are limited to an aggregate of \$200 million, and certain other tax-related representations and warranties that extend to the expiration of the statute of limitations and are subject to an aggregate deductible of \$50 million.
- Indemnification for taxes incurred by ALICO as a result of the proposed elections under Section 338 of the Internal Revenue Code (the Code). Such elections have the effect of shifting the federal income tax liability on the sale from the seller to ALICO. On March 8, 2011, AIG paid MetLife \$300 million related to this indemnity.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

In connection with the above, AIG has placed \$2.7 billion of proceeds from the ALICO Sale (consisting of \$3.0 billion of initial cash proceeds from the sale of MetLife securities received upon the completion of the ALICO Sale, less payment of \$300 million to MetLife as explained above) into an escrow arrangement. The amount required to be held in escrow declines to zero over a 30-month period ending in April 2013, with claims submitted related to the indemnifications reducing the amount that can be released to AIG. AIG has accrued for estimated liabilities for indemnities, including the Italian internal fund suspension matter discussed above.

**Star/Edison Sale**

Pursuant to the terms of the Star/Edison stock purchase agreement, AIG has agreed to provide Prudential Financial, Inc. with certain indemnities, the most significant of which is indemnification related to breaches of general representations and warranties that exceed 4.1 billion Yen (\$49 million at the March 31, 2011 exchange rate), with a maximum payout of 102 billion Yen (\$1.2 billion at the March 31, 2011 exchange rate). Except for certain specified representations and warranties that may have a longer survival period, the indemnification extends until November 1, 2012.

For additional information on AIG's guarantees, see Notes 9, 10 and 15 herein.

**12. Total Equity and Earnings (Loss) Per Share****Shares Outstanding**

The following table presents a rollforward of outstanding shares:

Three Months Ended March 31, 2011	Preferred Stock				Common Stock	Treasury Stock
	AIG Series E	AIG Series F	AIG Series C	AIG Series G		
Shares issued, beginning of year	400,000	300,000	100,000	-	147,124,067	6,660,908
Issuances	-	-	-	20,000	1,218,766	(56)
Shares exchanged	(400,000)	(300,000)	(100,000)	-	1,655,037,962	-
Shares issued, end of period	-	-	-	20,000	1,803,380,795	6,660,852

**Preferred Stock**

See Note 1 herein for a discussion of the Recapitalization.

**Equity Units**

In November 2010, AIG exchanged 49,474,600 of its Equity Units, each consisting of interests in subordinated debentures and stock purchase contracts, for 4,881,667 shares of AIG Common Stock and approximately \$162 million in cash. Each Equity Unit was exchanged for 0.09867 shares of AIG Common Stock and \$3.2702 in cash. The stock and cash received by the Equity Unit holders was the result of netting payments from two separate transactions — a repurchase of the subordinated debentures and a cancellation of the stock purchase contracts.

Following the completion of the exchange offer, a total of 28,925,400 Equity Units remained outstanding. In addition, the remaining debentures continue to be subject to remarketing. In January 2011, AIG remarketed the first of three series of the remaining debentures included in the Equity Units. AIG purchased and retired all of the Series B-1 Debentures representing \$723 million in aggregate principal and as a result, no Series B-1 Debentures remain outstanding. In March 2011, AIG remarketed the second of three series of the remaining debentures included in the Equity Units. AIG purchased and retired all of the Series B-2 Debentures representing \$723 million in aggregate principal and as a result, no Series B-2 Debentures remain outstanding. The remarketing of the remaining Series B-3 Debentures included in the Equity Units is expected to occur later in

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

2011. In February 2011, AIG issued approximately 1.2 million shares of its common stock in connection with the settlement of the stock purchase contract portion of the Equity Units subject to the First Stock Purchase Date of the Equity Units.

**Accumulated Other Comprehensive Income (Loss)**

A rollforward of Accumulated other comprehensive income (loss) is as follows:

Three Months Ended March 31, 2011 (in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than- Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities	Retirement Plan Liabilities Adjustment	Total
Balance, beginning of year, net of tax	\$ (659)	\$ 8,888	\$ 298	\$ (34)	\$ (869)	\$ 7,624
Unrealized appreciation (depreciation) of investments	612	(1,144)	-	-	-	(532)
Net changes in foreign currency translation adjustments	-	-	(944)	-	-	(944)
Net gains on cash flow hedges	-	-	-	18	-	18
Net actuarial gain	-	-	-	-	267	267
Prior service cost	-	-	-	-	(17)	(17)
Deferred tax asset (liability)	(216)	413	296	(5)	(115)	373
Total other comprehensive income (loss)	396	(731)	(648)	13	135	(835)
Acquisition of noncontrolling interest	-	78	84	-	(19)	143
Noncontrolling interests	3	(3)	36	-	-	36
Balance, end of period, net of tax	\$ (266)	\$ 8,238	\$ (302)	\$ (21)	\$ (753)	\$ 6,896

**Noncontrolling interests**

In connection with the ongoing execution of its orderly asset disposition plan, as well as plans to timely repay the FRBNY Credit Facility, AIG transferred two of its wholly owned businesses, AIA and ALICO, to two newly created special purpose vehicles (SPVs) in exchange for all the common and preferred interests of those SPVs. On December 1, 2009, AIG transferred the preferred interests in the SPVs to the FRBNY in consideration for a \$25 billion reduction of the outstanding loan balance and of the maximum amount of credit available under the FRBNY Credit Facility and amended the terms of the FRBNY Credit Facility. The remaining preferred interests, with an aggregate liquidation preference of approximately \$26.4 billion at December 31, 2010, were transferred by the FRBNY to the Department of the Treasury as part of the closing of the Recapitalization. The remaining preferred interests, which have an aggregate liquidation preference of approximately \$20.3 billion following a partial repayment on January 14, 2011, which included proceeds from the sale of ALICO, were transferred by the FRBNY to AIG and subsequently transferred to the Department of the Treasury as part of the Recapitalization. Under the terms of the SPVs' limited liability company agreements, the SPVs generally may not distribute funds to AIG until the liquidation preferences and preferred returns on the preferred interests have been repaid in full and concurrent distributions have been made on certain participating returns attributable to the preferred interests.

The common interests, which were retained by AIG, entitle AIG to 100 percent of the voting power of the SPVs. The voting power allows AIG to elect the boards of managers of the SPVs, who oversee the management and operation of the SPVs. Primarily due to the substantive participation rights of the preferred interests, the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

SPVs were determined to be variable interest entities. As the primary beneficiary of the SPVs, AIG consolidates the SPVs.

The rights held by the FRBNY through their ownership of the preferred interests are now held by the Department of the Treasury. In connection with the Recapitalization, AIG agreed to cause the proceeds of certain asset dispositions to be used to redeem the remaining preferred interests.

As a result of the closing of the Recapitalization on January 14, 2011, the SPV Preferred Interests held by the Department of Treasury are not considered permanent equity on AIG's Consolidated Balance Sheet, and were classified as redeemable non-controlling interests in partially owned consolidated subsidiaries. As part of the Recapitalization, AIG used approximately \$6.1 billion of the cash proceeds from the sale of ALICO to repay a portion of the liquidation preference and accrued return of the SPV Preferred Interests. The SPV Preferred Interests were further reduced during the first quarter of 2011 by approximately \$9.1 billion using proceeds from the sale of AIG Star, AIG Edison and the sale of MetLife securities received in the sale of ALICO.

**A rollforward of non-controlling interests is as follows:**

<i>(in millions)</i>	Redeemable Noncontrolling interests			Non-redeemable Noncontrolling interests		
	Held by			Held by		
	Department of Treasury	Other	Total	FRBNY	Other	Total
<b>Three Months Ended March 31, 2011</b>						
Balance as of beginning of year	\$ -	\$ 434	\$ 434	\$ 26,358	\$ 1,562	\$ 27,920
Repurchase of SPV preferred interests in connection with Recapitalization	-	-	-	(26,432)	-	(26,432)
Exchange of consideration for preferred stock in connection with Recapitalization	20,292	-	20,292	-	-	-
Repayment to Department of Treasury	(9,146)	-	(9,146)	-	-	-
Net distributions	-	(26)	(26)	-	(96)	(96)
Deconsolidation	-	(125)	(125)	-	(109)	(109)
Acquisition of noncontrolling interest	-	-	-	-	(509)	(509)
Comprehensive income:						
Net income (loss)	178	9	187	74	(57)	17
Accumulated other comprehensive income (loss), net of tax:						
Unrealized gains (losses) on investments	-	(1)	(1)	-	1	1
Foreign currency translation adjustments	-	-	-	-	36	36
Total accumulated other comprehensive income (loss), net of tax	-	(1)	(1)	-	37	37
Total comprehensive income (loss)	178	8	186	74	(20)	54
Other	-	(13)	(13)	-	(9)	(9)
Balance, end of period	\$ 11,324	\$ 278	\$ 11,602	\$ -	\$ 819	\$ 819

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

<i>(in millions)</i>	Redeemable Noncontrolling interests			Non-redeemable Noncontrolling interests		
	Held by Department of Treasury	Other	Total	Held by FRBNY	Other	Total
<b>Three Months Ended March 31, 2010</b>						
Balance as of beginning of year	\$ -	\$ 959	\$ 959	\$ 24,540	\$ 3,712	\$ 28,252
Net contributions	-	156	156	-	123	123
Consolidation (deconsolidation)	-	835	835	-	(2,161)	(2,161)
Comprehensive income:						
Net income (loss)	-	(4)	(4)	519	133	652
Accumulated other comprehensive income (loss), net of tax:						
Unrealized gains (losses) on investments	-	7	7	-	(62)	(62)
Foreign currency translation adjustments	-	(2)	(2)	-	(103)	(103)
Total accumulated other comprehensive income (loss), net of tax						
	-	5	5	-	(165)	(165)
Total comprehensive income (loss)	-	1	1	519	(32)	487
Other	-	(11)	(11)	-	17	17
Balance, end of period	\$ -	\$ 1,940	\$ 1,940	\$ 25,059	\$ 1,659	\$ 26,718

**Earnings (Loss) Per Share (EPS)**

Basic and diluted earnings (loss) per share are based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted earnings per share is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, adjusted to reflect all stock dividends and stock splits. Basic earnings (loss) per share is not affected by outstanding stock purchase contracts. Diluted earnings per share is determined considering the potential dilution from outstanding stock purchase contracts using the treasury stock method and will not be affected by outstanding stock purchase contracts until the applicable market value per share exceeds \$912.

In connection with the issuance of the Series C Preferred Stock, in 2010 AIG applied the two-class method for calculating EPS. The two-class method is an earnings allocation method for computing EPS when a company's capital structure includes either two or more classes of common stock or common stock and participating securities. This method determines EPS based on dividends declared on common stock and participating securities (i.e., distributed earnings) as well as participation rights of participating securities in any undistributed earnings. The Series C Preferred Stock was retired as part of the Recapitalization on January 14, 2011.

AIG applied the two-class method due to the participation rights of the Series C Preferred Stock through January 14, 2011. However, application of the two-class method had no effect on earnings per share because AIG recognized a net loss from continuing operations for the three months ended March 31, 2011. Subsequent to that date, AIG did not have any outstanding participating securities that subjected AIG to the two-class method.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The following table presents the computation of basic and diluted EPS:

<b>Three Months Ended March 31,</b> <i>(dollars in millions, except per share data)</i>	<b>2011</b>	<b>2010</b>
<b>Numerator for EPS:</b>		
Income (loss) from continuing operations	\$ (1,180)	\$ 2,088
Net income from continuing operations attributable to noncontrolling interests:		
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	252	519
Other	(55)	119
Total net income from continuing operations attributable to noncontrolling interests	197	638
Net income (loss) attributable to AIG from continuing operations	(1,377)	1,450
Income from discontinued operations	\$ 1,653	\$ 343
Income from discontinued operations attributable to noncontrolling interests	7	10
Net income attributable to AIG from discontinued operations	1,646	333
Deemed dividends	(812)	-
Income allocated to the Series C Preferred Stock – continuing operations	-	(1,158)
Net income (loss) attributable to AIG from continuing operations, applicable to common stock for EPS	(2,189)	292
Income allocated to the Series C Preferred Stock – discontinued operations	-	(266)
Net income attributable to AIG from discontinued operations, applicable to common stock for EPS	\$ 1,646	\$ 67
<b>Denominator for EPS:</b>		
Weighted average shares outstanding – basic	1,557,748,353	135,658,680
Dilutive shares	-	66,259
Weighted average shares outstanding – diluted*	1,557,748,353	135,724,939
<b>EPS attributable to AIG:</b>		
Basic:		
Income (loss) from continuing operations	\$ (1.41)	\$ 2.16
Income from discontinued operations	\$ 1.06	\$ 0.50
Diluted:		
Income (loss) from continuing operations	\$ (1.41)	\$ 2.16
Income from discontinued operations	\$ 1.06	\$ 0.50

\* Dilutive shares are calculated using the treasury stock method and include dilutive shares from share-based employee compensation plans, and the warrant issued to the Department of the Treasury on April 17, 2009 to purchase up to 150 shares of AIG Common Stock (Series F Warrant). The number of shares excluded from diluted shares outstanding were 65 million and 12 million for the three-month periods ended March 31, 2011 and 2010, respectively, because the effect would have been anti-dilutive. Shares excluded for the three months ended March 31, 2011 include 59 million shares representing the weighted average amount of warrants to purchase AIG Common Stock that were issued to shareholders on January 19, 2011.

Deemed dividends represent the excess of (i) the fair value of the consideration transferred to the Department of the Treasury, which consists of 1,092,169,866 shares of AIG Common Stock, \$20.2 billion of redeemable SPV Preferred Interests, and a liability for a commitment by AIG to pay the Department of the Treasury's costs to dispose of all of its shares, over (ii) the carrying value of the Series E and F Preferred Stock. The fair value of the AIG Common Stock issued for the Series C Preferred Stock over the carrying value of the Series C Preferred Stock is not a deemed dividend because the Series C Preferred Stock was contingently convertible into the 562,868,096 shares of AIG Common Stock for which it was exchanged. See Consolidated Statement of Equity and Note 1 Basis of Presentation and Recent Events — Recent Events — Recapitalization — Exchange of AIG's Series C, E, and F Preferred Stock for AIG Common Stock and Series G Preferred Stock herein for further discussion.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**13. Employee Benefits**

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

<i>(in millions)</i>	Pension			Postretirement		
	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
<b>Three Months Ended March 31, 2011</b>						
Components of net periodic benefit cost:						
Service cost	\$ 22	\$ 37	\$ 59	\$ 1	\$ 2	\$ 3
Interest cost	11	52	63	1	4	5
Expected return on assets	(7)	(63)	(70)	-	-	-
Amortization of prior service (credit) cost	(2)	-	(2)	-	-	-
Amortization of net (gain) loss	6	11	17	-	-	-
Net periodic benefit cost	\$ 30	\$ 37	\$ 67	\$ 2	\$ 6	\$ 8
Amount associated with discontinued operations	\$ 10	\$ -	\$ 10	\$ 1	\$ -	\$ 1
<b>Three Months Ended March 31, 2010</b>						
Components of net periodic benefit cost:						
Service cost	\$ 32	\$ 36	\$ 68	\$ 2	\$ 2	\$ 4
Interest cost	15	54	69	1	4	5
Expected return on assets	(7)	(64)	(71)	-	-	-
Amortization of prior service (credit) cost	(2)	-	(2)	-	-	-
Amortization of net (gain) loss	11	12	23	-	-	-
Other	(1)	-	(1)	-	-	-
Net periodic benefit cost	\$ 48	\$ 38	86	\$ 3	\$ 6	\$ 9
Amount associated with discontinued operations	\$ 32	\$ 4	36	\$ 1	\$ -	\$ 1

**Impact of AIG Star and AIG Edison Divestiture**

At December 31, 2010, AIG's projected benefit obligation and fair value of plan assets for its non-U.S. pension plans were \$2.0 billion and \$954 million, respectively. These amounts have been reduced by approximately \$804 million and \$279 million for pension plans related to AIG Star and AIG Edison, respectively, which were assumed by the purchaser on February 1, 2011.

At December 31, 2010, AIG estimated its 2011 annual pension expense and contributions would be \$282 million and \$144 million, respectively. Included in those totals were \$53 million of pension expense and \$54 million of contributions for AIG Star and Edison.

For the three-month period ended March 31, 2011, AIG contributed \$30 million to its U.S. and non-U.S. pension plans and estimates it will contribute an additional \$68 million for the remainder of 2011. These estimates are subject to change since contribution decisions are affected by various factors, including AIG's liquidity, asset dispositions, market performance and management discretion.

**14. Income Taxes**
**Interim Tax Calculation Method**

Beginning with the first quarter of 2011, AIG utilized the estimated annual effective tax rate method in computing its interim tax provision. The recent stabilization of operations and expected financial results allows AIG to estimate the annual effective tax rate to be applied to year-to-date income.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

Since the third quarter of 2008, the discrete period method was utilized due to the significant variations in the customary relationship between income tax expense and pre-tax accounting income, which were partly due to the effects of AIG's asset disposition program and restructuring.

Included in the estimated annual effective rate is a full valuation allowance against the tax expense of the U.S. consolidated income tax group, and statutory rates were used for computing the tax expense of foreign subsidiaries.

Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit applicable to that item is treated discretely, and is reported in the same period as the related item. For the three-month period ended March 31, 2011, the tax effects of the loss on extinguishment of debt, other-than-temporary impairments, realized capital gains and losses, the sale of Met Life securities, and divestiture gains or losses were treated as discrete items.

**Interim Tax Expense (Benefit)**

For the three-month period ended March 31, 2011, the effective tax rate on pretax loss from continuing operations was 14.5 percent. The effective tax rate for the three-month period ended March 31, 2011, attributable to continuing operations differs from the statutory rate of 35 percent primarily due to an increase in the valuation allowance attributable to continuing operations for the U.S. consolidated income tax group, tax effects associated with tax exempt interest income, investments in partnerships, and changes in uncertain tax positions.

For the three-month period ended March 31, 2010, the effective tax rate on the pre-tax income from continuing operations was (27.2) percent. The effective tax rate was negative because AIG recorded a tax benefit on pre-tax income. The tax benefit was primarily due to decreases in the deferred tax asset valuation allowance resulting from changes in the expected taxable gain on subsidiaries to be sold, the tax benefit associated with tax exempt interest, and the bargain purchase gain associated with the acquisition of Fuji.

**Assessment of Deferred Tax Asset Valuation Allowances**

AIG evaluates the recoverability of the deferred tax asset and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate.

When assessing the realization of its deferred tax asset, AIG considers all available evidence, including:

- the nature, frequency, and severity of cumulative financial reporting losses in recent years;
- the carryforward periods for the net operating loss, capital loss and foreign tax credit carryforwards;
- predictability of future operating profitability of the character necessary to realize the asset;
- the recognition of the gains and losses on dispositions;
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset; and
- the effect of reversing taxable temporary differences.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

The evaluation of the recoverability of the deferred tax asset requires AIG to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed. Despite several favorable developments, including the completion of the Recapitalization in January 2011, the wind-down of AIGFP's portfolios, and the sale of certain businesses, AIG has recent negative evidence of cumulative operating losses and a lack of consistent profits. Based on this evidence at March 31, 2011, AIG cannot assert that it is more likely than not that any U.S. member deferred tax assets will be realizable.

However, if in the future AIG demonstrates consistent profitability or develops prudent and feasible tax planning strategies, the evaluation of the recoverability of the deferred tax asset could change and the valuation allowance could be released in whole or in part.

**Tax Examinations and Litigation**

On March 29, 2011, the district court ruled on a motion for partial summary judgment that AIG filed on July 30, 2010 related to the disallowance of foreign tax credits associated with cross border financing transactions. The court denied AIG's motion with leave to renew following the completion of discovery regarding certain transactions referred to in AIG's motion, which AIG believes may be significant to the outcome of the action.

**Accounting for Uncertainty in Income Taxes**

At both March 31, 2011 and December 31, 2010, AIG's unrecognized tax benefits, excluding interest and penalties, were \$5.3 billion. At March 31, 2011 and December 31, 2010, AIG's unrecognized tax benefits were \$1.5 billion and \$1.7 billion, respectively, related to tax positions that if recognized would not affect the effective tax rate as they relate to such factors as the timing, rather than the permissibility, of the deduction. Accordingly, at March 31, 2011 and December 31, 2010, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were \$3.8 billion and \$3.6 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At March 31, 2011 and December 31, 2010, AIG had accrued \$917 million and \$952 million, respectively, for the payment of interest (net of the federal benefit) and penalties. For the three-month periods ended March 31, 2011 and 2010, AIG had recognized \$(35) million and \$11 million, respectively, of income tax expense (benefit), for interest (net of the federal benefit) and penalties.

Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes, except with respect to uncertain tax positions related to jurisdictions other than federal that were effectively settled subsequent to March 31, 2011. AIG estimates that it will record a tax benefit of \$240 million in the second quarter of 2011.

**Tax Asset Protection Plan**

On March 9, 2011, AIG's Board of Directors adopted a Tax Asset Protection Plan (the Plan) to help protect AIG's ability to recognize certain tax benefits from certain tax attributes (the Tax Benefits) in order to reduce AIG's future income tax liability.

In connection with the Plan, on March 9, 2011, AIG's Board of Directors declared a dividend of one right per each outstanding share of AIG Common Stock held of record as of the close of business on March 18, 2011 (each, a Right). Subject to the terms, provisions and conditions of the Plan, if the Rights become exercisable, each Right would initially entitle its registered holder to purchase from AIG one ten-thousandth of a share of Participating Preferred Stock, par value \$5.00 per share (the Participating Preferred Stock), for \$185.00 (the Exercise Price), subject to adjustment.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

The Rights become exercisable following the earlier of (i) a public announcement by AIG that a person or group has acquired 4.99 percent or more of the outstanding shares of AIG Common Stock and (ii) 10 business days after the commencement of a tender offer or exchange offer by a person or group if, upon consummation of the offer, the person or group would directly, indirectly or constructively own 4.99 percent or more of the outstanding AIG Common Stock.

Shareholders who owned 4.99 percent or more of AIG Common Stock as of the close of business on March 9, 2011, which includes the Department of the Treasury, generally will not trigger the Plan so long as they do not acquire any additional shares of AIG Common Stock. AIG's Board of Directors may exempt an Acquiring Person if it receives, at its request, a report from AIG's advisors that such exemption would not create a significant risk of material adverse tax consequences to AIG, or the AIG Board of Directors otherwise determines that the exemption is in the best interests of AIG. Furthermore, AIG's Board of Directors is required to approve any proposed transfer by the Department of the Treasury that would not result in an "owner shift" of more than 40 percent under Section 382 of the Code.

### **15. Information Provided in Connection With Outstanding Debt**

The following condensed consolidating financial statements reflect the results of SunAmerica Financial Group, Inc. (SAFG, Inc.) formerly known as AIG Life Holdings (US), Inc. (AIGLH), a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of SAFG, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## Condensed Consolidating Balance Sheet

<i>(in millions)</i>	American International Group, Inc. (As Guarantor)	SAFG, Inc. <sup>(a)</sup>	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
<b>March 31, 2011</b>					
<b>Assets:</b>					
Short-term investments	\$ 6,685	\$ -	\$ 33,746	\$ (1,559)	\$ 38,872
Other investments <sup>(a)</sup>	8,532	-	484,937	(123,118)	370,351
<b>Total investments</b>	<b>15,217</b>	<b>-</b>	<b>518,683</b>	<b>(124,677)</b>	<b>409,223</b>
Cash	42	-	1,759	-	1,801
Loans to subsidiaries <sup>(b)</sup>	43,167	-	(43,167)	-	-
Debt issuance costs	186	-	291	-	477
Investment in consolidated subsidiaries <sup>(b)</sup>	86,771	32,547	4,267	(123,585)	-
Other assets, including current and deferred income taxes	6,604	2,678	133,031	(1,347)	140,966
Assets held for sale	-	-	58,780	-	58,780
<b>Total assets</b>	<b>\$ 151,987</b>	<b>\$ 35,225</b>	<b>\$ 673,644</b>	<b>\$ (249,609)</b>	<b>\$ 611,247</b>
<b>Liabilities:</b>					
Insurance liabilities	\$ -	\$ -	\$ 282,578	\$ (226)	\$ 282,352
Federal Reserve Bank of New York credit facility	-	-	-	-	-
Other long-term debt	39,461	1,638	153,947	(112,880)	82,166
Other liabilities, including intercompany balances <sup>(a)(c)</sup>	13,100	4,283	92,826	(15,163)	95,046
Loans from subsidiaries <sup>(b)</sup>	14,400	375	(14,775)	-	-
Liabilities held for sale	-	-	54,236	-	54,236
<b>Total liabilities</b>	<b>66,961</b>	<b>6,296</b>	<b>568,812</b>	<b>(128,269)</b>	<b>513,800</b>
<b>Redeemable noncontrolling interests (see Note 1):</b>					
Redeemable noncontrolling nonvoting, callable, junior preferred interests held by Department of Treasury	-	-	-	11,324	11,324
Other	-	-	75	203	278
<b>Total redeemable noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>75</b>	<b>11,527</b>	<b>11,602</b>
<b>Total AIG shareholders' equity</b>	<b>85,026</b>	<b>28,929</b>	<b>104,349</b>	<b>(133,278)</b>	<b>85,026</b>
<b>Noncontrolling interests:</b>					
Noncontrolling nonvoting, callable, junior and senior preferred interest held by Federal Reserve Bank of New York	-	-	-	-	-
Other	-	-	408	411	819
<b>Total noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>408</b>	<b>411</b>	<b>819</b>
<b>Total equity</b>	<b>85,026</b>	<b>28,929</b>	<b>104,757</b>	<b>(132,867)</b>	<b>85,845</b>
<b>Total liabilities and equity</b>	<b>\$ 151,987</b>	<b>\$ 35,225</b>	<b>\$ 673,644</b>	<b>\$ (249,609)</b>	<b>\$ 611,247</b>
<b>December 31, 2010</b>					
<b>Assets:</b>					
Short-term investments	\$ 5,602	\$ -	\$ 38,354	\$ (1,771)	\$ 42,185
Other investments <sup>(a)</sup>	5,852	-	488,047	(125,672)	368,227
<b>Total investments</b>	<b>11,454</b>	<b>-</b>	<b>526,401</b>	<b>(127,443)</b>	<b>410,412</b>
Cash	49	-	1,509	-	1,558
Loans to subsidiaries <sup>(b)</sup>	61,630	-	(61,630)	-	-
Debt issuance costs, including prepaid commitment asset of \$3,628	3,838	-	241	-	4,079
Investment in consolidated subsidiaries <sup>(b)</sup>	93,511	33,354	(6,788)	(120,077)	-
Other assets, including current and deferred income taxes	7,852	2,717	150,157	(785)	159,941
Assets held for sale	-	-	107,453	-	107,453
<b>Total assets</b>	<b>\$ 178,334</b>	<b>\$ 36,071</b>	<b>\$ 717,343</b>	<b>\$ (248,305)</b>	<b>\$ 683,443</b>
<b>Liabilities:</b>					
Insurance liabilities	\$ -	\$ -	\$ 274,590	\$ (237)	\$ 274,353
Federal Reserve Bank of New York credit facility	20,985	-	-	-	20,985
Other long-term debt	40,443	1,637	167,532	(124,136)	85,476
Other liabilities, including intercompany balances <sup>(a)(c)</sup>	31,586	4,414	59,354	(3,710)	91,644
Loans from subsidiaries <sup>(b)</sup>	1	379	(380)	-	-
Liabilities held for sale	-	-	97,300	12	97,312
<b>Total liabilities</b>	<b>93,015</b>	<b>6,430</b>	<b>598,396</b>	<b>(128,071)</b>	<b>569,770</b>
Redeemable noncontrolling nonvoting, callable, junior preferred interests	-	-	207	227	434
<b>Total AIG shareholders' equity</b>	<b>85,319</b>	<b>29,641</b>	<b>117,641</b>	<b>(147,282)</b>	<b>85,319</b>
<b>Noncontrolling interests:</b>					
Noncontrolling nonvoting, callable, junior and senior preferred interest held by Federal Reserve Bank of New York	-	-	-	26,358	26,358
Other	-	-	1,099	463	1,562
<b>Total noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>1,099</b>	<b>26,821</b>	<b>27,920</b>
<b>Total equity</b>	<b>85,319</b>	<b>29,641</b>	<b>118,740</b>	<b>(120,461)</b>	<b>113,239</b>
<b>Total liabilities and equity</b>	<b>\$ 178,334</b>	<b>\$ 36,071</b>	<b>\$ 717,343</b>	<b>\$ (248,305)</b>	<b>\$ 683,443</b>

(a) Includes intercompany derivative asset positions, which are reported at fair value before credit valuation adjustment.

(b) Eliminated in consolidation.

(c) For March 31, 2011 and December 31, 2010, includes intercompany tax payable of \$9.6 billion and \$28.1 billion, respectively, and intercompany derivative liabilities of \$173 million and \$150 million, respectively, for American International Group, Inc. (As Guarantor) and intercompany tax receivable of \$93 million and \$152 million, respectively, for SAFG, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## Condensed Consolidating Statement of Income (Loss)

<i>(in millions)</i>	American International Group, Inc. (As Guarantor)	SAFG, Inc.	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
<b>Three Months Ended March 31, 2011</b>					
<b>Revenues:</b>					
Equity in undistributed net income (loss) of consolidated subsidiaries <sup>(a)</sup>	\$ (1,280)	\$ 299	\$ -	\$ 981	\$ -
Dividend income from consolidated subsidiaries <sup>(a)</sup>	4,294	-	-	(4,294)	-
Change in fair value of ML III	-	-	744	-	744
Other revenue <sup>(b)</sup>	41	258	16,393	-	16,692
<b>Total revenues</b>	<b>3,055</b>	<b>557</b>	<b>17,137</b>	<b>(3,313)</b>	<b>17,436</b>
<b>Expenses:</b>					
Interest expense on FRBNY Credit Facility	72	-	-	(2)	70
Other interest expense	751	94	146	-	991
Loss on extinguishment of debt	3,313	-	-	-	3,313
Other expense	47	-	14,395	-	14,442
<b>Total expenses</b>	<b>4,183</b>	<b>94</b>	<b>14,541</b>	<b>(2)</b>	<b>18,816</b>
Income (loss) from continuing operations before income tax expense (benefit)	(1,128)	463	2,596	(3,311)	(1,380)
Income tax expense (benefit) <sup>(c)</sup>	(266)	68	(2)	-	(200)
<b>Income (loss) from continuing operations</b>	<b>(862)</b>	<b>395</b>	<b>2,598</b>	<b>(3,311)</b>	<b>(1,180)</b>
<b>Income (loss) from discontinued operations</b>	<b>1,131</b>	<b>-</b>	<b>524</b>	<b>(2)</b>	<b>1,653</b>
<b>Net income (loss)</b>	<b>269</b>	<b>395</b>	<b>3,122</b>	<b>(3,313)</b>	<b>473</b>
Less:					
Net income (loss) from continuing operations attributable to noncontrolling interests:					
Noncontrolling nonvoting, callable, junior and senior preferred interests	-	-	-	252	252
Other	-	-	(55)	-	(55)
<b>Total income (loss) from continuing operations attributable to noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>(55)</b>	<b>252</b>	<b>197</b>
Income from discontinued operations attributable to noncontrolling interests	-	-	7	-	7
<b>Total net income (loss) attributable to noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>(48)</b>	<b>252</b>	<b>204</b>
<b>Net income (loss) attributable to AIG</b>	<b>269</b>	<b>\$ 395</b>	<b>\$ 3,170</b>	<b>\$ (3,565)</b>	<b>\$ 269</b>
<b>Three Months Ended March 31, 2010</b>					
<b>Revenues:</b>					
Equity in undistributed net income (loss) of consolidated subsidiaries <sup>(a)</sup>	\$ 1,242	\$ 255	\$ -	\$ (1,497)	\$ -
Dividend income from consolidated subsidiaries <sup>(a)</sup>	290	-	-	(290)	-
Change in fair value of ML III	-	-	751	-	751
Other revenue <sup>(b)</sup>	981	53	16,770	-	17,804
<b>Total revenues</b>	<b>2,513</b>	<b>308</b>	<b>17,521</b>	<b>(1,787)</b>	<b>18,555</b>
<b>Expenses:</b>					
Interest expense on FRBNY Credit Facility	833	-	-	(20)	813
Other interest expense	607	92	238	1	938
Other expenses	155	-	15,008	-	15,163
<b>Total expenses</b>	<b>1,595</b>	<b>92</b>	<b>15,246</b>	<b>(19)</b>	<b>16,914</b>
Income (loss) from continuing operations before income tax expense (benefit)	918	216	2,275	(1,768)	1,641
Income tax expense (benefit) <sup>(c)</sup>	(865)	(12)	430	-	(447)
<b>Income (loss) from continuing operations</b>	<b>1,783</b>	<b>228</b>	<b>1,845</b>	<b>(1,768)</b>	<b>2,088</b>
<b>Income (loss) from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>363</b>	<b>(20)</b>	<b>343</b>
<b>Net income (loss)</b>	<b>1,783</b>	<b>228</b>	<b>2,208</b>	<b>(1,788)</b>	<b>2,431</b>
Less:					
Net income from continuing operations attributable to noncontrolling interests:					
Noncontrolling nonvoting, callable, junior and senior preferred interests	-	-	-	519	519
Other	-	-	119	-	119
<b>Total income from continuing operations attributable to noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>119</b>	<b>519</b>	<b>638</b>
Income from discontinued operations attributable to noncontrolling interests	-	-	10	-	10
<b>Total net income attributable to noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>129</b>	<b>519</b>	<b>648</b>
<b>Net income (loss) attributable to AIG</b>	<b>1,783</b>	<b>\$ 228</b>	<b>\$ 2,079</b>	<b>\$ (2,307)</b>	<b>\$ 1,783</b>

(a) Eliminated in consolidation.

(b) Includes interest income of \$268 million and \$856 million for March 31, 2011 and March 31, 2010, respectively for American International Group, Inc. (As Guarantor).

(c) Income taxes recorded by American International Group, Inc. (As Guarantor) include deferred tax expense attributable to the pending sale of foreign businesses and a valuation allowance to reduce the consolidated deferred tax asset to the amount more likely than not to be realized. See Note 14 herein for additional information.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**Condensed Consolidating Statement of Cash Flows**

<i>(in millions)</i>	American International Group, Inc. (As Guarantor)	SAFG, Inc.	Other Subsidiaries and Eliminations	Consolidated AIG
<b>Three Months Ended March 31, 2011</b>				
Net cash (used in) provided by operating activities – continuing operations	\$ (5,419)	\$ 131	\$ (1,254)	\$ (6,542)
Net cash (used in) provided by operating activities – discontinued operations	-	-	1,230	1,230
<b>Net cash (used in) provided by operating activities</b>	<b>(5,419)</b>	<b>131</b>	<b>(24)</b>	<b>(5,312)</b>
Cash flows from investing activities:				
Sales of investments	2,155	-	24,232	26,387
Sales of divested businesses, net	1,075	-	(1,075)	-
Purchase of investments	(3)	-	(21,543)	(21,546)
Loans to subsidiaries – net	884	-	(884)	-
Contributions to subsidiaries – net*	(19,020)	-	19,020	-
Other, net*	987	-	29,584	30,571
Net cash (used in) provided by investing activities – continuing operations	(13,922)	-	49,334	35,412
Net cash (used in) provided by investing activities – discontinued operations	-	-	4,205	4,205
<b>Net cash (used in) provided by investing activities</b>	<b>(13,922)</b>	<b>-</b>	<b>53,539</b>	<b>39,617</b>
Cash flows from financing activities:				
Federal Reserve Bank of New York credit facility borrowings	-	-	-	-
Federal Reserve Bank of New York credit facility repayments	(14,622)	-	-	(14,622)
Issuance of other long-term debt	-	-	183	183
Repayments on other long-term debt	(1,458)	-	(2,436)	(3,894)
Drawdown on the Department of the Treasury Commitment*	20,292	-	-	20,292
Issuance of Common Stock	723	-	-	723
Intercompany loans – net	14,399	(131)	(14,268)	-
Other, net*	-	-	(35,530)	(35,530)
Net cash (used in) provided by financing activities – continuing operations	19,334	(131)	(52,051)	(32,848)
Net cash (used in) provided by financing activities – discontinued operations	-	-	(1,637)	(1,637)
<b>Net cash (used in) provided by financing activities</b>	<b>19,334</b>	<b>(131)</b>	<b>(53,688)</b>	<b>(34,485)</b>
Effect of exchange rate changes on cash	-	-	23	23
<b>Change in cash</b>	<b>(7)</b>	<b>-</b>	<b>(150)</b>	<b>(157)</b>
<b>Cash at beginning of period</b>	<b>49</b>	<b>-</b>	<b>1,509</b>	<b>1,558</b>
<b>Change in cash of businesses held for sale</b>	<b>-</b>	<b>-</b>	<b>400</b>	<b>400</b>
<b>Cash at end of period</b>	<b>\$ 42</b>	<b>\$ -</b>	<b>\$ 1,759</b>	<b>\$ 1,801</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**Condensed Consolidating Statement of Cash Flows (Continued)**

<i>(in millions)</i>	<b>American International Group, Inc. (As Guarantor)</b>	<b>SAFG, Inc.</b>	<b>Other Subsidiaries and Eliminations</b>	<b>Consolidated AIG</b>
<b>Three Months Ended March 31, 2010</b>				
Net cash (used in) provided by operating activities – continuing operations	\$ (83)	\$ (119)	\$ 1,723	\$ 1,521
Net cash (used in) provided by operating activities – discontinued operations	-	-	1,674	1,674
<b>Net cash (used in) provided by operating activities</b>	<b>(83)</b>	<b>(119)</b>	<b>3,397</b>	<b>3,195</b>
Cash flows from investing activities:				
Sales of investments	490	-	16,207	16,697
Sales of divested businesses, net	262	-	1,210	1,472
Purchase of investments	(81)	-	(19,492)	(19,573)
Loans to subsidiaries – net	(881)	-	881	-
Contributions to subsidiaries – net	(2,171)	-	2,171	-
Other, net	(179)	-	(2,524)	(2,703)
Net cash (used in) provided by investing activities – continuing operations	(2,560)	-	(1,547)	(4,107)
Net cash (used in) provided by investing activities – discontinued operations	-	-	(409)	(409)
<b>Net cash (used in) provided by investing activities</b>	<b>(2,560)</b>	<b>-</b>	<b>(1,956)</b>	<b>(4,516)</b>
Cash flows from financing activities:				
Federal Reserve Bank of New York credit facility borrowings	8,300	-	-	8,300
Federal Reserve Bank of New York credit facility repayments	(4,520)	-	(31)	(4,551)
Issuance of other long-term debt	-	-	3,669	3,669
Repayments on other long-term debt	(1,398)	-	(2,507)	(3,905)
Proceeds from drawdown on the Department of the Treasury Commitment	2,199	-	-	2,199
Repayment of Department of Treasury SPV Preferred Interests				
Repayment of Federal Reserve Bank of New York SPV Preferred Interests				
Issuance of Common Stock				
Acquisition of noncontrolling interest				
Intercompany loans – net	(1,635)	117	1,518	-
Other, net	-	-	(3,219)	(3,219)
Net cash (used in) provided by financing activities – continuing operations	2,946	117	(570)	2,493
Net cash (used in) provided by financing activities – discontinued operations	-	-	(2,759)	(2,759)
<b>Net cash (used in) provided by financing activities</b>	<b>2,946</b>	<b>117</b>	<b>(3,329)</b>	<b>(266)</b>
Effect of exchange rate changes on cash	-	-	(42)	(42)
<b>Change in cash</b>	<b>303</b>	<b>(2)</b>	<b>(1,930)</b>	<b>(1,629)</b>
<b>Cash at beginning of period</b>	<b>57</b>	<b>2</b>	<b>4,341</b>	<b>4,400</b>
<b>Reclassification to assets held for sale</b>	<b>-</b>	<b>-</b>	<b>(638)</b>	<b>(638)</b>
<b>Cash at end of period</b>	<b>\$ 360</b>	<b>\$ -</b>	<b>\$ 1,773</b>	<b>\$ 2,133</b>

\* Includes activities related to the Recapitalization. See Note 12 herein.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**
**Supplementary disclosure of cash flow information:**

	<b>American International Group, Inc. (As Guarantor)</b>	<b>SAFG, Inc.</b>	<b>Other Subsidiaries and Eliminations</b>	<b>Consolidated AIG</b>
<b>Cash (paid) received during the three months ended March 31, 2011 for:</b>				
Interest:				
Third party*	\$ (5,147)	\$ (32)	\$ (617)	\$ (5,796)
Intercompany	(162)	(62)	224	-
Taxes:				
Income tax authorities	\$ 14	\$ -	\$ (398)	\$ (384)
Intercompany	(44)	-	44	-
<b>Cash (paid) received during the three months ended March 31, 2010 for:</b>				
Interest:				
Third party	\$ (383)	\$ (63)	\$ (601)	\$ (1,047)
Intercompany	(1)	(61)	62	-
Taxes:				
Income tax authorities	\$ -	\$ -	\$ (604)	\$ (604)
Intercompany	1	-	(1)	-

\* Includes payment of FRBNY credit facility accrued compounded interest of \$4.7 billion for the three months ended March 31, 2011.

**American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:**

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
<b>Intercompany non-cash financing and investing activities:</b>		
Temporary paydown of FRBNY Credit Facility by subsidiary	\$ -	\$ 31
Return of capital and dividend received in the form of bond trading securities	3,668	-
Capital contributions to subsidiaries through forgiveness of loans	-	100
Intercompany loan receivable offset by intercompany payable	18,187	-
Other capital contributions – net	(906)	211

**16. Subsequent Event**

On April 20, 2011, Chartis announced that it entered into an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which the majority of Chartis' U.S. asbestos liabilities will be transferred to NICO. At the closing of this transaction, but effective as of January 1, 2011, Chartis will cede the bulk of its net asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$3.5 billion. Chartis will pay NICO approximately \$1.65 billion in respect of the cession. For those asbestos claims subject to the reinsurance from NICO, NICO will assume responsibility for claims handling. It will also assume collection responsibility and collectability risk for third-party reinsurance related to those claims. This transaction will be accounted for as retroactive reinsurance and is expected to result in a deferred gain of approximately \$200 million in the second quarter of 2011 which is expected to be amortized over the settlement period of the underlying claims. The closing of the transaction is subject to receipt of required regulatory approvals, execution of definitive transaction documentation and satisfaction of other conditions.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Cautionary Statement Regarding Forward-Looking Information**

This Quarterly Report on Form 10-Q and other publicly available documents may include, and officers and representatives of American International Group, Inc. (AIG) may from time to time make, projections, goals, assumptions and statements that may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control. These projections, goals, assumptions and statements may address, among other things:

- the timing of the disposition of the ownership position of the United States Department of the Treasury (Department of the Treasury) in AIG;
- the timing and method of repayment of the preferred interests (the SPV Preferred Interests) in AIA Aurora LLC held by the Department of the Treasury;
- AIG's exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets and state and municipal bond issuers;
- AIG's strategy for risk management;
- AIG's ability to retain and motivate its employees;
- AIG's generation of deployable capital;
- AIG's return on equity and earnings per share long-term aspirational goals;
- AIG's strategy to grow net investment income, efficiently manage capital and reduce expenses;
- AIG's strategy for customer retention, growth, product development, market position, financial results and reserves; and
- The revenues and combined ratios of AIG's subsidiaries.

It is possible that AIG's actual results and financial condition will differ, possibly materially, from the anticipated results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause AIG's actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- actions by credit rating agencies;
- changes in market conditions;
- the occurrence of catastrophic events;
- significant legal proceedings;
- concentrations in AIG's investment portfolios, including its municipal bond portfolio;
- judgments concerning casualty insurance underwriting and reserves;
- judgments concerning the recognition of deferred tax assets; and
- such other factors as are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), in Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and in Part I, Item 1A. Risk Factors of the Annual Report on Form 10-K of AIG for the year ended December 31, 2010 (AIG's 2010 Annual Report on Form 10-K).

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

## Use of Non-GAAP Measures

Throughout this MD&A, AIG presents its operations in the way it believes will be most meaningful and representative of ongoing operations as well as most transparent. Certain of the measurements used by AIG management are "non-GAAP financial measures" under SEC rules and regulations.

In light of its significant divestiture and restructuring related activities, AIG defines after-tax operating income (loss) attributable to AIG to exclude income (loss) from any discontinued operations, income (loss) from divested businesses that did not qualify for discontinued operations accounting treatment, net gain (loss) on sale of divested business, amortization of the Federal Reserve Bank of New York (FRBNY) prepaid commitment fee asset, goodwill impairment charges arising from divestiture-related activities, realized capital gains (losses) net of the SunAmerica Financial Group (SunAmerica) deferred policy acquisition costs (DAC) offset, bargain purchase gains, the effect of non-qualifying derivative hedging gains (losses), and deferred income tax valuation allowance charges and releases. AIG believes that this measure of after-tax operating income (loss) permits a better assessment and enhanced understanding of the operating performance of its businesses by highlighting the results from ongoing operations and the underlying profitability of its businesses, without the distortive effects of the highly unusual events that have affected AIG since 2008. A reconciliation of after-tax operating income attributable to AIG to net income attributable to AIG for the year ended December 31, 2010 is set forth below.

AIG has set certain long-term goals for operating return on equity (ROE) and annual percentage growth rate of operating earnings per share (EPS) that are calculated using after-tax operating income (loss), as defined above. ROE is defined as after-tax operating income attributable to AIG as a percentage of AIG adjusted shareholders' equity (which is shareholder's equity excluding accumulated other comprehensive income). EPS is defined as after-tax operating income attributable to AIG divided by AIG's diluted weighted average outstanding shares. AIG focuses on these measures because it believes they provide the most effective means for assessing AIG's business performance against its long-term aspirational goals. To the extent that the non-GAAP financial measures discussed below constitute forward-looking information, a reconciliation to the most directly comparable measure under GAAP is not available without unreasonable efforts.

AIG analyzes the operating performance of Chartis, Inc. (Chartis) using underwriting profit (loss). Operating income (loss), which is before net realized capital gains (losses) and related DAC and sales inducement asset (SIA) amortization and goodwill impairment charges, is utilized to report results for SunAmerica operations. Management believes that these measures enhance the understanding of the underlying profitability of the ongoing operations of these businesses and allow for more meaningful comparisons with AIG's insurance competitors.

## Executive Overview

*This executive overview of management's discussion and analysis highlights selected information and may not contain all of the information that is important to readers of AIG's financial statements. This Quarterly Report on Form 10-Q should be read in its entirety, together with AIG's 2010 Annual Report on Form 10-K, for a complete description of events, trends and uncertainties as well as the capital, liquidity, credit, operational and market risks and the critical accounting estimates affecting AIG and its subsidiaries.*

AIG reports the results of its operations through the following reportable segments:

- **Chartis** — AIG's property and casualty operations are conducted through multiple-line companies writing substantially all commercial and consumer lines both domestically and abroad. Chartis offers its products through a diverse, multi-channel distribution network that includes agents, wholesalers, global and local brokers, and direct-to-consumer platforms. Beginning in the third quarter of 2010, reporting includes the results of Fuji Fire & Marine Insurance Company Limited (Fuji), a recently consolidated business which writes primarily consumer lines in Japan.
- **SunAmerica Financial Group (SunAmerica)** — SunAmerica offers a comprehensive suite of products and services to individuals and groups, including term life, universal life, accident and health (A&H), fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. SunAmerica offers

its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms.

- **Financial Services** — AIG's financial services businesses engage primarily in commercial aircraft leasing through International Lease Finance Corporation (ILFC) and the management of the remaining Capital Markets derivatives portfolios through AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP).

#### Highlights of Restructuring Activities

AIG substantially completed its recapitalization plan (the Recapitalization) and its asset disposition plan with the following significant milestones in 2011:

- On January 14, 2011 (the Closing), AIG completed the Recapitalization, which included:
  - repaying the \$20.7 billion outstanding balance and terminating the credit facility provided by the FRBNY (such credit facility, the FRBNY Credit Facility). As a result of the termination of the FRBNY Credit Facility, AIG recorded a net \$3.3 billion pre-tax charge for a loss on extinguishment of debt in the first quarter of 2011, primarily representing the accelerated amortization of the remaining prepaid commitment fee asset;
  - applying proceeds from the AIA Group Limited (AIA) initial public offering and the American Life Insurance Company (ALICO) sale to partially repay the U.S. government's ownership interests in special purpose vehicles that held AIA and ALICO (the AIA SPV and the ALICO SPV, respectively, and collectively, the SPVs). As part of the Recapitalization, AIG used approximately \$6.1 billion of the cash proceeds from the sale of ALICO to repay a portion of the liquidation preference and accrued return of the SPV Preferred Interests. The SPV Preferred Interests were further reduced during the first quarter of 2011 by approximately \$9.1 billion using proceeds from the sale of AIG Star Life Insurance Co., Ltd. (AIG Star), AIG Edison Life Insurance Company (AIG Edison) and the sale of MetLife, Inc. (MetLife) securities received in the sale of ALICO, in each case, discussed below; and
  - exchanging preferred stock held by the Department of the Treasury and the AIG Credit Facility Trust (the Trust) for AIG common stock, par value \$2.50 per share (AIG Common Stock).
- On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan Life Insurance Company, Ltd. (Nan Shan) to a Taiwan-based consortium for \$2.16 billion in cash, subject to regulatory approvals and other conditions. Discussions with regulators and other interested parties are ongoing.
- On January 31, 2011, ILFC entered into an unsecured \$2.0 billion three-year revolving credit facility. On March 30, 2011, ILFC entered into a secured \$1.3 billion term loan with the right to add an additional \$200 million of lender commitments. On April 21, 2011, ILFC increased its secured \$1.3 billion term loan for a total commitment of \$1.5 billion.
- On February 1, 2011, AIG completed the sale of its Japan-based life insurance subsidiaries, AIG Star and AIG Edison, to Prudential Financial, Inc., for \$4.8 billion, consisting of \$4.2 billion in cash and \$0.6 billion in the assumption of third-party debt.
- On March 8, 2011, AIG completed the disposition of MetLife securities received upon the sale of ALICO to MetLife and used \$6.6 billion of the proceeds to repay all of the liquidation preference and accrued return of the Department of the Treasury's ALICO SPV Preferred Interests and a portion of the liquidation preference and accrued return of the Department of the Treasury's AIA SPV Preferred Interests.
- On April 20, 2011, Chartis announced that it entered into an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which the majority of Chartis' U.S. asbestos

liabilities will be transferred to NICO. At the closing of this transaction, but effective as of January 1, 2011, Chartis will cede the bulk of its net asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$3.5 billion. Chartis will pay NICO approximately \$1.65 billion in respect of the cession. Subject to required regulatory approvals, execution of definitive transaction documentation and satisfaction of other conditions, this transaction is expected to close in the second quarter of 2011.

See Capital Resources and Liquidity herein and Notes 1, 4 and 16 to the Consolidated Financial Statements for additional information on these transactions.

#### Long-Term Aspirational Goals

Following the completion of the Recapitalization, AIG is developing business plans for its operations in relation to certain long-term aspirational goals. Among the most significant of AIG's enterprise-wide long-term aspirational goals are the following:

- to increase its ROE to 10 percent or more by the year ended December 31, 2015, from its 6.2 percent normalized ROE as of and for the year ended December 31, 2010; and
- to achieve average annual percentage growth of its EPS in the mid-teens through the year ended December 31, 2015, from normalized EPS of \$2.62 for the year ended December 31, 2010.

ROE and EPS in this context are the non-GAAP measures described above. The calculation of ROE and EPS for the year ended December 31, 2010 which is used as a baseline was determined by making certain adjustments to after-tax operating income (loss) attributable to AIG, as described in the reconciliation below, to calculate normalized after-tax operating income attributable to AIG. The baseline ROE was calculated using adjusted shareholders' equity reduced by the net prepaid commitment fee asset remaining at December 31, 2010 and assuming full conversion of AIG's Equity Units, as described in the reconciliation below. All amounts or percentages in this section are approximate.

These aspirational goals are premised on a number of significant assumptions, including the following assumptions, and are by their nature subject to significant uncertainties and contingencies, many of which are outside AIG's control:

- ***AIG's goal is to generate, by seeking to take advantage of global opportunities, approximately \$4 billion to \$5 billion of incremental aggregate pre-tax operating income in 2015 compared to its normalized pre-tax operating income for 2010.*** AIG's goals are to continue to strengthen and grow its businesses by seeking to capitalize on global opportunities, maintaining well-positioned broad franchises in appropriate markets, diversifying AIG's businesses in product and geography and utilizing AIG's underwriting skills across multiple lines and multiple geographies. The achievement of this goal is dependent upon improved performance by AIG's businesses. In particular, for this goal, AIG assumes that:
  - Chartis will have achieved an average annual growth rate in net premiums written of approximately 6 percent from 2010 to 2015, and, by the year ended December 31, 2015, a combined ratio of between 90 and 95, which would result in an unleveraged return on equity of 10 to 12 percent (assuming an annual investment yield of approximately 4 percent) for the year ended December 31, 2015.
  - SunAmerica will have achieved by the year ended December 31, 2015, assets under management of \$320 billion and life insurance in force of \$1 trillion, which would result in an unleveraged return on equity of 9 percent for the year ended December 31, 2015. These compare to assets under management of \$249 billion and life insurance in force of \$909 billion at December 31, 2010 and an unleveraged return on equity of 7.4 percent for the year ended December 31, 2010 (normalized to exclude the Maiden Lane II and call and tender income adjustments described in the table below).
  - The goals of ILFC and UGC are to achieve improvements in their businesses to enable them to contribute to the growth in AIG's after-tax operating income.

- AIG's interests in Maiden Lane III will have produced an annual pre-tax return of approximately 9 percent.
- ***The goals of AIG's investment strategy include generating approximately \$500 million to \$700 million in additional annual pre-tax net investment income by fully investing its investable cash.*** At December 31, 2010, AIG had approximately \$21 billion of investable cash, a large portion of which was originally intended to be used for the purchase of the Maiden Lane II securities. As of March 31, 2011, this investable cash had been reduced to approximately \$14 billion. Had AIG been fully invested during 2010, AIG estimates that its net investment income for 2010 would have been approximately \$500 to \$700 million higher. AIG has been actively redeploying its investable cash into higher yielding assets with the goal of achieving attractive risk-adjusted returns in relation to its insurance liabilities. AIG assumes it will achieve an average yield of 4 percent to 5 percent on those new cash investments by employing AIG's current investment strategy.
- ***The goal of AIG's cost rationalization effort is to reduce AIG's annual general and administration expenses by approximately \$1 billion by the year ended December 31, 2015 compared to 2010 expenses.*** AIG has made and expects to continue to make substantial investments in infrastructure to serve its business portfolio efficiently and eliminate redundancies, including its information technology, finance, underwriting and claims infrastructure, and is also expanding its sourcing capabilities globally.
- ***AIG's goal is to generate through December 31, 2015 approximately \$25 billion to \$30 billion of deployable capital to be applied to, among other things, potential share repurchases, dividend payments, acquisitions or organic business opportunities.*** For purposes of setting the ROE and EPS goals, such capital deployment has been assumed to take the form of share repurchases without material increase in financial leverage or reduction in interest coverage. Any share repurchase programs approved by AIG's Board of Directors and regulators are expected to be sufficiently flexible such that they may be modified in the event of a major catastrophic loss, significant change in the underwriting cycle or change in future investment performance. To the extent that AIG applies this deployable capital for dividend payments, acquisitions or organic business opportunities, rather than for share repurchases, AIG may not be able to achieve its aspirational ROE and EPS goals.

In setting these aspirational goals, AIG has made significant assumptions with respect to, among other things, the general conditions of markets in which it operates, revenues and combined ratios of its subsidiaries, investment yields, subsidiaries' capacity to distribute dividends to AIG Parent, AIG's ability to apply deployable capital to share repurchases, dividend payments, acquisitions or organic growth, AIG's ability to maintain financial leverage commensurate with its current credit ratings, the exclusion of the impact on shareholders' equity of the reversal of the tax valuation allowance, the effectiveness of AIG's cost rationalization measures, the approval of planned actions (including with respect to any share repurchases, dividend payments or acquisitions) by AIG's regulators, the overall credit rating implications of AIG's proposed strategic actions and general financial market and interest rate conditions. Given the significance of the assumptions used and the uncertainties surrounding them, there are significant risks that these assumptions may not be realized and thus the aspirational goals may not be achieved. Accordingly, AIG's actual results are likely to differ from these goals and the differences may be material and adverse. The aspirational goals and their underlying assumptions are forward-looking statements. AIG strongly cautions its shareholders and other investors not to place undue reliance on any of these assumptions or goals. AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any assumptions, goals, projections or other related statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. See "Cautionary Statement Regarding Forward-Looking Information" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and in Part I, Item 1A. Risk Factors in AIG's 2010 Report on Form 10-K for additional information regarding these forward-looking statements.

The Long-Term Aspirational Goals section included in this Quarterly Report on Form 10-Q has been prepared by, and is the responsibility of, AIG. AIG's independent registered public accounting firm, PricewaterhouseCoopers LLP, has neither examined, compiled nor performed any procedures with respect to the

accompanying Long-Term Aspirational Goals information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

The following table reconciles Net income attributable to AIG to Normalized after-tax operating income attributable to AIG for the year ended December 31, 2010:

<b>Year Ended December 31, 2010</b>	
<i>(dollars in millions, except share data)</i>	
<b>Net income attributable to AIG</b>	\$ 7,786
<b>Less:</b>	
Net gains (losses) on sale of divested businesses	13,527
Amortization of FRBNY prepaid commitment fee asset	(2,255)
Net income (loss) from discontinued operations, net of tax	(2,118)
Net income from divested businesses (mainly AIA)	1,657
Deferred income tax valuation allowance charge	(1,517)
Net realized capital gains (losses), net of SunAmerica DAC offset	(915)
Bargain purchase gain	332
Non-qualifying derivative hedging gains / losses	(27)
<b>After-tax operating loss attributable to AIG</b>	<b>\$ (898)</b>
<b>Less:</b>	
Prior year loss reserve development	(2,364)
Noncontrolling nonvoting, callable, junior and senior preferred interests	(1,818)
Aircraft impairments and lease related charges	(1,108)
Maiden Lane III fair value change in excess of 9 percent annual return	900
Credit valuation adjustment on Direct Investment Business	610
Tax effect of difference between book and tax realized capital gains (losses)	(574)
FRBNY Credit Facility interest expense	(413)
Real estate impairments	(393)
Restructuring expense	(337)
Maiden Lane II fair value change in excess of 9 percent annual return	294
Call and tender income in excess of 5-year average	141
Other	(548)
<b>Normalized after-tax operating income attributable to AIG</b>	<b>\$ 4,712</b>
Outstanding shares of AIG common stock as of January 14, 2011	1,795,501,842
Normalized EPS	\$ 2.62
Total shareholders' equity as of December 31, 2010	\$ 85,319
<b>Less:</b>	
Accumulated other comprehensive income	7,624
Net FRBNY prepaid commitment fee asset	3,328
Conversion of Equity Units	(2,169)
<b>Adjusted shareholders' equity as of December 31, 2010</b>	<b>\$ 76,536</b>
Normalized ROE	6.2%

#### Priorities for 2011

AIG is focused on the following priorities for 2011:

- continuing to strengthen and grow AIG's businesses;
- executing one or more primary offerings of AIG Common Stock;
- implementing plans to maximize the value of resources available for repayment of the AIA SPV Preferred Interests held by the Department of the Treasury;
- continuing to build, strengthen and streamline the financial and operating systems infrastructure throughout the organization, particularly in financial reporting, financial operations and human resources;

American International Group, Inc. and Subsidiaries

- restructuring AIG's operations consistent with its smaller size and plans to increase its competitiveness;
- managing its capital more efficiently;
- investing its available cash in order to increase its net investment income;
- streamlining operations and controlling expenses;
- completing the active unwind of AIGFP's portfolios by June 30, 2011; and
- closing the Nan Shan sale.

## Chartis

Given current property and casualty industry capital levels and overall economic conditions, 2011 is anticipated to be a challenging year as Chartis expects a weak growth environment in most developed economies. The weakness of ratable exposures (i.e., asset values, payrolls, and sales) in 2010 and its negative impact on the overall market premium base, as well as continued weakness in U.S. commercial insurance rates, are likely to continue well into 2011. However, in the first quarter of 2011, Chartis has observed that the extent of ratable exposure weakness in the United States is beginning to abate. In certain growth economies such as Brazil, Turkey, India, and Asia Pacific countries, Chartis expects improved growth rates.

In 2011, Chartis continues to execute on its strategy of growing its higher margin and less capital intensive lines of business and, as required, implementing corrective actions on underperforming businesses. Management continues to review its underlying businesses to ensure that they meet overall performance measures while seeking to reduce the overall volatility of results. In connection with these ongoing reviews, during the three months ended March 31, 2011, management took certain remedial actions relating to certain Consumer line programs that did not meet internal performance or operating targets, including the decision to reduce its net premiums written for two specific programs. Notwithstanding these actions, Chartis U.S. expects to continue to grow its Consumer lines business and, excluding these specific actions, the overall Consumer business continues to see growth in line with management's expectations.

To the extent that the aforementioned ratable exposures continue to improve, Chartis U.S. expects moderate growth in both gross and net written premiums in 2011. Chartis U.S. expects continued growth within its Consumer lines business and an overall decline in certain classes of its Commercial lines businesses. Because the consumer lines of business generally carry higher origination costs than commercial lines, Chartis U.S. expects an overall increase in its expense ratio due to the change in mix of business. However, these increases are expected to be largely offset by on-going expense saving initiatives that were introduced in 2010.

Chartis International expects continued growth of its net written premiums in 2011. Given its well-established franchises and operations, expectations for continued globalization and growth in the gross domestic product within countries included in the Growth Economies region, Chartis International intends to increase its insurance penetration and growth within commercial liability businesses overseas. This growth is expected in the Far East and Growth Economies regions. Strong pricing discipline in a continued soft market is expected to keep the Europe region net written premiums at levels consistent with 2010. Far East growth in 2011 is expected to be attributable in part to the full-year inclusion of the Fuji results of operations, compared to only six months of results in 2010. Further, in connection with the acquisition of a controlling interest in Fuji in 2010, Chartis recognized certain net intangible liabilities related to the difference between the fair value and the carrying value of the insurance contracts acquired.

On February 10, 2011, Chartis announced a cash tender offer for the 45.2 percent of outstanding Fuji shares that it did not already own, as well as outstanding stock acquisition rights. As a result of the offer, at March 31, 2011, Chartis owned 98.4 percent of the aggregate shares of Fuji. Chartis intends ultimately to acquire the remaining minority shares, making Fuji a wholly-owned subsidiary of Chartis. This acquisition is consistent with Chartis' strategy to diversify its portfolio of businesses on both a geographic and product line basis and is intended to strengthen Chartis' position in the consolidating Japanese market, while enabling Fuji to benefit from Chartis' global operational resources and financial strength. See Note 5 to the Consolidated Financial Statements for further discussion.



On March 11, 2011, a major earthquake occurred near the northeast coast of Honshu, Japan, triggering a tsunami in the Pacific Ocean. This disaster is now named the Great Tohoku Earthquake & Tsunami (the Tohoku Catastrophe).

The following table summarizes Chartis charges related to the Tohoku Catastrophe:

Three Months Ended March 31, 2011 (in millions)	Chartis U.S.*	Chartis International	Total
Claims and claims adjustment expenses	\$ 434	\$ 864	\$ 1,298
Reinsurance reinstatement premiums	(4)	43	39
<b>Total</b>	<b>\$ 430</b>	<b>\$ 907</b>	<b>\$ 1,337</b>

\* Chartis U.S. losses included approximately \$200 million relating to reinsurance protection it provides to Chartis International as part of Chartis' overall capital management and reinsurance strategies. Chartis U.S. received reinstatement premiums of \$25 million from Chartis International in connection with this protection.

The claims and claims adjustment expenses above include \$436 million relating to Chartis' participation in the Japanese Earthquake Reinsurance Company (JERC). The JERC is a joint government-private sector insurance system that is the exclusive provider of earthquake coverage for personal dwellings and their contents in Japan. Under the JERC system, a maximum of 5.5 trillion Yen (\$67 billion at the March 31, 2011 exchange rate) of industry-wide losses will be covered by the Japanese government, the JERC, and private, general insurance companies in Japan through five layers of liability. Fuji is a 6.2 percent shareholder of the JERC. As such, Fuji, in accordance with Japanese statutory accounting rules, as well as the requirements of private sector participants in the JERC, had previously established reserves of approximately \$482 million for potential claims associated with earthquake damage to personal dwellings. These reserves, which are backed by funds held by the JERC, exist to cover the potential losses that Fuji could sustain in connection with JERC-related claims. Given these statutory reserves, and its current estimate of losses, Chartis expects minimal net effects on the statutory capital and liquidity of its Japanese operations.

The Tohoku Catastrophe caused significant damage to Japan's transportation, power, manufacturing and service sectors and resulted in disruptions to supply chains, particularly in the technology and automobile industries. These disruptions may result in contingent business interruption (CBI) claims from insureds.

Generally, CBI coverage reimburses insureds for loss of business income or extra expense as a result of physical damage sustained by a supplier. The insured's supplier must have sustained physical damage by a peril otherwise covered by the insured's property policy and subject to its respective policy terms and conditions. Potential CBI losses are difficult to initially ascertain due to the unique facts and circumstances of each insured's supply chain and the specific conditions of its CBI coverage.

Chartis believes that the estimated loss liabilities for this catastrophe, including reserves established for CBI claims and JERC-related losses, are reasonable. However, given the unprecedented nature of the catastrophe and the inherent nature of the underlying claims, the subsequent development of these liabilities in future periods could vary materially from amounts included in the accompanying financial statements.

In addition to its policyholder obligations, Chartis responded to the Tohoku Catastrophe with humanitarian and financial assistance through its extensive networks in Japan and abroad.

On April 20, 2011, Chartis announced that it had entered into an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway, Inc., under which the majority of Chartis' U.S. asbestos liabilities will be transferred to NICO as part of Chartis' ongoing strategy to reduce its overall loss reserve development risk. The transaction with NICO covers potentially volatile U.S.-related asbestos exposures. The transaction does not cover asbestos accounts that Chartis believes have already been reserved to their limit of liability or certain other ancillary asbestos exposure assumed by Chartis affiliates.

Upon the closing of this transaction, but effective as of January 1, 2011, Chartis will cede the bulk of its net asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$3.5 billion. Chartis will pay NICO approximately \$1.65 billion as consideration for this cession and NICO will assume approximately \$1.85 billion of net asbestos liabilities. As a result of this transaction, Chartis expects to record a

deferred gain of approximately \$200 million in the second quarter 2011, which will be deferred and amortized into the Chartis results of operations over the settlement period of the underlying claims.

Subject to required regulatory approvals, execution of definitive transaction documentation, and satisfaction of other conditions, this transaction is expected to close in the second quarter of 2011.

Chartis presents its financial information in the manner by which the business is currently being managed, with Chartis U.S. and Chartis International as the primary units included in the segment. On March 31, 2011 AIG announced a reorganization of its Chartis operations and named a new management team. Under the new structure, Chartis will consist of two major global groups — commercial and consumer — with the supporting claims, actuarial, and underwriting disciplines integrated into these two major business operations. In addition, Chartis will be organized geographically as four principal regions: the United States & Canada, Europe, the Far East, and Growth Economies (primarily Asia Pacific, the Middle East and Latin America). As the new structure is implemented, the presentation of Chartis results will be modified accordingly and prior periods' presentations will be conformed. Chartis currently anticipates that the completion of its organization and operating design and related segment reporting changes will be completed in the third quarter of 2011.

## SunAmerica

SunAmerica intends in 2011 to expand its distribution capabilities, reposition its excess cash and liquidity, maintain a strong statutory surplus, pro-actively manage expenses and, subject to regulatory approval, increase dividends paid to AIG Parent. SunAmerica made progress on all of these fronts during the first quarter of 2011.

SunAmerica built up a large cash and short-term position with the desire to purchase assets from the Maiden Lane II portfolio. With the FRBNY's decision to sell the MLII assets through a competitive sales process, SunAmerica began to acquire other fixed income investments that generally had lower investment yields. SunAmerica intends to improve net investment income results in 2011 by investing its excess cash and liquid assets in longer-term higher-yielding securities to improve spreads, while actively managing credit and liquidity risks. SunAmerica made progress in the latter part of the first quarter of 2011 reducing its cash and short-term investment position from \$19.4 billion at December 31, 2010 to \$13.1 billion at March 31, 2011.

After a period of historic lows, interest rates generally increased at the longer part of the yield curve during the latter part of 2010 and through the first quarter of 2011. This change in the interest rate environment increased the relative attractiveness of fixed annuities compared to alternative products. Should interest rates remain at first quarter 2011 levels or continue to rise, SunAmerica believes that its fixed annuity sales should remain strong in 2011.

SunAmerica has experienced an increase in its variable annuity sales as various distribution partners have resumed sales of SunAmerica's products during 2010 and 2011. SunAmerica recently announced that its largest pre-financial crisis variable annuity distribution partner has agreed to resume distribution of SunAmerica's products in mid-2011. As a result of broader distribution opportunities and improvement in the equity markets, SunAmerica expects continued improvement in its variable annuity sales.

The estimated gross profits used to amortize Deferred Policy Acquisition Costs (DAC), Value of Business Acquired (VOBA) and Sales Inducement Assets (SIA) are subject to differing market returns and interest rate environments in any single period. Estimated gross profit is comprised of net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality and morbidity gains and losses. SunAmerica uses a reversion to mean methodology to account for fluctuations in separate account returns for its variable annuity business. Continued favorable separate account returns could trigger a favorable unlocking, where the reversion to mean assumption is reset. If current favorable equity market returns continue in 2011, such an unlocking could occur in 2011, which could result in higher amortization requirements in future periods. Such positive unlocking is not expected to be significant to SunAmerica's operating results.

SunAmerica focuses on identifying cost effective opportunities to manage its intercompany reinsurance transactions, particularly with respect to certain redundant statutory reserve requirements on term insurance and universal life with secondary guarantees (XXX and AXXX reserves). For this purpose, SunAmerica had a \$2.65 billion syndicated letter of credit facility and \$215 million of letters of credit on a bilateral basis outstanding at March 31, 2011, all of which relate to intercompany life reinsurance transactions. All of these letters of credit are due to mature on December 31, 2015. During the quarter, SunAmerica modified certain of these intercompany reinsurance agreements to extend the reinsurance benefits, increase capacity and reduce costs.

## Financial Services

### ILFC

ILFC continues to execute on its strategy to manage its fleet of aircraft, and expects to continue selling certain aircraft throughout the year. Depending on market conditions and the specific aircraft that may be sold, ILFC may incur additional losses on sales or record asset impairment charges, although these are not currently expected to be at the level of charges recognized in 2010.

### AIGFP

AIG expects the active unwind of the AIGFP derivatives portfolio to be completed by the end of the second quarter of 2011, and the remaining AIGFP derivatives portfolio will consist predominantly of transactions AIG believes will be of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis. The cost and liquidity needs of executing the AIGFP portfolio wind-down will depend on many factors, many of which are not within AIG's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades.

## Other Operations

### Mortgage Guaranty

United Guaranty Corporation (UGC) aims to continue to improve its book of business aided by differentiated pricing and improvements in underwriting practices. UGC continues to deny claims and rescind coverage on loans (collectively referred to as rescissions) in situations related to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms, mostly with respect to the 2006 and 2007 vintage books of business. These policy violations have resulted in loan rescissions totaling \$211 million of claims on first-lien business during the first three months of 2011 compared to \$80 million during the same period in 2010. Although rescissions will continue to affect UGC's financial results, they have declined as a percentage of claims due to a higher level of appeals and overturns resulting from additional resources deployed by lenders and mortgage servicers to address loan documentation issues. Although these items may increase volatility in the future, AIG believes it has provided appropriate reserves for currently delinquent loans after consideration of rescissions and overturns, consistent with industry practice.

Foreclosure moratoriums as a result of state attorneys' general investigations into lenders' foreclosure practices and new financial regulations initiated in 2010 may affect UGC's future financial results. Final resolution of these issues is unclear and UGC cannot reasonably estimate the ultimate financial impact that any of these actions individually or collectively may have on its future results of operations or financial condition.

In March 2011, federal regulators (as required by the Dodd-Frank Act) issued a proposed risk retention rule that included a definition of a Qualified Residential Mortgage (QRM) whereby a maximum loan-to-value ratio (LTV) of 80 percent is required for a home purchase transaction. The LTV is calculated without imputing any benefit from private mortgage insurance coverage that may be purchased for that loan. The final regulations, depending on the conclusive definition of a QRM, the maximum LTV allowed and the benefit, if any, prescribed to the presence of private mortgage insurance, could materially adversely impact UGC's volume of domestic first lien new insurance written.

## Direct Investment Business

During 2011, AIG expects to continue the exit and wind-down of non-strategic assets within the Global Real Estate investment portfolio. AIG carefully evaluates each investment within the portfolio with a view towards optimizing the value of higher quality assets by considering the risk adjusted returns, overall investment risks and

funding commitment, among other aspects. This strategy may extend the hold times for certain assets within the portfolio in order to maximize returns.

**The remainder of MD&A is organized as follows:**

<b>Index</b>	<b>Page</b>
<b>Results of Operations</b>	<b>100</b>
Consolidated Results	100
Segment Results	104
Chartis Operations	105
Liability for unpaid claims and claims adjustment expense	115
SunAmerica Operations	119
Financial Services Operations	124
Other Operations	126
<b>Capital Resources and Liquidity</b>	<b>129</b>
<b>Investments</b>	<b>141</b>
Investment Strategy	141
Other-Than-Temporary Impairments	150
<b>Enterprise Risk Management</b>	<b>154</b>
<b>Critical Accounting Estimates</b>	<b>157</b>

AIG has incorporated into this discussion a number of cross-references to additional information included throughout this Quarterly Report on Form 10-Q to assist readers seeking additional information related to a particular subject.

**Results of Operations**

## Consolidated Results

The following table presents AIG's condensed consolidated results of operations:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Revenues:</b>			
Premiums	\$ 9,482	\$ 10,914	(13)%
Policy fees	684	648	6
Net investment income	5,569	5,200	7
Net realized capital losses	(651)	(334)	(95)
Aircraft leasing revenue	1,156	1,243	(7)
Other income	1,196	884	35
<b>Total revenues</b>	<b>17,436</b>	<b>18,555</b>	<b>(6)</b>
<b>Benefits, claims and expenses:</b>			
Policyholder benefits and claims incurred	8,959	8,593	4
Interest credited to policyholder account balances	1,105	1,109	-
Amortization of deferred acquisition costs	1,716	2,022	(15)
Other acquisition and insurance expenses	1,551	1,610	(4)
Interest expense	1,061	1,751	(39)
Aircraft leasing expenses	670	1,004	(33)
Loss on extinguishment of debt	3,313	-	-
Net loss on sale of divested businesses and properties	72	76	(5)
Other expenses	369	749	(51)
<b>Total benefits, claims and expenses</b>	<b>18,816</b>	<b>16,914</b>	<b>11</b>
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>(1,380)</b>	<b>1,641</b>	<b>-</b>
<b>Income tax benefit</b>	<b>(200)</b>	<b>(447)</b>	<b>55</b>
<b>Income (loss) from continuing operations</b>	<b>(1,180)</b>	<b>2,088</b>	<b>-</b>
<b>Income from discontinued operations, net of income tax benefit</b>	<b>1,653</b>	<b>343</b>	<b>382</b>
<b>Net income</b>	<b>473</b>	<b>2,431</b>	<b>(81)</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>204</b>	<b>648</b>	<b>(69)</b>
<b>Net income attributable to AIG</b>	<b>\$ 269</b>	<b>\$ 1,783</b>	<b>(85)%</b>

The following commentary discusses significant fluctuations for the three-months ended March 31, 2011 compared to the same period in 2010.

**Premiums**

Premiums decreased primarily due to the deconsolidation of AIA in the fourth quarter of 2010, partially offset by an increase in Chartis premiums, which reflects the consolidation of Fuji commencing in the third quarter of 2010.

**Policy Fees**

Policy fees increased primarily due to higher variable annuity fees on the separate account assets consistent with the growth in variable accounts assets as a result of positive equity market conditions in 2010 through the first quarter of 2011.

**Net Investment Income**

The following table summarizes the components of Net investment income:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
Fixed maturities, including short-term investments	\$ 2,691	\$ 3,581	(25)%
ML II	251	160	57
ML III	744	751	(1)
Change in fair value of AIA securities	1,062	-	-
Change in the fair value of MetLife securities prior to the sale	(157)	-	-
Other equity securities	41	53	(23)
Interest on mortgage and other loans	267	341	(22)
Partnerships	654	381	72
Mutual funds	49	14	250
Real estate	25	26	(4)
Other investments	69	19	263
Total investment income before policyholder income and trading gains	5,696	5,326	7
Policyholder investment income and trading gains (losses)	-	(75)	-
Total investment income	5,696	5,251	8
Investment expenses	127	51	149
Net investment income	\$ 5,569	\$ 5,200	7%

Net investment income increased primarily due to fair value gains on the investment in AIA securities and higher income from partnership investments due to an improved market environment, partially offset by the effect of the deconsolidation of AIA in the fourth quarter of 2010.

**Net Realized Capital Gains (Losses)**

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase (Decrease)
Sales of fixed maturity securities	\$ 133	\$ 339	(61)%
Sales of equity securities	103	198	(48)
Other-than-temporary impairments:			
Severity	(8)	(31)	74
Change in intent	(4)	(8)	50
Foreign currency declines	(2)	(3)	33
Issuer-specific credit events	(227)	(822)	72
Adverse projected cash flows on structured securities	(13)	-	-
Provision for loan losses	15	(125)	-
Change in the fair value of MetLife securities prior to the sale	(191)	-	-
Foreign exchange transactions	(691)	658	-
Derivative instruments	306	(514)	-
Other	(72)	(26)	(177)
Net realized capital losses	\$ (651)	\$ (334)	(95)%

Net realized capital losses increased reflecting the following:

- foreign exchange transaction losses incurred compared to gains primarily resulting from the weakening of the U.S. dollar against the Euro and the British pound; and
- lower gains on sales of fixed maturity and equity securities.

These declines were partially offset by lower other-than-temporary impairment charges and gains from derivative instruments not designated for hedge accounting compared to losses in the year-ago period which resulted from the weakening of the U.S. dollar against the Euro and British pound, along with an increase in interest rates.

### **Aircraft Leasing Revenue**

Aircraft leasing revenue decreased due to a reduction in the size of ILFC's aircraft fleet under operating leases as a result of the sales of aircraft throughout 2010 and 2011. At March 31, 2011, ILFC had 933 aircraft in its fleet, compared to 993 at March 31, 2010.

### **Other Income**

Other income includes unrealized gains and losses on derivatives including unrealized market valuation gains and losses associated with Capital Markets' super senior credit default swap (CDS) portfolio as well as income from Asset Management operations. Other income increased due to:

- an increase of \$204 million in unrealized market valuation gains related to the super senior credit default swap portfolio resulting primarily from CDS transactions written on multi-sector CDOs driven by price improvement and amortization of the underlying assets;
- increases in credit valuation adjustments on Capital Markets derivative assets and liabilities and Direct Investment business assets and liabilities, which are measured at fair value, of \$206 million and \$58 million, respectively, resulting from the net effect of changes in credit spreads; and
- the effects of the continued wind-down of the AIGFP derivatives portfolio.

These increases were partially offset by the effect of a bargain purchase gain of \$332 million recognized in the first quarter of 2010 related to the acquisition of Fuji. See Note 5 to the Consolidated Financial Statements.

See Segment Results — Financial Services Operations — Financial Services Results — Capital Markets Results and Critical Accounting Estimates — Valuation of Level 3 Assets and Liabilities and Note 6 to the Consolidated Financial Statements.

### **Policyholder Benefits and Claims Incurred**

Policyholder benefits and claims incurred increased primarily due to higher catastrophe losses for Chartis, primarily resulting from the Tohoku Catastrophe, partially offset by the deconsolidation of AIA in the fourth quarter of 2010.

### **Amortization of Deferred Acquisition Costs**

The decline in amortization of Deferred acquisition costs primarily results from the deconsolidation of AIA in the fourth quarter of 2010.

### **Other Acquisition and Other Insurance Expenses**

Policy acquisition and other insurance expenses decreased slightly as a result of the deconsolidation of AIA in the fourth quarter of 2010, partially offset by the consolidation of Fuji commencing in the third quarter of 2010.

### **Interest Expense**

Interest expense decreased primarily as a result of the repayment and termination of the FRBNY Credit Facility on January 14, 2011. See Note 1 to the Consolidated Financial Statements for further discussion.

## **Aircraft Leasing Expenses**

Aircraft leasing expenses decreased due to lower asset impairment and operating lease related charges recorded on aircraft. During the three months ended March 31, 2011, ILFC recorded asset impairment and operating lease related charges of \$113 million on certain aircraft related primarily to sales and potential sales of 10 aircraft. During the three months ended March 31, 2010, ILFC recorded asset impairment and operating lease related charges of \$431 million related to aircraft agreed to be sold.

## **Loss on Extinguishment of Debt**

The loss on extinguishment of debt for the first quarter of 2011 represents a \$3.3 billion charge, primarily consisting of the accelerated amortization of the prepaid commitment fee asset resulting from the termination of the FRBNY Credit Facility on January 14, 2011. See Note 1 to the Consolidated Financial Statements for further discussion.

## **Other Expenses**

Other expenses includes expenses associated with Capital Markets, Asset Management and AIG Parent. Other expenses decreased due to:

- lower operating costs for the Institutional Asset Management business due to the effect of deconsolidation of certain portfolio investments and the sale of AIG's third party asset management business; and
- lower provisions for credit losses for consumer finance businesses not presented as discontinued operations.

## **Income Tax Benefits**

### **Interim Tax Calculation Method**

Beginning with the first quarter of 2011, AIG utilized the estimated annual effective tax rate method in computing its interim tax provision. The recent stabilization of operations and expected financial results allows AIG to estimate the annual effective tax rate to be applied to year-to-date income.

Since the third quarter of 2008, the discrete period method was utilized due to the significant variations in the customary relationship between income tax expense and pre-tax accounting income, which were partly due to the effects of AIG's asset disposition program and restructuring.

Included in the estimated annual effective rate is a full valuation allowance against the tax expense of the U.S. consolidated income tax group, and statutory rates were used for computing the tax expense of foreign subsidiaries.

Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit applicable to that item is treated discretely, and is reported in the same period as the related item. For the three-month period ended March 31, 2011, the tax effects of the loss on extinguishment of debt, other-than-temporary impairments, realized capital gains and losses, the sale of Met Life securities, and divestiture gains or losses were treated as discrete items.

### **Interim Tax Expense (Benefit)**

For the three-month period ended March 31, 2011, the effective tax rate on pretax income from continuing operations was 14.5 percent. The effective tax rate for the three-month period ended March 31, 2011, attributable to continuing operations differs from the statutory rate of 35 percent primarily due to an increase in the valuation allowance attributable to continuing operations for the U.S. consolidated income tax group, tax effects associated with tax exempt interest income, investments in partnerships, and changes in uncertain tax positions.



For the three-month period ended March 31, 2010, the effective tax rate on the pre-tax income from continuing operations was (27.2) percent. The effective tax rate was negative because AIG recorded a tax benefit on pre-tax income. The tax benefit was primarily due to decreases in the deferred tax asset valuation allowance resulting from changes in the expected taxable gain on subsidiaries to be sold, the tax benefit associated with tax exempt interest, and the bargain purchase gain associated with the acquisition of Fuji.

See Note 14 to the Consolidated Financial Statements for additional information.

## Discontinued Operations

### Income (loss) from Discontinued Operations consists of the following:

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
Foreign life insurance businesses*	\$ 542	\$ 757
AGF	-	44
Net gain (loss) on sale	1,594	(107)
Consolidation adjustments	(1)	(113)
Interest allocation	(2)	(19)
Income from discontinued operations	\$ 2,133	\$ 562
Income tax expense	480	219
Income from discontinued operations, net of tax	\$ 1,653	\$ 343

\* Represents results of ALICO, AIG Star, AIG Edison and Nan Shan.

Results from discontinued operations for the three months ended March 31, 2011 include a pre-tax gain of \$1.9 billion on the sale of AIG Star and AIG Edison. See Note 4 to the Consolidated Financial Statements for further discussion.

## Segment Results

AIG believes it should present and discuss its financial information in a manner most meaningful to its financial statement users. AIG analyzes the operating performance of Chartis, using underwriting profit (loss). AIG analyzes the operating performance of SunAmerica using Operating income (loss), which is before net realized capital gains (losses) and related DAC and SIA amortization and goodwill impairment charges. Results from discontinued operations and net gains (losses) on sales of divested businesses are excluded from these measures. AIG believes that these measures allow for a better assessment and enhanced understanding of the operating performance of each business by highlighting the results from ongoing operations and the underlying profitability of its businesses. When such measures are disclosed, reconciliations to GAAP pre-tax income are provided.

The following table summarizes the operations of each reportable segment. See also Note 3 to the Consolidated Financial Statements.

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Total revenues:</b>			
Chartis	\$ 9,877	\$ 9,181	8%
SunAmerica	3,839	3,226	19
Financial Services	1,568	1,290	22
<b>Total reportable segments</b>	<b>15,284</b>	<b>13,697</b>	<b>12</b>
Other	2,332	5,241	(56)
Consolidation and eliminations	(180)	(383)	53
<b>Total</b>	<b>17,436</b>	<b>18,555</b>	<b>(6)</b>
<b>Pre-tax income (loss):</b>			
Chartis	(416)	1,348	-
SunAmerica	940	327	187
Financial Services	325	(202)	-
<b>Total reportable segments</b>	<b>849</b>	<b>1,473</b>	<b>(42)</b>
Other	(2,205)	203	-
Consolidation and eliminations	(24)	(35)	31
<b>Total</b>	<b>\$ (1,380)</b>	<b>\$ 1,641</b>	<b>-%</b>

### Chartis Operations

Chartis, AIG's property and casualty insurance operation, offers a broad range of commercial and consumer insurance products and services worldwide. Its commercial business includes casualty, property and specialty lines and its consumer business includes Accident and Health (A&H), personal and life products.

Chartis U.S. distributes its products in the United States and Canada through independent retail and wholesale brokers, and writes business on both an admitted and surplus line basis. Chartis U.S. business is conducted through American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, PA, Lexington Insurance Company, the market leader in surplus lines, and certain other property-casualty insurance company subsidiaries.

Chartis International writes commercial and consumer lines of insurance through a network of agencies, branches and foreign based insurance subsidiaries. Chartis International uses various marketing methods and multiple distribution channels to write both commercial and consumer lines of insurance with certain refinements for local laws, customs and needs. Chartis International organizes its operations into three broad regions: Europe, the Far East, and Growth Economies (which primarily include Asia-Pacific, the Middle East, and Latin America).

**Chartis Results**

The following table presents Chartis' results:

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>	<b>Percentage Increase/ (Decrease)</b>
<b>Underwriting results:</b>			
Net premiums written	\$ 9,166	\$ 7,644	20%
Increase in unearned premiums	(515)	(3)	-
Net premiums earned	8,651	7,641	13
Claims and claims adjustment expenses incurred	7,756	5,459	42
Underwriting expenses	2,537	2,374	7
<b>Underwriting loss</b>	<b>(1,642)</b>	<b>(192)</b>	<b>(755)</b>
<b>Investing and other results:</b>			
Net investment income	1,179	1,071	10
Net realized capital gains	47	137	(66)
Bargain purchase gain	-	332	-
<b>Pre-tax income (loss)</b>	<b>\$ (416)</b>	<b>\$ 1,348</b>	<b>-%</b>

Underwriting profit is derived by reducing net premiums earned by claims and claims adjustment expenses incurred and underwriting expenses. Net premiums written are initially deferred and earned based upon the terms of the underlying policies for short duration contracts. The unearned premium reserve constitutes deferred revenues which are generally recognized in earnings ratably over the policy period. Net premiums written for long duration contracts are earned when due from the policyholder. Net premiums written reflect the premiums retained after purchasing reinsurance protection.

AIG, along with most property and casualty insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. The loss ratio is the sum of claims and claims adjustment expenses divided by net premiums earned. The expense ratio is underwriting expenses, which consist of acquisition costs plus other insurance expenses, divided by net premiums earned. The combined ratio is a sum of loss ratio and expense ratio. These ratios are relative measurements that describe, for every \$100 of net premiums earned, the amount of claims and claims adjustment expenses, and other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates an underwriting profit and over 100 indicates an underwriting loss.

The underwriting environment varies from country to country, as does the degree of litigation activity. Regulation, product type and competition have a direct effect on pricing and consequently on profitability as reflected in underwriting profit and the combined ratio.

*Chartis Net Premiums Written*

The following table presents Chartis net premiums written by major line of business:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Consumer lines:</b>			
Accident & health	\$ 1,523	\$ 1,389	10%
Personal lines	1,676	1,029	63
Life insurance	181	-	-
<b>Total Consumer lines</b>	<b>3,380</b>	<b>2,418</b>	<b>40</b>
<b>Commercial lines:</b>			
Casualty	2,515	2,189	15
Property	918	863	6
Specialty	2,353	2,174	8
<b>Total Commercial lines</b>	<b>5,786</b>	<b>5,226</b>	<b>11</b>
<b>Total net premiums written</b>	<b>\$ 9,166</b>	<b>\$ 7,644</b>	<b>20%</b>

Chartis' net premiums written increased in the first three months of 2011 compared to the same period in 2010 due to growth in both Consumer and Commercial lines of business. Growth in both lines is primarily related to the acquisition of Fuji. For the three months ended March 31, 2011 Fuji contributed net premiums written of approximately \$1 billion, of which \$0.9 billion relates to Consumer lines and \$0.1 billion relates to Commercial (Casualty) lines. Excluding Fuji, net premiums written increased approximately 7 percent over the comparable 2010 three-month period.

Excluding Fuji, Consumer lines increased 3 percent over the comparable 2010 period, as Chartis continues to execute on its strategy of growing its higher margin, less capital intensive classes of business and as appropriate, taking corrective actions, including exiting certain classes of underperforming businesses.

Excluding Fuji, overall Commercial lines increased approximately \$460 million or 9 percent over the comparable 2010 period. Similarly, Casualty lines increased \$226 million or 10 percent excluding Fuji, primarily reflecting improvements in ratable exposures (i.e., asset values, payrolls and sales), general rate improvement and retrospective premium adjustments on loss-sensitive contracts for Chartis U.S.

Management continues to execute on its plan to reduce its exposure to certain classes of its Casualty lines of business. As an example, at March 31, 2011 policies-in-force for Chartis U.S. specialty workers' compensation business decreased approximately 9 percent from the comparable 2010 three-month period. Further, excluding the effects of 2011 rate increases, and exposure and retrospective based premium adjustments, as of March 31, 2011, specialty workers' compensation premium decreased 6 percent compared to the 2010 three-month period.

The increase in Property net premiums written reflects the effects of continued execution of reinsurance strategies designed to reduce overall costs, maintain limits consistent with prior years, minimize credit exposure and reduce probable maximum losses. In connection with this strategy, a property quota share treaty was not renewed in 2011, resulting in an increase in Property net premiums written of approximately \$38 million.

The increase in Specialty net premiums written is due primarily to the issuance of a large Chartis U.S. errors and omissions policy.

Overall, Chartis continues to see improved retention ratios, new business submissions, and a relatively stable rate environment across all of its major product lines and regions.

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on Chartis net premiums written:

Three Months Ended March 31,	2011 vs. 2010
Increase in original currency*	18.7%
Foreign exchange effect	1.2
Increase as reported in U.S. dollars	19.9%

\* Computed using a constant exchange rate for each period.

#### Chartis Underwriting Ratios

The following table summarizes Chartis GAAP combined ratios:

Three Months Ended March 31,	2011	2010	Increase (Decrease)
Loss ratio	89.7	71.4	18.3
Expense ratio	29.3	31.1	(1.8)
Combined ratio	119.0	102.5	16.5

#### Loss ratio:

The increase in the loss ratio reflects the effects of increased catastrophe losses in the first three months of 2011 compared to the same period in 2010 as shown in the table below. Also, for the three months ended March 31, 2011, Chartis recorded net adverse prior year development of \$23 million (net of additional premium adjustments of \$37 million relating to loss sensitive insurance contracts and including reserve discount charges of \$34 million). During the three months ended March 31, 2010, Chartis recorded net favorable prior year loss development of \$185 million (net of returned premium adjustments of \$59 million relating to loss sensitive contracts), primarily relating to short tail lines of business (primarily for property lines of business).

The following table presents catastrophe losses by major event:

Three Months Ended March 31, (in millions)	2011			2010		
	Chartis U.S.	Chartis International	Total	Chartis U.S.	Chartis International	Total
<b>Event:</b>						
Tohoku Catastrophe	\$ 434	\$ 864	\$ 1,298	\$ -	\$ -	\$ -
New Zealand Christchurch earthquake	11	196	207	-	-	-
U.S. winter storms	67	-	67	-	-	-
Australia (Brisbane) floods	-	58	58	-	-	-
Chile earthquake	-	-	-	58	252	310
Northeast rainstorms (I and II)	-	-	-	119	-	119
All other events	17	41	58	20	42	62
Claims and claim expenses	529	1,159	1,688	197	294	491
Reinstatement premiums	(4)	43	39	-	10	10
<b>Total catastrophe-related charges</b>	<b>\$ 525</b>	<b>\$ 1,202</b>	<b>\$ 1,727</b>	<b>\$ 197</b>	<b>\$ 304</b>	<b>\$ 501</b>

The following table presents the impact of catastrophe losses, prior year development and related reinstatement premiums and premium adjustments on loss-sensitive contracts on the Chartis consolidated loss ratio:

	<u>Three Months Ended March 31,</u>		<u>Increase/ (Decrease)</u>
	<u>2011</u>	<u>2010</u>	
Loss ratio	89.7	71.4	18.3
Catastrophe losses and reinstatement premiums	(19.9)	(6.5)	(13.4)
Prior year development net of premium adjustments and including reserve discount	(0.4)	2.7	(3.1)
Loss ratio, as adjusted	69.4	67.6	1.8

For the three months ended March 31, 2011, the overall adjusted loss ratio increased primarily due to:

- An increase in the 2011 accident year loss ratio for the Chartis U.S. Specialty Workers' Compensation and Excess Casualty business, and an increase to the 2011 accident loss ratio for the Chartis International Primary Casualty and Indemnity lines (within the Europe region) as a result of the current year loss ratios established in connection with its 2010 annual loss reserve study;
- An increase in losses on shorter tail lines of business; and
- The acquisition of Fuji, which for the three months ended March 31, 2011 reported an adjusted loss ratio (excluding the effects of catastrophes, prior year development and reinstatement premiums) of 69.6.

Expense ratio:

The improvement in the overall expense ratio is due in large part to the net benefits of the amortization of the net intangible liabilities relating to the acquisition of Fuji. For the three months ended, March 31, 2011, Fuji reported an expense ratio of 19.8. Excluding Fuji, the overall expense ratio of 30.5 is generally consistent with the comparable 2010 period, as decreases in Chartis U.S. were offset by increases in Chartis International. The increase in Chartis International relates to costs that are consistent with management's strategic objectives, including the implementation of improved regional governance and risk management capabilities, global accounting and claims systems initiatives and Solvency II readiness.

*Chartis Investing and Other Results*

For the three months ended March 31, 2011, net investment income for Chartis increased due to the acquisition of Fuji, which contributed \$78 million of net investment income in the current year period. Additionally, returns on partnership investments improved by \$92 million compared to the same period in 2010 as general market conditions continued to improve.

Net realized capital gains declined in the 2011 period as compared to the same period in 2010 due primarily to a decrease in realized gains within the Chartis International fixed maturity securities portfolio. The bargain purchase gain of \$332 million in 2010 relates to the acquisition of Fuji.

See Consolidated Results for further discussion on net investment income and net realized capital losses.

## Chartis U.S. Results

The following table presents Chartis U.S. results:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Underwriting results:</b>			
Net premiums written	\$ 4,128	\$ 3,787	9%
Decrease in unearned premiums	354	775	(54)
Net premiums earned	4,482	4,562	(2)
Claims and claims adjustment expenses incurred	4,103	3,474	18
Underwriting expenses	1,095	1,199	(9)
Underwriting loss	(716)	(111)	(545)
Net investment income	874	844	4
Net realized capital gains	66	(3)	-
Pre-tax income	\$ 224	\$ 730	(69)%

[Chartis U.S. Net Premiums Written](#)

The following table presents Chartis U.S. net premiums written by line of business:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Consumer lines:</b>			
Accident & health	\$ 386	\$ 407	(5)%
Personal lines	392	462	(15)
Total Consumer lines	778	869	(10)
<b>Commercial lines:</b>			
Casualty	1,528	1,304	17
Property	418	386	8
Specialty	1,404	1,228	14
Total Commercial lines	3,350	2,918	15
Total net premiums written	\$ 4,128	\$ 3,787	9%

Chartis U.S. net premiums written increased primarily due to:

- an increase of \$96 million within the Commercial Casualty loss-sensitive business. Loss-sensitive business relates to policies whose premiums vary with the level of underlying losses. Accordingly, for the three months ended March 31, 2011, additional premiums of \$37 million were recorded because a comparable amount of additional prior year losses were recognized. Conversely, the comparable 2010 three-month period includes returned premiums of \$59 million because insured loss experience emerged more favorably;
- an increase of \$62 million due to improvement in ratable exposures compared to the weakness these exposures experienced in 2009 and 2010. Certain workers' compensation policies are subject to final determination of premiums after the policy has expired and Chartis re-evaluates (audits) the underlying ratable exposure (i.e., payroll). Given the decline in these exposures in 2009 and 2010 due to generally weak economic conditions, audits conducted in 2010 of policies issued in 2009 resulted in returned premiums of approximately \$54 million. In 2011, final premium audits on policies written in 2010 resulted in additional premiums due Chartis of \$8 million;

- an increase in Property net premiums written reflecting the effects of continued execution of reinsurance strategies designed to reduce overall costs, maintain limits consistent with prior years, minimize credit exposure and reduce probable maximum losses. In connection with this strategy, a property quota share treaty was not renewed in 2011, resulting in an increase in Property net premiums written of approximately \$38 million;
- an increase in Specialty net premiums written due primarily to the issuance of a large errors and omissions policy.

Growing the higher margin Consumer lines of business continues to be a key Chartis U.S. strategy. Where Consumer line programs do not meet internal performance or operating targets, management takes appropriate remedial actions, including in the first quarter of 2011, the decision to de-emphasize two specific programs, resulting in a decline in Consumer lines net premiums written in the quarter. Excluding the effects of these de-emphasized programs, the Chartis U.S. Consumer lines business continues to see growth in line with management's expectations.

#### Chartis U.S. Underwriting Ratios

The following table presents Chartis U.S. GAAP combined ratios:

Three Months Ended March 31,	2011	2010	Increase (Decrease)
Loss ratio	91.5	76.2	15.3
Expense ratio	24.4	26.3	(1.9)
Combined ratio	115.9	102.5	13.4

The following table shows the impact of catastrophe losses, prior year development and related reinstatement premiums and premium adjustments on loss sensitive contracts on the Chartis U.S. loss ratio:

Three Months Ended March 31,	2011	2010	Increase (Decrease)
Loss ratio	91.5	76.2	15.3
Catastrophe losses and reinstatement premiums	(11.7)	(4.3)	(7.4)
Prior year development net of premium adjustments and including reserve discount	(1.8)	3.1	(4.9)
Loss ratio, as adjusted	78.0	75.0	3.0

Loss ratio:

The increase in the loss ratio reflects the effects of increased catastrophe losses in the first three months of 2011 compared to the same period in 2010 as discussed above. Also, for the three months ended March 31, 2011, Chartis U.S. recorded net adverse prior year development of \$73 million (net of additional premium adjustments of \$37 million relating to loss-sensitive insurance contracts and including reserve discount charges of \$25 million). During the three months ended March 31, 2010, Chartis U.S. recorded net favorable prior year loss development of \$131 million (net of returned premium adjustments of \$59 million relating to loss sensitive insurance contracts), primarily relating to property lines of business.

Included within 2011 adverse development for prior years of \$73 million, Chartis U.S. recorded a \$34 million charge for two programs relating to accident year 1999 because improvements in reporting from third party administrators resulted in additional losses being recorded. Additionally, Chartis U.S. recorded \$38 million of losses relating to a reallocation of its participation in Workers' Compensation residual markets resulting from the settlement described under Litigation Related to the Matters Underlying the 2006 Regulatory Settlements — Workers' Compensation Premium Reporting in Note 11 to the Consolidated Financial Statements.



For the three months ended March 31, 2011, the overall adjusted loss ratio increased primarily due to:

- an increase to the 2011 accident year loss ratio for the Chartis U.S. Specialty Workers' Compensation and Excess Casualty business as a result of the current year loss ratios established in connection with its 2010 annual loss reserve study; and
- an increase in losses on short tail lines of business (primarily within its property lines).

Expense ratio:

The overall decline in the expense ratio is due to a 2011 reduction in certain insurance and reinsurance credit risk related allowances based on ongoing improvements relating to the analysis of certain account balances and related credit and financial statement exposure. In the first three months of 2011, Chartis U.S. reduced its bad debt allowance by approximately \$44 million as compared to an increase of \$24 million in the same period in 2010. In addition, expenses declined due to strategic reductions in certain direct marketing activities and other commission reductions due to declines in writings of certain classes of Consumer lines business. Further, 2011 is beginning to reflect the effects of cost saving initiatives introduced during the latter part of 2010. Partially offsetting these declines are increased personnel costs relating to Chartis' U.S. strategy to continue to attract, retain and develop its human capital and to better align employee performance incentive programs with profitability, capital management, risk management, and other AIG performance measures.

### Chartis U.S. Investing Results

Net investment income for Chartis U.S. increased primarily as a result of partnership investments returning to profitability as market conditions improved. Chartis U.S. recorded a Net realized capital gain due to sales of fixed maturity securities and equity securities as market conditions improved and lower other-than-temporary impairments on investments due to improved cash flow expectations on structured securities.

### *Chartis International Results*

The following table presents Chartis International results:

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>	<b>Percentage Increase/ (Decrease)</b>
<b>Underwriting results:</b>			
Net premiums written	\$ 5,038	\$ 3,857	31%
Increase in unearned premiums	(869)	(778)	(12)
Net premiums earned	4,169	3,079	35
Claims and claims adjustment expenses incurred	3,653	1,985	84
Underwriting expenses	1,442	1,175	23
<b>Underwriting loss</b>	<b>(926)</b>	<b>(81)</b>	<b>(1,043)</b>
<b>Investing and other results:</b>			
Net investment income	305	227	34
Net realized capital gains (losses)	(19)	140	-
Bargain purchase gain	-	332	-
<b>Pre-tax income (loss)</b>	<b>\$ (640)</b>	<b>\$ 618</b>	<b>-%</b>

Chartis International Net Premiums Written

The following table presents Chartis International net premiums written by line of business:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Consumer lines:</b>			
Accident & health	\$ 1,137	\$ 982	16%
Personal lines	1,284	567	126
Life insurance	181	-	-
<b>Total consumer lines</b>	<b>2,602</b>	<b>1,549</b>	<b>68</b>
<b>Commercial lines:</b>			
Casualty	987	885	12
Property	500	477	5
Specialty	949	946	-
<b>Total commercial lines</b>	<b>2,436</b>	<b>2,308</b>	<b>6</b>
<b>Total net premiums written</b>	<b>\$ 5,038</b>	<b>\$ 3,857</b>	<b>31%</b>

Chartis International net premiums written increased primarily due to:

- the acquisition of Fuji. Beginning on July 1, 2010, Fuji's net premiums written were included in Chartis International. For the three months ended March 31, 2011, Fuji's net premiums written were \$1.0 billion, of which \$0.9 billion relates to Consumer lines and \$0.1 billion relates to Commercial lines. In addition, Chartis International's Life insurance business included in Consumer lines is produced by Fuji; and
- continued stabilization of developed economies. This increased stabilization resulted in improved pricing, increased new business submissions and improved policyholder retention rates in both Consumer and Commercial lines.

From a regional perspective, growth in the Far East region was driven primarily by the Fuji acquisition. The Growth Economy countries, with well established franchises and operations, continue to increase insurance penetration and growth within Consumer and Commercial lines. The Europe region's net premium written levels were consistent with 2010 due to continued strong pricing discipline in a recovering soft market.

**AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of Chartis International net premiums written:**

Three Months Ended March 31,	2011 vs. 2010
Increase in original currency <sup>(a)</sup>	28.1% <sup>(b)</sup>
Foreign exchange effect	2.5
<b>Increase as reported in U.S. dollars</b>	<b>30.6%</b>

(a) Computed using a constant exchange rate for each period.

(b) Substantially all of this increase was attributable to the Fuji acquisition.

Chartis International Underwriting Ratios

The following table presents Chartis International combined ratios:

Three Months Ended March 31,	2011	2010	Increase (Decrease)
Loss ratio	87.6	64.5	23.1
Expense ratio	34.6	38.2	(3.6)
Combined ratio	122.2	102.7	19.5

Loss ratio:

The following table shows the impact of catastrophe losses, prior year development, related reinstatement premiums and premium adjustments on loss sensitive contracts on the Chartis International loss ratio:

Three Months Ended March 31,	2011	2010	Increase (Decrease)
Loss ratio	87.6	64.5	23.1
Catastrophe losses and reinstatement premium	(28.4)	(9.7)	(18.7)
Prior year development net of premium adjustments and including reserve discount	1.2	1.7	(0.5)
Loss ratio, as adjusted	60.4	56.5	3.9

For the three months ended March 31, 2011, the adjusted loss ratio increased compared to the same period in 2010 primarily due to:

- an increase to the 2011 accident year loss ratio for the Chartis International Primary Casualty and Indemnity lines (within the Europe region) as a result of the current year loss ratios established in connection with its 2010 annual loss reserve study; and
- the acquisition of Fuji, which for the three months ended March 31, 2011 reported an adjusted loss ratio (excluding the effects of catastrophes, prior year development and reinstatement premiums) of 69.6.

Expense ratio:

The decline in the expense ratio is due to the acquisition of Fuji. For the three months ended March 31, 2011, Fuji reported an expense ratio of 19.8. This ratio reflects the benefits from the amortization of net intangible liabilities relating to the Fuji acquisition. Excluding Fuji, the expense ratio increased 1 point. This increase relates to costs that are consistent with management's strategic objectives, including the implementation of improved regional governance and risk management capabilities, global accounting and claims systems initiatives and Solvency II readiness. Additionally, Chartis International incurred approximately \$14 million of expenses relating to the implementation of its business continuity plans and charges related to fixed asset damage as a result of the Tohoku Catastrophe in Japan.

Chartis International Investing and Other Results

Chartis International net investment income increased primarily due to the acquisition of Fuji, which contributed \$78 million of net investment income for the three months ended March 31, 2011.

Chartis International recorded a net realized capital loss in the first three months of 2011 compared to a net realized capital gain in 2010. The 2010 period included \$164 million of gains relating to fixed maturity securities.

The bargain purchase gain of \$332 million in 2010 was recognized in connection with the acquisition of Fuji.

**Liability for unpaid claims and claims adjustment expense**

The following discussion of the consolidated liability for unpaid claims and claims adjustment expenses (loss reserves) presents loss reserves for the Chartis U.S. and Chartis International reporting units in the Chartis operating segment and loss reserves pertaining to the Mortgage Guaranty reporting unit which is reported in AIG's Other operations category.

The following table presents the components of the loss reserves by major lines of business on a statutory basis\*:

<i>(in millions)</i>	March 31, 2011	December 31, 2010
Other liability occurrence	\$ 23,539	\$ 23,583
International	18,796	16,583
Workers' compensation	17,858	17,683
Other liability claims made	11,438	11,446
Property	5,697	3,846
Mortgage Guaranty/Credit	4,011	4,220
Auto liability	3,143	3,337
Products liability	2,628	2,377
Medical malpractice	1,748	1,754
Accident and health	1,388	1,444
Aircraft	1,163	1,149
Commercial multiple peril	1,116	1,006
Fidelity/surety	858	934
Reinsurance	126	130
Other	1,469	1,659
<b>Total</b>	<b>\$ 94,978</b>	<b>\$ 91,151</b>

\* Presented by lines of business pursuant to statutory reporting requirements as prescribed by the National Association of Insurance Commissioners.

AIG's gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for IBNR and loss expenses. The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting from this review are currently reflected in pre-tax income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance and applicable discount for future investment income.

The following table classifies the components of net loss reserves by business unit:

<i>(in millions)</i>	March 31, 2011	December 31, 2010
Chartis:		
Chartis U.S.	\$ 53,581	\$ 53,111
Chartis International	16,620	14,963
Total Chartis	70,201	68,074
Mortgage Guaranty	3,273	3,433
Net liability for unpaid claims and claims adjustment expense at end of period	\$ 73,474	\$ 71,507

*Discounting of Reserves*

At March 31, 2011, net loss reserves reflect a loss reserve discount of \$3.19 billion, including tabular and non-tabular calculations. The tabular workers' compensation discount is calculated using a 3.5 percent interest rate and the 1979-81 Decennial Mortality Table. The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies' own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the payout patterns and investment yields of the companies. Those asbestos liabilities that are fixed and determinable are discounted based on investment yields. The discount is comprised of the following: \$790 million — tabular discount for workers' compensation in Chartis U.S. and \$2.27 billion — non-tabular discount for workers' compensation in Chartis U.S.; and \$128 million — non-tabular discount for asbestos for Chartis.

*Quarterly Reserving Process*

AIG believes that its net loss reserves are adequate to cover net losses and loss expenses as of March 31, 2011. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's loss reserves as of March 31, 2011. In the opinion of management, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on AIG's consolidated financial condition, although such events could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period.

The following table presents the rollforward of net loss reserves:

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
Net liability for unpaid claims and claims adjustment expense at beginning of year	\$ 71,507	\$ 67,899
Foreign exchange effect	546	(553)
Acquisitions*	-	1,538
Dispositions	-	(25)
Losses and loss expenses incurred:		
Current year	7,684	5,998
Prior years, other than accretion of discount	(16)	(476)
Prior years, accretion of discount	115	86
Losses and loss expenses incurred	7,783	5,608
Losses and loss expenses paid	6,362	5,916
Reclassified to liabilities held for sale	-	(2)
Net liability for unpaid claims and claims adjustment expense at end of period	\$ 73,474	\$ 68,549

\* Represents the acquisition of Fuji on March 31, 2010.

The following tables summarize development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years (other than accretion of discount):

Three Months Ended March 31, (in millions)	2011	2010
Prior Accident Year Development by Reporting Unit:		
Chartis:		
Chartis U.S.	\$ 85	\$ (190)
Chartis International	(59)	(54)
Total Chartis	26	(244)
Mortgage Guaranty	(42)	(232)
Prior years, other than accretion of discount	\$ (16)	\$ (476)

Three Months Ended March 31, (in millions)	Calendar Year	
	2011	2010
Prior Accident Year Development by Accident Year:		
<b>Accident Year</b>		
2010	\$ (63)	
2009	(3)	\$ (263)
2008	(51)	(116)
2007	107	(58)
2006	(69)	(56)
2005	(41)	(35)
2004 and prior	104	52
Prior years, other than accretion of discount	\$ (16)	\$ (476)

In determining the loss development from prior accident years, AIG conducts analyses to determine the change in estimated ultimate loss for each accident year for each class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable, than the difference between the actual and expected loss emergence. Such additional analyses were conducted for each class of business, as appropriate, in the three-month period ended March 31, 2011 to determine the loss development from prior accident years for the three-month period ended March 31, 2011. As part of its reserving process, AIG also considers notices of claims received with respect to emerging and/or evolving issues, such as those related to the U.S. mortgage and housing market.

See Chartis Results herein for further discussion of net loss development.

#### *Asbestos and Environmental Reserves*

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in AIG's 2010 Annual Report on Form 10-K, AIG's reserves relating to asbestos and environmental claims reflect a comprehensive ground-up analysis. In the three-month period ended March 31, 2011, a minor amount of incurred loss pertaining to the asbestos loss reserve discount and a minor adjustment to the environmental gross and net reserves are reflected in the table below.

On April 20, 2011, Chartis announced that it has entered into an agreement with NICO under which the bulk of Chartis' legacy asbestos liabilities will be transferred to NICO as part of Chartis' ongoing strategy to reduce its reserve development risk. At the closing of this transaction, but effective as of January 1, 2011, Chartis will cede the majority of its net asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$3.5 billion. Chartis will pay NICO approximately \$1.65 billion in respect of the cession. See Priorities for 2011 — Chartis herein and Note 16 to the Consolidated Financial Statements.

The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined:

Three Months Ended March 31, (in millions)	2011		2010	
	Gross	Net	Gross	Net
<b>Asbestos:</b>				
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 5,526	\$ 2,223	\$ 3,236	\$ 1,151
Losses and loss expenses incurred*	81	34	1	2
Losses and loss expenses paid*	(135)	(58)	(188)	(48)
Liability for unpaid claims and claims adjustment expense at end of period	\$ 5,472	\$ 2,199	\$ 3,049	\$ 1,105
<b>Environmental:</b>				
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 240	\$ 127	\$ 338	\$ 159
Losses and loss expenses incurred*	8	5	-	1
Losses and loss expenses paid*	(28)	(12)	(12)	(8)
Liability for unpaid claims and claims adjustment expense at end of period	\$ 220	\$ 120	\$ 326	\$ 152
<b>Combined:</b>				
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 5,766	\$ 2,350	\$ 3,574	\$ 1,310
Losses and loss expenses incurred*	89	39	1	3
Losses and loss expenses paid*	(163)	(70)	(200)	(56)
Liability for unpaid claims and claims adjustment expense at end of period	\$ 5,692	\$ 2,319	\$ 3,375	\$ 1,257

\* All amounts pertain to policies underwritten in prior years, primarily to policies issued in 1984 and prior years.

The following table presents the estimate of the gross and net IBNR included in the Liability for unpaid claims and claims adjustment expense, relating to asbestos and environmental claims separately and combined:

Three Months Ended March 31, (in millions)	2011		2010	
	Gross	Net	Gross	Net
Asbestos	\$ 4,383	\$ 1,907	\$ 2,016	\$ 838
Environmental	77	33	159	63
Combined	\$ 4,460	\$ 1,940	\$ 2,175	\$ 901

The following table presents a summary of asbestos and environmental claims count activity:

Three Months Ended March 31, 2011	2011			2010		
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	4,933	4,087	9,020	5,417	5,994	11,411
Claims during year:						
Opened	376	41	417	133	111	244
Settled	(20)	(19)	(39)	(55)	(44)	(99)
Dismissed or otherwise resolved	(151)	(174)	(325)	(287)	(1,321)	(1,608)
Claims at end of period	5,138	3,935	9,073	5,208	4,740	9,948

#### Survival Ratios — Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at March 31, 2011 and 2010. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid off using recent year average payments. In addition, AIG's survival ratio for asbestos claims was negatively affected by certain favorable settlements during 2008 and 2007. These settlements reduced gross and net asbestos survival ratios at March 31, 2010 by approximately 0.5 years and 1.4 years, respectively.

Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resultant survival ratio. Moreover, as discussed above, the primary basis for AIG's determination of its reserves are not survival ratios, but instead the ground-up and top-down analysis. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

Further, these ratios are expected to be significantly affected by the NICO asbestos reinsurance agreement commencing in the second quarter of 2011.

The following table presents AIG's survival ratios for asbestos and environmental claims, separately and combined, which were based upon a three-year average payment:

Three Months Ended March 31,	2011		2010	
	Gross	Net	Gross	Net
Survival ratios:				
Asbestos	9.0	10.0	4.5	3.9
Environmental	3.2	3.0	4.4	3.3
Combined	8.4	8.9	4.5	3.8

#### SunAmerica Operations

SunAmerica offers a comprehensive suite of products and services to individuals and groups including term life, universal life, accident & health products, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. SunAmerica offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct to-consumer platforms.

In managing SunAmerica, AIG analyzes the operating performance of each business using Operating income (loss), which is before net realized capital gains (losses) and related DAC and SIA amortization and goodwill impairment charges. Operating income (loss) is not a substitute for pre-tax income determined in accordance with U.S. GAAP. However, AIG believes that the presentation of Operating income (loss) enhances the understanding



of the underlying profitability of the ongoing operations of SunAmerica. The reconciliations to pre-tax income are provided in the tables that follow.

### SunAmerica Results

The following table presents SunAmerica results:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Domestic Life Insurance:</b>			
Revenue:			
Premiums	\$ 621	\$ 667	(7)%
Policy fees	376	373	1
Net investment income	1,047	1,034	1
Operating expenses:			
Policyholder benefits and claims incurred	1,033	1,110	(7)
Interest credited to policyholder account balances	210	210	-
Amortization of deferred acquisition costs	131	156	(16)
Policy acquisition and other expenses	253	233	9
Operating income	417	365	14
Net realized capital losses	(82)	(140)	41
Benefit of DAC, VOBA and SIA related to net realized capital losses	3	2	50
Pre-tax income	\$ 338	\$ 227	49%
<b>Domestic Retirement Services:</b>			
Revenue:			
Policy fees	\$ 308	\$ 275	12%
Net investment income	1,707	1,673	2
Operating expenses:			
Policyholder benefits and claims incurred	(18)	(16)	(13)
Interest credited to policyholder account balances	895	899	-
Amortization of deferred acquisition costs	209	112	87
Policy acquisition and other expenses	203	199	2
Operating income	726	754	(4)
Net realized capital losses	(138)	(656)	79
Benefit of DAC, VOBA and SIA related to net realized capital losses	14	2	600
Pre-tax income	\$ 602	\$ 100	502%
<b>Total SunAmerica:</b>			
Revenue:			
Premiums	\$ 621	\$ 667	(7)%
Policy fees	684	648	6
Net investment income	2,754	2,707	2
Operating expenses:			
Policyholder benefits and claims incurred	1,015	1,094	(7)
Interest credited to policyholder account balances	1,105	1,109	-
Amortization of deferred acquisition costs	340	268	27
Policy acquisition and other expenses	456	432	6
Operating income	1,143	1,119	2
Net realized capital losses	(220)	(796)	72
Benefit of DAC, VOBA and SIA related to net realized capital losses	17	4	325
Pre-tax income	\$ 940	\$ 327	187%

SunAmerica reported a slight increase in operating income primarily due to the following:

- Higher net investment income due to a \$178 million increase in partnership income and \$91 million higher income related to the valuation of ML II. These increases were partially offset by the effects of a decline in base yields as investment purchases in 2010 and early 2011 were made at yields lower than the weighted average yields of the overall base portfolio.
- The increases in net investment income were partially offset by a DAC and SIA unlocking charge of \$76 million in the three-month period ended March 31, 2011, resulting from reductions in spread assumptions for group retirement products. There were no unlockings in the three months ended March 31, 2010.

Pre-tax income for SunAmerica reflected a decline in net realized capital losses due principally to a significant decline in other-than-temporary impairments and a decrease in fair value losses on derivatives primarily used to hedge the effect of interest rate and foreign exchange movements on GIC reserves. See Results of Operations — Consolidated Results — Premiums and Other Considerations; — Net Investment Income; and — Net Realized Capital Gains (Losses).

#### Premiums

Premiums represent premiums received on traditional life insurance policies and deposits on life contingent payout annuities. Premiums, deposits and other considerations is a non-GAAP measure which includes life insurance premiums, deposits on annuity contracts and mutual funds.

The following table presents a reconciliation of premiums, deposits and other considerations to premiums:

Three Months Ended March 31, (in millions)	2011	2010
Premiums, deposits and other considerations	\$ 6,226	\$ 4,737
Deposits	(5,619)	(4,038)
Other	14	(32)
Premiums	\$ 621	\$ 667

#### Sales and Deposits

The following tables summarize SunAmerica Premiums, deposits and other considerations by product\*:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
Premiums, deposits and other considerations			
Life insurance	\$ 1,187	\$ 1,323	(10)%
Group retirement product deposits	1,702	1,608	6
Individual fixed annuity deposits	2,151	1,153	87
Individual variable annuity deposits	759	357	113
Retail mutual funds	410	276	49
Individual annuities runoff	17	20	(15)
<b>Total premiums, deposits and other considerations</b>	<b>\$ 6,226</b>	<b>\$ 4,737</b>	<b>31%</b>
<b>Life insurance sales</b>	<b>\$ 55</b>	<b>\$ 47</b>	<b>17%</b>

\* Life insurance sales include periodic premiums from new business expected to be collected over a one-year period and single premiums and unscheduled deposits from new and existing policyholders. Annuity sales represent deposits from new and existing customers. Sales of group accident and health insurance represent annualized first-year premiums from new policies.

Total premiums, deposits and other considerations increased as deposits from individual fixed annuities, individual variable annuities and retail mutual funds all showed significant increases. The decline in Life insurance was primarily driven by lower payout annuities, lower deferred annuities driven by the interest rate environment and lower life insurance renewals. Individual fixed annuity deposits increased in the three-month period ended March 31, 2011 compared to the same period in 2010 as certain bank distributors negotiated a lower commission in exchange for a higher rate offered to policyholders which made AIG's individual fixed products more attractive. Variable annuity sales increased due to reinstatements at a number of key broker-dealers, increased wholesaler productivity and improvements in the equity markets. Retail mutual funds increased as a result of increased sales due to a sales strategy surrounding cyclical investment themes. Life insurance sales grew over the first quarter of last year as efforts to re-engage independent distribution and improve productivity of the career agency force continue to produce results.

*Domestic Retirement Services Sales and Deposits*

The following table presents the account value rollforward for Domestic Retirement Services:

<b>Three Months Ended March 31, (in millions)</b>	<b>2011</b>	<b>2010</b>
<b>Group retirement products</b>		
Balance, beginning of year	\$ 68,365	\$ 63,419
Deposits – annuities	1,291	1,254
Deposits – mutual funds	411	354
Total Deposits	1,702	1,608
Surrenders and other withdrawals	(1,503)	(1,676)
Death benefits	(83)	(73)
Net inflows (outflows)	116	(141)
Change in fair value of underlying investments, interest credited, net of fees	2,084	1,591
Balance, end of period	\$ 70,565	\$ 64,869
<b>Individual fixed annuities</b>		
Balance, beginning of year	\$ 48,489	\$ 47,202
Deposits	2,151	1,153
Surrenders and other withdrawals	(840)	(905)
Death benefits	(402)	(370)
Net inflows (outflows)	909	(122)
Change in fair value of underlying investments, interest credited, net of fees	456	467
Balance, end of period	\$ 49,854	\$ 47,547
<b>Individual variable annuities</b>		
Balance, beginning of year	\$ 25,581	\$ 24,637
Deposits	759	357
Surrenders and other withdrawals	(838)	(674)
Death benefits	(110)	(120)
Net outflows	(189)	(437)
Change in fair value of underlying investments, interest credited, net of fees	885	666
Balance, end of period	\$ 26,277	\$ 24,866
<b>Total Domestic Retirement Services</b>		
Balance, beginning of year	\$ 142,435	\$ 135,258
Deposits	4,612	3,118
Surrenders and other withdrawals	(3,181)	(3,255)
Death benefits	(595)	(563)
Net inflows (outflows)	836	(700)
Change in fair value of underlying investments, interest credited, net of fees	3,425	2,724
Balance, end of period, excluding runoff	146,696	137,282
Individual annuities runoff	4,386	4,579
GIC runoff	7,823	8,427
Balance, end of period	\$ 158,905	\$ 150,288
<b>General and separate account reserves and mutual funds</b>		
General account reserve	\$ 98,505	\$ 95,400
Separate account reserve	50,776	46,639
Total general and separate account reserves	149,281	142,039
Group retirement mutual funds	9,624	8,249
<b>Total reserves and mutual funds</b>	<b>\$ 158,905</b>	<b>\$ 150,288</b>

Net flows improved in 2011 due to the impact of both the significant increase in deposits and continued favorable surrender experience in group retirement and individual fixed annuities. Surrender rates for individual fixed annuities have decreased in 2011 due to the low interest rate environment and the relative competitiveness of interest credited rates on the existing block of fixed annuities versus interest rates on alternative investment options available in the marketplace. Surrender rates for group retirement products declined due to a decrease in certain large group surrenders.

The following table presents reserves by surrender charge category and surrender rates:

At March 31, (in millions)	2011			2010		
	Group Retirement Products*	Individual Fixed Annuities	Individual Variable Annuities	Group Retirement Products*	Individual Fixed Annuities	Individual Variable Annuities
No surrender charge	\$ 54,117	\$ 14,783	\$ 12,248	\$ 48,590	\$ 12,211	\$ 11,488
0% - 2%	1,247	3,676	4,044	1,952	3,029	4,216
Greater than 2% - 4%	1,282	5,265	2,253	1,906	5,660	2,040
Greater than 4%	3,519	23,008	7,592	3,338	23,483	6,692
Non-Surrenderable	776	3,122	140	834	3,164	430
Total reserves	\$ 60,941	\$ 49,854	\$ 26,277	\$ 56,620	\$ 47,547	\$ 24,866
Surrender rates	8.7%	6.9%	13.0%	10.6%	7.7%	11.2%

\* Excludes mutual funds of \$9.6 billion and \$8.2 billion at March 31, 2011 and 2010, respectively.

The following table summarizes the major components of the changes in SunAmerica DAC/VOBA:

Three Months Ended March 31, (in millions)	2011	2010
Balance, beginning of year	\$ 9,606	\$ 11,098
Acquisition costs deferred	299	233
Amortization expense	(326)	(267)
Change in unrealized losses on securities	(244)	(422)
Other	42	47
Balance, end of period	\$ 9,377	\$ 10,689

As SunAmerica operates in various markets, the estimated gross profits used to amortize DAC and VOBA are subject to differing market returns and interest rate environments in any single period. The combination of market returns and interest rates may lead to acceleration of amortization in some products and simultaneous deceleration of amortization in other products.

DAC and VOBA for insurance-oriented, investment-oriented and retirement services products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If actual future profitability is substantially lower than estimated, SunAmerica's DAC and VOBA may be subject to an impairment charge and its results of operations could be significantly affected in future periods.

## Financial Services Operations

AIG's Financial Services subsidiaries engage primarily in commercial aircraft leasing and the management of the remaining Capital Markets derivatives business.

AIG's Aircraft Leasing operations are the operations of ILFC, which generates its revenues primarily from leasing new and used commercial jet aircraft to foreign and domestic airlines. Aircraft Leasing operations also include gains and losses that result from the remarketing of commercial jet aircraft for ILFC's own account, and remarketing and fleet management services for airlines and other aircraft fleet owners.

AIG's Capital Markets operations are the run off of the remaining AIGFP derivative portfolios. AIGFP has continued to unwind its portfolios, including those associated with credit protection written through credit default swaps on super senior risk tranches of diversified pools of loans and debt securities. As a consequence of its strategy to wind down its portfolios, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with the businesses of other AIG subsidiaries. See Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity of Parent and Subsidiaries — Financial Services — Capital Markets. Prior to the portfolio wind-down, AIGFP engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and interest rates.

Historically, AIGFP derived a significant portion of its revenues from hedged financial positions entered into in connection with counterparty transactions. Prior to the portfolio wind-down, AIGFP also participated as a dealer in a wide variety of financial derivatives transactions.

## Financial Services Results

Financial Services results were as follows:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Revenues:</b>			
Aircraft Leasing	\$ 1,159	\$ 1,218	(5)%
Capital Markets	370	(22)	-
Other, including intercompany adjustments	39	94	(59)
<b>Total</b>	<b>\$ 1,568</b>	<b>\$ 1,290</b>	<b>22%</b>
<b>Pre-tax income (loss):</b>			
Aircraft Leasing	\$ 120	\$ (81)	-%
Capital Markets	277	(86)	-
Other, including intercompany adjustments	(72)	(35)	(106)
<b>Total</b>	<b>\$ 325</b>	<b>\$ (202)</b>	<b>-%</b>

### Aircraft Leasing Results

ILFC reported pre-tax income in the first quarter of 2011 compared to a pre-tax loss in the same period of 2010 primarily due to lower asset impairment and operating lease related charges recorded on aircraft. During the first quarter of 2011, ILFC recorded asset impairment and operating lease related charges of \$113 million related primarily to sales and potential sales of 10 aircraft. In the same quarter in 2010, ILFC recorded asset impairment and operating lease related charges of \$431 million related to aircraft agreed to be sold. ILFC also incurred increased interest expense driven by higher composite borrowing rates, and lower rental revenues and depreciation expense as a result of a reduction in its aircraft fleet.

### Capital Markets Results

Capital Markets reported pre-tax income in 2011 compared to a pre-tax loss in 2010 primarily due to higher unrealized market valuation gains related to the super senior credit default swap portfolio and an increase related to the net effect of changes in credit spreads on the valuation of Capital Markets derivative assets and liabilities. During the first quarter of 2011, Capital Markets recorded an unrealized market valuation gain of \$323 million compared to an unrealized market valuation gain of \$119 million in the first quarter of 2010. The gain resulted primarily from CDS transactions written on multi-sector CDOs driven by price improvement and amortization of the underlying assets (See Critical Accounting Estimates — Level 3 Assets and Liabilities — Valuation of Level 3 Assets and Liabilities for a discussion of Capital Markets super senior credit default swap portfolio). With respect to the valuation of Capital Markets derivative assets and liabilities, which are measured at fair value, Capital Markets incurred a net credit valuation adjustment gain of \$28 million in the first quarter of 2011 compared to a net credit valuation adjustment loss of \$178 million in the first quarter of 2010.

**Other Operations**

AIG's Other operations includes results from Parent & Other operations, after allocations to AIG's business segments, Mortgage Guaranty operations, Asset Management operations, and results from those divested businesses not included in Discontinued operations.

AIG's Parent & Other operations consist primarily of interest expense, intercompany interest income that is eliminated in consolidation, expenses of corporate staff not attributable to specific reportable segments (including restructuring costs), expenses related to efforts to improve internal controls and the financial and operating platforms, corporate initiatives, certain compensation plan expenses, corporate-level net realized capital gains and losses, certain litigation-related charges and net gains and losses on sale of divested businesses which did not qualify for discontinued operations accounting treatment. In addition, fair value gains or losses on AIG's remaining interest in AIA and in the MetLife securities received as consideration from the sale of ALICO are included in Parent & Other.

Divested businesses include results of certain businesses that have been divested or are being wound down or repositioned.

**Other Results**

The following table presents pre-tax income for AIG's Other operations:

Three Months Ended March 31, (in millions)	2011	2010	Percentage Increase/ (Decrease)
<b>Parent &amp; Other:</b>			
Intercompany interest income, net	\$ 10	\$ 154	(94)%
Interest expense on FRBNY Credit Facility*	(72)	(833)	91
Other interest expense	(427)	(475)	10
Unallocated corporate expenses	(68)	(180)	62
Change in the fair value of MetLife securities prior to the sale	(157)	-	-
Change in fair value of AIA securities	1,062	-	-
Loss on extinguishment of debt	(3,313)	-	-
Net realized capital gain (loss)	(421)	285	-
Net loss on sale of divested businesses	(72)	(76)	5
Other miscellaneous, net	17	27	(37)
<b>Total Parent &amp; Other</b>	<b>\$ (3,441)</b>	<b>\$ (1,098)</b>	<b>(213)%</b>
<b>Other businesses:</b>			
Mortgage Guaranty	\$ 7	\$ 96	(93)%
<b>Asset Management:</b>			
Direct Investment business	448	(147)	-
Institutional Asset Management	15	(74)	-
Divested businesses	22	675	(97)
Change in fair value of ML III	744	751	(1)
<b>Total Other businesses</b>	<b>\$ 1,236</b>	<b>\$ 1,301</b>	<b>(5)%</b>
<b>Total Other operations</b>	<b>\$ (2,205)</b>	<b>\$ 203</b>	<b>-%</b>

\* Includes interest expense of \$2 million and \$19 million for 2011 and 2010, respectively, allocated to discontinued operations in consolidation.

**Parent & Other**

Parent & Other reported an increased pre-tax loss in the first quarter of 2011 compared to the same period in 2010 primarily due to a loss on extinguishment of debt of \$3.3 billion in connection with the Recapitalization, primarily consisting of the accelerated amortization of the prepaid commitment fee asset resulting from the termination of the FRBNY Credit Facility.

This loss was partially offset by:

- a \$1.1 billion increase in fair value of AIG's equity interest in AIA;
- a decline in interest expense as a result of the repayment of the FRBNY Credit Facility; and
- a reduction in unallocated corporate expenses, principally due to a decrease in restructuring-related expenses.

#### *Other Businesses*

#### Mortgage Guaranty

The main business of the subsidiaries of UGC is the issuance of residential mortgage guaranty insurance, both domestically and internationally, that covers mortgage lenders from the first loss for credit defaults on high loan-to-value conventional first-lien mortgages for the purchase or refinance of one- to four-family residences.

Mortgage Guaranty pre-tax income decreased in 2011, driven by:

- increases in earned premiums from first-lien business that were more than offset by a decline in earned premiums from the second-lien, private student loan and international businesses resulting from these businesses being placed into runoff during the fourth quarter of 2008; and
- an increase in claims and claims adjustment expenses for the first-lien and second-lien businesses compared to the first quarter of 2010, partially offset by a decline for the international business. The higher claims and claims adjustment expenses include provisions for increased overturns of previously denied and rescinded claims and lower favorable development than experienced in the same period in 2010, all primarily in first-lien business. The increased overturns result from additional resources deployed by lenders and mortgage servicers to address loan documentation issues. The higher claims and claims adjustment expenses were partially offset by lower levels of newly reported delinquencies in the first-lien, second-lien and international products and higher denials and rescissions on first-lien claims and an increase in denials of second-lien claims arising from an operational change in the mitigation of second lien claims in the first quarter of 2011.

UGC, like other participants in the mortgage insurance industry, has made claims against various counterparties in relation to alleged underwriting failures, and received similar claims from counterparties. These claims and counterclaims allege breach of contract, breach of good faith and fraud, among other allegations.

#### Risk-in-Force

The following table presents risk in force and delinquency ratio information for UGC's domestic business:

<b>At March 31, (dollars in billions)</b>	<b>2011</b>	<b>2010</b>
<b>Domestic first-lien:</b>		
Risk in force	\$ 24.9	\$ 26.1
60+ day delinquency ratio on primary loans <sup>(a)</sup>	15.2%	18.7%
<b>Domestic second-lien:</b>		
Risk in force <sup>(b)</sup>	\$ 1.8	\$ 2.5

(a) Based on number of policies, consistent with mortgage industry practice.

(b) Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.



Change in Fair Value of ML III

The gain attributable to AIG's interest in ML III for the first quarter of 2011 was primarily due to the shortening of weighted average life by 0.55 years and the tightening of credit spreads.

Asset Management Operations

AIG's Asset Management operations include the results of the Direct Investment businesses and the Institutional Asset Management business.

The revenues of the Institutional Asset Management business are primarily derived from providing asset management services to AIG and its subsidiaries and are eliminated in AIG's consolidated financial results. The Direct Investment businesses' operating results are impacted by performance in the credit, equity and real estate markets.

Direct Investment Business Results

The Direct Investment business includes results for the Matched Investment Program (MIP), AIG Global Real Estate and the results of certain non-derivative assets and liabilities of AIGFP now managed by the Asset Management Group.

The Direct Investment business' pre-tax income increased in 2011 driven by:

- net unrealized gain on AIGFP assets and liabilities accounted for under the fair value option where improving asset spreads outpaced the impact of tightening liability spreads (as shown in the table below); and
- significantly lower impairments on fixed maturity and real estate investments.

The following table presents credit valuation adjustment gains (losses) for the Direct Investment business (excluding intercompany transactions):

<i>(in millions)</i>	Counterparty Credit Valuation Adjustment on Assets	AIG's Own Credit Valuation Adjustment on Liabilities
<b>Three Months Ended March 31, 2011</b>		
Bond trading securities	\$ 325	Notes and bonds payable \$ (18)
Loans and other assets	16	Hybrid financial instrument liabilities (30)
		GIAs 9
		Other liabilities (2)
Increase in assets	\$ 341	Increase in liabilities \$ (41)
Net pre-tax increase to Other income	\$ 300	
<b>Three Months Ended March 31, 2010</b>		
Bond trading securities	\$ 823	Notes and bonds payable \$ (196)
Loans and other assets	46	Hybrid financial instrument liabilities (249)
		GIAs (145)
		Other liabilities (37)
Increase in assets	\$ 869	Increase in liabilities \$ (627)
Net pre-tax increase to Other income	\$ 242	

## Institutional Asset Management Results

Institutional Asset Management includes AIG's internal asset management business and AIG Markets, Inc. (AIG Markets). AIG Markets acts as a derivative intermediary transacting with AIG and its subsidiaries and third parties.

Institutional Asset Management recognized pre-tax income in 2011 which was driven by increased fees charged to AIG subsidiaries for asset management services beginning in the first quarter of 2011 as well as fair value adjustments on derivatives associated with changes in counterparty credit risk. The positive increase over the prior year is driven by the sale of AIG's third party asset management business and the deconsolidation of certain private equity investments in the first quarter of 2010 which significantly reduced operating expenses.

## Divested Businesses

Divested businesses include the operating results of divested businesses that did not qualify for discontinued operations accounting through the date of their sale as well as certain non-core businesses currently in run-off. The Divested businesses results for the three months ended March 31, 2010 primarily represent the historical results of AIA, which was deconsolidated in November 2010.

## **Capital Resources and Liquidity**

### Overview

As a result of the closing of the Recapitalization and various actions taken in the first quarter of 2011, AIG Parent has generated and used substantial cash and short-term investment balances, and has established significant sources of contingent liquidity.

### **Liquidity Adequacy Management**

In 2010, AIG implemented a stress testing and liquidity framework to systematically assess AIG's aggregate exposure to its most significant risks. This framework is built on AIG's existing Enterprise Risk Management (ERM) stress testing methodology for both insurance and non-insurance operations. The scenarios are performed with a two-year time horizon and capital adequacy requirements consider both financial and insurance risks.

AIG's insurance operations must comply with numerous constraints on their minimum capital positions. These constraints are guiding requirements for capital adequacy for individual businesses, based on capital assessments under rating agency, regulatory and business requirements. Using ERM's stress testing methodology, the capital impact of potential stresses is evaluated relative to the binding capital constraint of each business operation in order to determine AIG Parent's liquidity needs to support the insurance operations and maintain their target capitalization levels. Added to this amount is the contingent liquidity required under stressed scenarios for non-insurance operations, including the AIGFP derivatives portfolio, the Direct Investment business and ILFC.

AIG's consolidated risk target is to maintain a minimum liquidity buffer such that AIG Parent's liquidity needs under the ERM stress scenarios do not exceed 80 percent of AIG Parent's overall liquidity sources over the specified two-year horizon. If the 80 percent minimum threshold is projected to be breached over this defined time horizon, AIG will take appropriate actions to further increase liquidity sources or reduce liquidity needs to maintain the target threshold, although no assurance can be given that this can be achieved under then-prevailing market conditions.

As a result of these ERM stress tests at March 31, 2011 and other considerations discussed in Note 1 to the Consolidated Financial Statements, AIG believes that it has sufficient liquidity at the AIG Parent level to satisfy future liquidity requirements and meet its obligations, including reasonably foreseeable contingencies or events. However, no assurance can be given that AIG's cash needs will not exceed projected amounts. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, further downgrades in AIG's credit ratings, or catastrophic losses may

result in significant additional cash needs, loss of some sources of liquidity or both. Regulatory and other legal restrictions could limit AIG's ability to transfer funds freely, either to or from its subsidiaries.

During the first quarter of 2011, AIG entered into unconditional capital maintenance agreements (CMAs) with certain domestic Chartis and SAFG insurance companies. These CMAs are expected to enhance AIG's capital management practices, and will help manage the flow of capital and funds between AIG Parent and its insurance company subsidiaries. For additional details regarding CMAs, see Liquidity of Parent and Subsidiaries — Chartis, and Liquidity of Parent and Subsidiaries — SunAmerica below.

### Analysis of sources and uses of cash

The following table presents selected data from AIG's Consolidated Statement of Cash Flows:

Three Months Ended March 31, (in millions)	2011	2010
<b>Summary:</b>		
Net cash provided by (used in) operating activities	\$ (5,312)	\$ 3,195
Net cash provided by (used in) investing activities	39,617	(4,516)
Net cash used in financing activities	(34,485)	(266)
Effect of exchange rate changes on cash	23	(42)
Decrease in cash	(157)	(1,629)
Cash at beginning of year	1,558	4,400
Change in cash of businesses held for sale	400	(638)
Cash at end of period	\$ 1,801	\$ 2,133

Net cash used in operating activities for the first three months of 2011 reflects the payment of FRBNY Credit Facility accrued compounded interest and fees totaling \$6.4 billion, which in prior periods were paid in kind and, accordingly did not reduce operating cash flow in prior periods.

Excluding the payment of FRBNY Credit Facility accrued interest and fees, AIG generated positive operating cash flows in both periods. Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits, but the ability of Chartis to generate positive cash flow is affected by operating expenses, the frequency and severity of losses under its insurance policies and policy retention rates. Cash used by Chartis operations was \$228 million for the first three months of 2011 compared to \$421 million in the same period of 2010, as a reduction in claims paid was more than offset by declines in premiums collected, arising primarily from a decrease in domestic production. Catastrophic events and significant casualty losses, the timing and effect of which are inherently unpredictable, reduce operating cash flow for Chartis operations. Cash provided by AIG's life insurance subsidiaries, including entities presented as discontinued operations, was \$1.4 billion for the first three months of 2011 compared to \$2.7 billion in the same period in 2010, as 2010 included operating cash flows for AIA and ALICO, which were divested in 2010. Cash used by Financial Services was \$136 million for the first three months of 2011, compared to cash provided of \$588 million for the same period in 2010, primarily attributable to the continued wind-down of AIGFP's portfolio.

The AIGFP portfolio wind-down and other segment developments affecting pre-tax income (loss) described above are discussed further in Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity of Parent and Subsidiaries — Financial Services — Capital Markets.

The significant increase in cash from investing activities in the first three months of 2011 was driven by the deployment of restricted cash generated from the AIA IPO and ALICO Sale and disposition of MetLife securities. Net cash used in investing activities in the first three months of 2010 primarily resulted from net purchases of fixed maturity securities, resulting from AIG's investment of cash generated from operating activities, and the redeployment of liquidity that had been accumulated by the insurance companies in 2008 and 2009.

Net cash used in financing activities for the first three months of 2011 primarily represents the repayment of the FRBNY Credit Facility and the \$9.1 billion partial repayment of the SPV Preferred Interests on January 14, 2011 in connection with the Recapitalization described in Note 1 of the Consolidated Financial Statements.

**Liquidity of Parent and Subsidiaries***AIG Parent*

The Recapitalization in January 2011 involved a series of integrated transactions which directly impacted AIG Parent's liquidity activities and position. These transactions included the repayment of the FRBNY Credit Facility, and the repurchase and exchange of the SPV Preferred Interests. These transactions are excluded from the Sources and Uses discussion below.

In addition, in the first quarter of 2011, several significant asset sales were completed, including the sale of AIG Star and AIG Edison in February 2011, and the sale of MetLife securities in March 2011. These transactions are more fully described in Sales of Businesses and Sales of MetLife Securities above, and are excluded from the Sources and Uses discussion below.

Sources of Liquidity

AIG Parent's primary sources of cash flow are dividends, distributions, and other payments from subsidiaries. In the first three months of 2011, AIG Parent collected \$32 million in payments from subsidiaries.

As a result of the closing of the Recapitalization, AIG has established and maintains substantial sources of actual and contingent liquidity.

The following table presents AIG Parent's sources of liquidity, other than liquidity that is expected to result from cash flows from operations:

<i>(in millions)</i>	<b>As of March 31, 2011</b>
Cash*	\$ 42
Short-term investments*	6,685
Available capacity under Syndicated Credit Facilities	3,000
Available capacity under Contingent Liquidity Facility	500
Available capacity under the Department of the Treasury Commitment (Series G)	2,000
<b>Total AIG Parent liquidity sources</b>	<b>\$ 12,227</b>

\* Excludes Cash and Short-term Investments held by AIGFP (excluding Banque AIG S.A.) which are considered to be unrestricted and available for use by AIG Parent; these balances totaled \$326 million at March 31, 2011.

AIG's ability to borrow under the syndicated credit and contingent liquidity facilities is not contingent on its credit ratings. For further discussion of the terms and conditions relating to the bank credit facilities, see Credit Facilities below. For additional information on the contingent liquidity facility, see Debt below. The available funding under the Series G Drawdown Right that may be used for general corporate purposes will be reduced by the amount of the net proceeds of future AIG equity offerings.

Uses of Liquidity

AIG's primary uses of cash flow are for debt service, operating expenses and subsidiary capital needs. In the first three months of 2011, AIG Parent retired \$1.4 billion of debt and made interest payments totaling \$483 million. As noted above, approximately \$5.0 billion of AIG Parent's cash and short-term investment balances represents balances attributable to the MIP and available to meet obligations of the MIP. See Liquidity of Parent and Subsidiaries — Other Operations — Asset Management — Direct Investment Business below for additional details.

AIG Parent made \$3.8 billion in net capital contributions to subsidiaries in the first quarter of 2011, of which \$3.7 billion was contributed to Chartis as a result of the reserve strengthening in the fourth quarter of 2010. This transaction was funded from the retention of \$2 billion of net cash proceeds from the sale of AIG Star and AIG

Edison (which the Department of the Treasury provided a waiver for AIG to use for this purpose instead of using the amount to repay SPV Preferred Interests) and available cash at AIG Parent.

AIG believes that it has sufficient liquidity at the AIG Parent level to satisfy future liquidity requirements and meet its obligations, including reasonably foreseeable contingencies or events.

Several Chartis U.S. insurance subsidiaries have deferred tax assets on a separate company basis, including those resulting from net operating losses incurred. In the event that the deferred tax assets become non-admitted for insurance regulatory reporting purposes, Chartis may require additional capital contributions from AIG. Based on the December 31, 2010 statutory balances, which are the latest available, such contributions could be as much as \$2.3 billion. For additional information, see Chartis liquidity overview below.

### *Chartis*

AIG currently expects that its Chartis subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. Chartis subsidiaries maintain substantial liquidity in the form of cash and short-term investments, totaling \$14.8 billion as of March 31, 2011. Further, Chartis businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds, which Chartis could monetize in the event liquidity levels are deemed insufficient. In the first quarter of 2011, Chartis received a capital contribution of \$3.7 billion in cash from AIG as a result of the reserve strengthening in the fourth quarter of 2010. Chartis used \$1.8 billion of this amount to purchase certain assets from the Direct Investment Business (DIB). Additionally, Chartis subsequently returned capital to AIG Parent of \$2.2 billion in the form of all of the outstanding stock of UGC in the first quarter of 2011.

One or more large catastrophes may require AIG to provide additional support to the affected Chartis operations. In addition, downgrades in AIG's credit ratings could put pressure on the insurer financial strength ratings of its subsidiaries which could result in non-renewals or cancellations by policyholders and adversely affect the relevant subsidiary's ability to meet its own obligations, and require AIG to provide capital or liquidity support to the subsidiary. Increases in market interest rates may adversely affect the financial strength ratings of Chartis subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include economic collapse of a nation or region significant to Chartis operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

In February 2011, AIG entered into CMAs with certain Chartis domestic property and casualty insurance companies. Among other things, the CMAs provide that AIG will maintain the total adjusted capital of these Chartis insurance companies at or above a specified minimum percentage of the companies' projected total authorized control level Risk-Based Capital (RBC) (as defined under applicable insurance laws). In addition, the CMAs also provide that if the total adjusted capital of these Chartis insurance companies is in excess of a specified minimum percentage of their respective total authorized control level RBCs (as reflected in the companies' quarterly or annual statutory financial statements), subject to board and regulatory approval(s), the companies would declare and pay ordinary dividends to their equity holders in amounts representing the excess over that required to maintain the specified minimum percentage.

Several Chartis U.S. insurance subsidiaries have deferred tax assets on a separate company basis, including those resulting from net operating losses incurred. Chartis intends to rely on prudent and feasible effective tax planning actions and/or strategies to preserve admissibility of such deferred tax assets for insurance regulatory reporting (statutory) purposes. In the event that Chartis cannot execute such actions, if required, and the related deferred tax assets become non-admitted for insurance regulatory reporting purposes, such insurance companies would require additional capital contributions of up to \$2.3 billion from AIG, based on December 31, 2010 statutory balances, which are the latest available. The Chartis U.S. deferred tax assets have a full valuation allowance at the AIG consolidated level as described in Note 14 to the Consolidated Financial Statements.

Chartis continues to identify cost effective opportunities to manage its capital allocation through the use of intercompany reinsurance.

### *SunAmerica*

Management considers the sources of liquidity for SunAmerica subsidiaries adequate to satisfy future liquidity requirements and meet foreseeable liquidity needs, including reasonably foreseeable contingencies or events. The SunAmerica companies continue to maintain substantial liquidity in the form of cash and short-term investments, totaling \$13.1 billion as of March 31, 2011. These subsidiaries generally have been lengthening their maturity profile by purchasing investment grade fixed income securities in order to reduce the levels of cash, cash equivalents and other short-term instruments that had been maintained during 2009 and 2010.

The most significant potential liquidity needs of SunAmerica companies are the funding of product surrenders, withdrawals and maturities. Given the size and liquidity profile of SunAmerica's investment portfolios, AIG believes that any deviations from projected claim experience would not constitute a significant liquidity risk.

In March 2011, AIG entered into CMAs with certain SunAmerica insurance companies. Among other things, the CMAs provide that AIG will maintain the total adjusted capital of these SunAmerica insurance companies at or above a specified minimum percentage of the companies' projected company action level RBCs (as defined under applicable insurance laws). In addition, the CMAs also provide that if the total adjusted capital of these SunAmerica insurance companies is in excess of a specified minimum percentage of their respective total company action level RBCs (as reflected in the companies' quarterly or annual statutory financial statements), subject to board and regulatory approval(s), the companies would declare and pay ordinary dividends to their equity holders in amounts representing the excess over that required to maintain the specified minimum percentage.

### *Financial Services*

AIG's major Financial Services operations consist of ILFC and the remaining portfolios of AIGFP, which are in wind-down.

### *International Lease Finance Corporation*

ILFC's sources of liquidity include collections of lease payments, borrowing in the public markets, and proceeds from asset sales. Uses of liquidity for ILFC primarily consist of aircraft purchases and debt repayments. In 2011, ILFC improved its liquidity position by entering into an unsecured \$2.0 billion three-year revolving credit facility and a secured \$1.3 billion term loan with the right to add an additional \$200 million of lender commitments. On April 21, 2011, ILFC increased its secured \$1.3 billion term loan for a total commitment of \$1.5 billion. ILFC also sold nine aircraft to third parties in the first three months of 2011, which generated \$199 million in gross proceeds.

See Debt — Debt Maturities — ILFC for further details on ILFC's outstanding debt.

### *Capital Markets*

Due to the wind-down of AIGFP's remaining portfolios, AIGFP continues to rely upon AIG Parent to meet most of its collateral and other liquidity needs.

The following table presents a rollforward of the amount of collateral posted by the Capital Markets operations:

<i>(in millions)</i>	Collateral Posted as of December 31, 2010	Additional Postings, Netted by Counterparty	Collateral Returned by Counterparties	Collateral Posted as of March 31, 2011
Super senior credit default swap (CDS) portfolio	\$ 3,786	\$ 195	\$ 594	\$ 3,387
All other derivatives	1,335	298	212	1,421
<b>Total</b>	<b>\$ 5,121</b>	<b>\$ 493</b>	<b>\$ 806</b>	<b>\$ 4,808</b>

During 2010, AIG's Asset Management Group undertook the management responsibilities for certain non-derivative assets and liabilities of AIGFP. These assets and liabilities are being managed on a spread basis, in concert with the MIP. Accordingly, gains and losses related to these assets and liabilities, primarily consisting of credit valuation adjustment gains and losses, are reported in AIG's Other operations category as part of Asset Management — Direct Investment business. For additional details regarding liquidity considerations related to these assets and liabilities, see Other Operations below.

The following table presents the net notional amount and number of outstanding trade positions in AIGFP's portfolios:

<i>(dollars in billions)</i>	March 31, 2011	December 31, 2010	Percentage Decrease
Net notional amount <sup>(a)</sup>	\$ 278	\$ 353	(21)%
Super senior CDS contracts (included in net notional amount above)	57	60	(5)
Outstanding trade positions <sup>(b)</sup>	2,800	3,900	(28)

(a) Includes \$11.0 billion and \$11.5 billion of intercompany derivatives in 2011 and 2010, respectively.

(b) Excludes approximately 4,800 non-derivative trade positions that were transferred to Direct Investment business in 2010.

AIG expects the active unwind of the AIGFP derivatives portfolio to be completed by the end of the second quarter of 2011, and the remaining AIGFP derivatives portfolio will consist predominantly of transactions AIG believes will be of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis.

The cost and liquidity needs of executing the AIGFP portfolio wind-down will depend on many factors, many of which are not within AIG's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades.

#### *Other Operations*

##### *Asset Management — Direct Investment Business*

The DIB includes results for the MIP, AIG Global Real Estate and the results of certain non-derivative assets and liabilities of AIGFP now managed by the Asset Management Group. AIG's Existing CDS contracts for the MIP under International Swaps and Derivatives Association, Inc. (ISDA) agreements may require collateral postings at various ratings and threshold levels. Approximately \$5.0 billion of AIG, Inc.'s cash and short-term investment balances included in the summary table in AIG Parent — Sources of Liquidity represents balances attributable to the MIP.

While a significant portion of the DIB's liquidity needs are supported by existing liquidity sources or maturing investments, mismatches in the timing of cash inflows and outflows may require assets to be sold to satisfy liquidity needs. Depending on market conditions and the ability to sell assets if required, proceeds from asset sales may not be sufficient to satisfy the full amount required. Management believes that sufficient liquidity is maintained by the DIB to meet near-term liquidity needs. Any additional liquidity shortfalls would need to be

funded by AIG Parent. The amount of collateral posted by the DIB for collateralized GIAs as of March 31, 2011 and December 31, 2010 was \$5.4 billion and \$5.7 billion, respectively.

During the first quarter of 2011, \$1.8 billion of assets held by the DIB were sold to certain Chartis U.S. subsidiaries. In addition, during the first quarter of 2011, AIG assigned approximately 52 percent of AIG's interest in Maiden Lane III to the DIB, subject to liens on those interests as set forth in the Master Transaction Agreement dated December 8, 2010, among AIG Parent, AM Holdings LLC (formerly known as ALICO Holdings LLC), AIA Aurora LLC, the FRBNY, the Department of the Treasury, and the Trust.

## Debt

### Debt Maturities

The following table summarizes maturing debt at March 31, 2011 of AIG and its subsidiaries for the next four quarters:

<i>(in millions)</i>	Second Quarter 2011	Third Quarter 2011	Fourth Quarter 2011	First Quarter 2012	Total
ILFC	\$ 1,262	\$ 2,232	\$ 336	\$ 1,998	\$ 5,828
Borrowings supported by assets	1,794	1,342	1,163	1,369	5,668
General borrowings	-	-	604	-	604
Other	1	1	1	1	4
<b>Total</b>	<b>\$ 3,057</b>	<b>\$ 3,575</b>	<b>\$ 2,104</b>	<b>\$ 3,368</b>	<b>\$ 12,104</b>

AIG's plans for meeting these maturing obligations are as follows:

- ILFC's sources of liquidity available to meet these needs include existing cash, future cash flows from operations, debt issuances and aircraft sales, subject to market and other conditions, (see Liquidity of Parent and Subsidiaries — Financial Services — ILFC). In March 2011, ILFC entered into a secured \$1.3 billion term loan with the right to add an additional \$200 million of lender commitments. On April 21, 2011, ILFC increased its secured \$1.3 billion term loan for a total commitment of \$1.5 billion. During 2011, ILFC sold nine aircraft to third parties, which generated \$199 million in gross proceeds. AIG expects that ILFC will refinance or issue additional debt as necessary to meet its maturing debt obligations.
- AIG borrowings supported by assets consist of debt under the MIP as well as AIGFP debt being managed in the DIB. Approximately \$5.1 billion of \$5.7 billion of debt maturities in the DIB through March 31, 2012 are supported by maturities of investments and short term cash investments. Mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold to satisfy maturing liabilities. Depending on market conditions and the ability to sell assets at that time, proceeds from sales may not be sufficient to satisfy the full amount due on maturing liabilities. Any shortfalls would need to be funded by AIG Parent.



The following table provides the rollforward of AIG's total debt outstanding:

Three Months Ended March 31, 2011 (in millions)	Balance at December 31, 2010	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes	Balance at March 31, 2011
<b>Debt issued or guaranteed by AIG:</b>						
General borrowings:						
FRBNY Credit Facility	\$ 20,985	\$ -	\$ (20,985) <sup>(a)</sup>	\$ -	\$ -	\$ -
Notes and bonds payable	11,511	-	-	72	-	11,583
Junior subordinated debt	11,740	-	-	227	-	11,967
Junior subordinated debt attributable to equity units	2,169	-	(1,446) <sup>(b)</sup>	-	-	723
Loans and mortgages payable	218	-	(143)	(3)	1	73
SunAmerica Financial Group, Inc. (SAFG, Inc.) notes and bonds payable	298	-	-	-	-	298
Liabilities connected to trust preferred stock	1,339	-	-	-	-	1,339
<b>Total general borrowings</b>	<b>48,260</b>	<b>-</b>	<b>(22,574)</b>	<b>296</b>	<b>1</b>	<b>25,983</b>
Borrowings supported by assets:						
MIP notes payable	11,318	-	-	217	(37)	11,498
Series AIGFP matched notes and bonds payable	3,981	-	(12)	-	(10)	3,959
GIAs, at fair value	8,212	118	(481)	-	(131) <sup>(c)</sup>	7,718
Notes and bonds payable, at fair value	3,253	9	(136)	-	130 <sup>(c)</sup>	3,256
Loans and mortgages payable, at fair value	678	-	(92)	-	44 <sup>(c)</sup>	630
<b>Total borrowings supported by assets</b>	<b>27,442</b>	<b>127</b>	<b>(721)</b>	<b>217</b>	<b>(4)</b>	<b>27,061</b>
<b>Total debt issued or guaranteed by AIG</b>	<b>75,702</b>	<b>127</b>	<b>(23,295)</b>	<b>513</b>	<b>(3)</b>	<b>53,044</b>
<b>Debt not guaranteed by AIG:</b>						
ILFC:						
Notes and bonds payable, ECA facility, bank financings and other secured financings <sup>(d)</sup>	26,700	-	(1,491)	84	4	25,297
Junior subordinated debt	999	-	-	-	-	999
<b>Total ILFC debt</b>	<b>27,699</b>	<b>-</b>	<b>(1,491)</b>	<b>84</b>	<b>4</b>	<b>26,296</b>
Other subsidiaries	446	-	(20)	5	1	432
Debt of consolidated investments <sup>(e)</sup>	2,614	56	(165)	8	(119)	2,394
<b>Total debt not guaranteed by AIG</b>	<b>30,759</b>	<b>56</b>	<b>(1,676)</b>	<b>97</b>	<b>(114)</b>	<b>29,122</b>
<b>Total debt</b>	<b>\$ 106,461</b>	<b>\$ 183</b>	<b>\$ (24,971)</b>	<b>\$ 610</b>	<b>\$ (117)</b>	<b>\$ 82,166</b>

(a) Terminated on January 14, 2011 in connection with the Recapitalization. Includes \$6.4 billion of paid in kind interest and fees. See Note 1 to the Consolidated Financial Statements.

(b) Represents remarketing of debentures related to Equity Units.

(c) Primarily represents adjustments to the fair value of debt.

(d) Includes \$110 million of secured financings that are non-recourse to ILFC.

(e) At March 31, 2011, includes debt of consolidated investments held through AIG Global Real Estate Investment, AIG Credit and SunAmerica of \$2.0 billion, \$293 million and \$108 million, respectively.

## The following table summarizes maturities of long-term debt, excluding borrowings of consolidated investments:

March 31, 2011 (in millions)	Total	Remainder of 2011	Year Ending					
			2012	2013	2014	2015	2016	Thereafter
<b>General borrowings:</b>								
Notes and bonds payable	\$ 11,583	\$ 604	\$ 27	\$ 1,467	\$ 500	\$ 998	\$ 1,812	\$ 6,175
Junior subordinated debt	11,967	-	-	-	-	-	-	11,967
Junior subordinated debt attributable to equity units	723	-	-	-	-	-	-	723
Loans and mortgages payable	73	-	-	-	-	2	-	71
SAFG, Inc. notes and bonds payable	298	-	-	-	-	-	-	298
Liabilities connected to trust preferred stock	1,339	-	-	-	-	-	-	1,339
<b>Total general borrowings</b>	<b>25,983</b>	<b>604</b>	<b>27</b>	<b>1,467</b>	<b>500</b>	<b>1,000</b>	<b>1,812</b>	<b>20,573</b>
<b>Borrowings supported by assets:</b>								
MIP notes payable	11,498	3,166	2,266	909	445	411	713	3,588
Series AIGFP matched notes and bonds payable	3,959	16	50	3	-	-	-	3,890
GIAs, at fair value	7,718	430	248	291	650	566	282	5,251
Notes and bonds payable, at fair value	3,256	597	859	183	68	227	393	929
Loans and mortgages payable, at fair value	630	90	237	81	94	-	-	128
<b>Total borrowings supported by assets</b>	<b>27,061</b>	<b>4,299</b>	<b>3,660</b>	<b>1,467</b>	<b>1,257</b>	<b>1,204</b>	<b>1,388</b>	<b>13,786</b>
<b>ILFC<sup>(a)</sup>:</b>								
Notes and bonds payable	15,661	3,294	3,571	3,541	1,040	1,260	-	2,955
Junior subordinated debt	999	-	-	-	-	-	-	999
ECA Facility <sup>(b)</sup>	2,626	291	429	429	424	336	258	459
Bank financings and other secured financings	7,010	245	1,480	16	1,387	760	1,836	1,286
<b>Total ILFC</b>	<b>26,296</b>	<b>3,830</b>	<b>5,480</b>	<b>3,986</b>	<b>2,851</b>	<b>2,356</b>	<b>2,094</b>	<b>5,699</b>
Other subsidiaries <sup>(b)</sup>	432	3	4	4	4	22	4	391
<b>Total</b>	<b>\$ 79,772</b>	<b>\$ 8,736</b>	<b>\$ 9,171</b>	<b>\$ 6,924</b>	<b>\$ 4,612</b>	<b>\$ 4,582</b>	<b>\$ 5,298</b>	<b>\$ 40,449</b>

(a) AIG does not guarantee these borrowings.

(b) Reflects future minimum payment for ILFC's borrowings under the 2004 Export Credit Agency (ECA) Facility.

## Credit Facilities

AIG relies on credit facilities as potential sources of liquidity for general corporate purposes. Currently, AIG, Chartis and ILFC maintain committed, revolving credit facilities and a letter of credit facility summarized in the following table for general corporate purposes. AIG and Chartis intend to replace or extend these credit facilities on or prior to their expiration, although no assurance can be given that these facilities will be replaced on favorable terms or at all. One of the facilities, as noted below, contains a "term-out option" allowing for the conversion by the borrower of any outstanding loans at expiration into one-year term loans. All facilities, except for the ILFC five-year syndicated credit facility maturing October 2012, are unsecured.

March 31, 2011 (in millions)	Size	Borrower(s)	Available Amount	Expiration	One-Year Term-Out Option	Effective Date
<b>AIG:</b>						
364-Day Syndicated Facility	\$ 1,500	AIG	\$ 1,500	January 2012	Yes	1/14/2011
3-Year Syndicated Facility	1,500	AIG	1,500	January 2014	No	1/14/2011
<b>Total AIG</b>	<b>\$ 3,000</b>		<b>\$ 3,000</b>			
<b>Chartis 364-Day Syndicated Letter of Credit Facility</b>						
	\$ 1,300	Chartis	\$ -	December 2011	No	1/14/2011
<b>ILFC:</b>						
5-Year Syndicated Facility	\$ 235	ILFC	\$ -	October 2011	No	10/13/2006
5-Year Syndicated Facility	1,465	ILFC	-	October 2012	No	10/13/2006
3-Year Syndicated Facility	2,000	ILFC	2,000	January 2014	No	1/31/2011
<b>Total ILFC</b>	<b>\$ 3,700</b>		<b>\$ 2,000</b>			

The available amounts shown above for the AIG facilities do not reflect an increase of \$25 million in the size of each of the AIG 364-Day Syndicated Facility and the AIG 3-Year Syndicated Facility that was made available on April 25, 2011, for a total increase in availability of \$50 million.

AIG's ability to borrow under these facilities is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the facilities, including covenants relating to AIG's maintenance of a specified total consolidated net worth and consolidated total debt to consolidated total capitalization. Failure to satisfy these and other requirements contained in the credit facilities would restrict AIG's access to the facilities and, consequently, could have a material adverse effect on AIG's financial condition and results of operations.

The Chartis letter of credit facility provides for the issuance of letters of credit in favor of certain of its general insurance companies to permit those companies to obtain statutory recognition of reinsurance recoverables from unauthorized reinsurers. This facility requires Chartis to maintain a minimum combined statutory surplus and a minimum combined net worth, and contains certain customary affirmative and negative covenants, including limitations with respect to incurrence of certain types of indebtedness or liens, certain dispositions, entry into certain restrictive agreements and transactions with affiliates and certain fundamental changes, as well as customary events of default. At March 31, 2011, the Chartis letter of credit facility was fully drawn and no additional amounts are available under this facility.

ILFC's three-year credit facility which became effective January 31, 2011 contains customary events of default and restrictive financial covenants that require ILFC to maintain a minimum fixed charge coverage ratio, a minimum consolidated tangible net worth, and a maximum ratio of consolidated debt to consolidated tangible net worth. Prior to April 16, 2010, ILFC had a \$2.5 billion five-year syndicated facility which was scheduled to expire in October 2011. On April 16, 2010, ILFC extended the maturity date of \$2.16 billion of its \$2.5 billion revolving credit facility from October 2011 to October 2012. In December 2010, ILFC paid down \$800 million on the \$2.5 billion revolving credit facility. The amended facility prohibits ILFC from re-borrowing amounts repaid under this facility for any reason; therefore the size of the outstanding facility is \$1.7 billion.

### Credit Ratings

The cost and availability of unsecured financing for AIG and its subsidiaries are generally dependent on their short-and long-term debt ratings. The following table presents the credit ratings of AIG and certain of its subsidiaries as of April 29, 2011. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's <sup>(a)</sup>	S&P <sup>(b)</sup>	Fitch <sup>(c)</sup>
AIG	P-2 (2nd of 3) Stable Outlook	A-2 (2nd of 8)	Baa 1 (4th of 9) Stable Outlook	A- (3rd of 8) Stable Outlook	BBB (4th of 9) Stable Outlook
AIG Financial Products Corp. <sup>(d)</sup>	P-2 Stable Outlook	A-2	Baa 1 Stable Outlook	A- Stable Outlook	-
AIG Funding, Inc. <sup>(d)</sup>	P-2 Stable Outlook	A-2	-	-	-
ILFC	Not prime Stable Outlook	-	B1 (6th of 9) Stable Outlook	BBB- (4th of 8) Negative Outlook	BB (5th of 9) Evolving Outlook

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.

These credit ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at AIG management's request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries.

"Ratings triggers" have been defined by one independent rating agency to include clauses or agreements the outcome of which depends upon the level of ratings maintained by one or more rating agencies. "Ratings triggers" generally relate to events that (i) could result in the termination or limitation of credit availability, or require accelerated repayment, (ii) could result in the termination of business contracts or (iii) could require a company to post collateral for the benefit of counterparties.

A significant portion of the GIAs, structured financing arrangements and financial derivative transactions have provisions that require collateral to be posted upon a downgrade of AIG's long-term debt ratings or, with the consent of the counterparties, assignment or repayment of the positions or arrangement of a substitute guarantee of AIG's obligations by an obligor with higher debt ratings. Furthermore, certain downgrades of AIG's long-term senior debt ratings would permit either AIG or the counterparties to elect early termination of contracts.

The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. For a discussion of the effects of downgrades in the financial strength ratings of AIG's insurance companies or AIG's credit ratings, see Part II, Item 1A. Risk Factors in AIG's 2010 Annual Report on Form 10-K and Note 10 to the Consolidated Financial Statements.

## Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

March 31, 2011 (in millions)	Total Payments	Remainder of 2011	Payments due by Period			
			2012 - 2013	2014 - 2015	2016	Thereafter
Borrowings	\$ 79,772	\$ 8,736	\$ 16,095	\$ 9,194	\$ 5,298	\$ 40,449
Interest payments on borrowings	48,256	3,467	7,574	6,454	2,840	27,921
Loss reserves	94,978	16,526	28,303	15,766	5,129	29,254
Insurance and investment contract liabilities	435,542	13,911	26,810	25,540	47,544	321,737
Aircraft purchase commitments	17,552	174	1,324	4,074	2,868	9,112
Other long-term obligations <sup>(a)</sup>	317	109	87	11	-	110
<b>Total<sup>(b)</sup></b>	<b>\$ 676,417</b>	<b>\$ 42,923</b>	<b>\$ 80,193</b>	<b>\$ 61,039</b>	<b>\$ 63,679</b>	<b>\$ 428,583</b>

(a) Primarily includes contracts to purchase future services and other capital expenditures.

(b) Does not reflect unrecognized tax benefits of \$5.3 billion, the timing of which is uncertain. In addition, the majority of Capital Markets credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At March 31, 2011, the fair value derivative liability was \$3.1 billion, relating to AIGFP's super senior multi-sector CDO credit default swap portfolio, realized in extinguishing derivative obligations. Due to the long-term maturities of these credit default swaps, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, at March 31, 2011 AIGFP had posted collateral of \$2.6 billion with respect to these swaps.

## Off Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

March 31, 2011 (in millions)	Total Amounts Committed	Amount of Commitment Expiration				
		Remainder of 2011	2012 - 2013	2014 - 2015	2016	Thereafter
<b>Guarantees:</b>						
Liquidity facilities <sup>(a)</sup>	\$ 695	\$ -	\$ 594	\$ -	\$ -	\$ 101
Standby letters of credit	989	963	14	11	-	1
Guarantees of indebtedness	212	-	-	-	-	212
All other guarantees <sup>(b)(c)</sup>	636	63	217	187	53	116
<b>Commitments:</b>						
Investment commitments <sup>(d)</sup>	3,360	2,137	893	250	64	16
Commitments to extend credit	319	245	49	24	-	1
Letters of credit	1,552	1,470	82	-	-	-
Other commercial commitments <sup>(e)</sup>	720	19	-	-	-	701
<b>Total<sup>(f)</sup></b>	<b>\$ 8,483</b>	<b>\$ 4,897</b>	<b>\$ 1,849</b>	<b>\$ 472</b>	<b>\$ 117</b>	<b>\$ 1,148</b>

(a) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(b) Includes SunAmerica construction guarantees connected to affordable housing investments.

(c) Excludes potential amounts attributable to indemnifications included in asset sales agreements. See Note 11 to the Consolidated Financial Statements.

(d) Includes commitments to invest in limited partnerships, private equity, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in limited partnerships and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(e) Includes options to acquire aircraft. Excludes commitments with respect to pension plans. The remaining pension contribution for 2011 is expected to be approximately \$68 million for U.S. and non-U.S. plans.

(f) Does not include guarantees, capital maintenance agreements or other support arrangements among AIG consolidated entities.

## Securities Financing

The fair value of securities transferred under repurchase agreements accounted for as sales was \$2.8 billion and \$2.7 billion at March 31, 2011 and December 31, 2010, respectively, and the related cash collateral obtained was \$2.0 billion and \$2.1 billion at March 31, 2011 and December 31, 2010, respectively.

## Dividend Restrictions

See Note 18 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for discussion of restrictions on payments of dividends.

## Arrangements with Variable Interest Entities

While AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business, AIG's involvement with VIEs is primarily as a passive investor in fixed maturities (rated and unrated) and equity interests issued by VIEs. AIG consolidates a VIE when it is the primary beneficiary of the entity. For a further discussion of AIG's involvement with VIEs, see Note 9 to the Consolidated Financial Statements.

## Investments

### Investment Strategy

AIG's investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the business model for each of the businesses: general insurance, life insurance, retirement services and the Direct Investment business. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products.

At the local operating unit level, investment strategies are based on considerations that include the local market, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities. In the case of life insurance and retirement services companies, as well as in the Direct Investment business, the fundamental investment strategy is, as nearly as is practicable, to match the duration characteristics of the liabilities with assets of comparable duration. Fixed maturity securities held by the insurance companies included in Chartis U.S. historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In order to meet the current risk/return and tax objectives of Chartis U.S., the domestic property and casualty companies have begun to shift investment allocations away from tax-exempt municipal bonds towards taxable instruments which meet the companies' liquidity, duration and credit quality objectives as well as current risk-return and tax objectives. Fixed maturity securities held by Chartis International companies consist primarily of intermediate duration high-grade securities.

The market price of fixed maturity securities reflects numerous components, including interest rate environment, credit spread, embedded optionality (such as call features), liquidity, structural complexity, foreign exchange risk and other credit and non-credit factors. However, in most circumstances, pricing is most sensitive to interest rates, such that the market price declines as interest rates rise, and increases as interest rates fall. This effect is more pronounced for longer duration securities.

AIG accounts for the vast majority of the invested assets held by its insurance companies at fair value. However, with limited exceptions (primarily with respect to separate account products on AIG's Consolidated Balance Sheet), AIG does not modify the fair value of its insurance liabilities for changes in interest rates, even though rising interest rates have the effect of reducing the fair value of such liabilities, and falling interest rates have the opposite effect. This results in the recording of changes in unrealized gains (losses) on securities in Accumulated other comprehensive income resulting from changes in interest rates without any correlative, inverse changes in gains (losses) on AIG's liabilities. Because AIG's asset duration in certain low-yield currencies, particularly Japan and Taiwan, is shorter than its liability duration, AIG views increasing interest rates in these countries as economically advantageous, notwithstanding the effect that higher rates have on the market value of its fixed maturity portfolio.

At March 31, 2011, approximately 88 percent of the fixed maturity securities were held by domestic entities. Approximately 24 percent of such securities were rated AAA by one or more of the principal rating agencies. Approximately 11 percent were below investment grade or not rated. AIG's investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of the foreign fixed maturity portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available in all overseas locations. AIG's Credit Risk Committee closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At March 31, 2011, approximately 25 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 4 percent were below investment grade or not rated at that date. Approximately 37 percent of the foreign fixed maturity portfolio is sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

The following table presents the credit ratings of AIG's fixed maturity investments based on fair value:

	March 31, 2011	December 31, 2010
<b>Rating:</b>		
AAA	25%	24%
AA	21	22
A	21	21
BBB	23	22
Below investment grade	7	7
Non-rated	3	4
<b>Total</b>	<b>100%</b>	<b>100%</b>

Investments by Segment

The following tables summarize the composition of AIG's investments by reportable segment:

<i>(in millions)</i>	Chartis	SunAmerica	Financial Services		Other	Total
<b>March 31, 2011</b>						
Fixed maturity securities:						
Bonds available for sale, at fair value	\$ 92,620	\$ 139,530	\$ 105	\$ 6,060		\$ 238,315
Bond trading securities, at fair value	-	1,584	58		25,667	27,309
Equity securities:						
Common and preferred stock available for sale, at fair value	2,989	213	1		670	3,873
Common and preferred stock trading, at fair value	-	1	155		7	163
Mortgage and other loans receivable, net of allowance	642	16,603	697		1,749	19,691
Flight equipment primarily under operating leases, net of accumulated depreciation	-	-	38,100		-	38,100
Other invested assets	13,182	13,462	142		16,114	42,900
Short-term investments	14,083	12,771	2,666		9,352	38,872
Total investments <sup>(a)</sup>	123,516	184,164	41,924		59,619	409,223
Cash	726	327	544		204	1,801
Total invested assets <sup>(b)</sup>	\$ 124,242	\$ 184,491	\$ 42,468		\$ 59,823	\$ 411,024
<b>December 31, 2010</b>						
Fixed maturity securities:						
Bonds available for sale, at fair value	\$ 88,904	\$ 128,347	\$ 108	\$ 10,943		\$ 228,302
Bond trading securities, at fair value	-	1,307	339		24,536	26,182
Equity securities:						
Common and preferred stock available for sale, at fair value	3,827	218	2		534	4,581
Common and preferred stock trading, at fair value	-	1	152		6,499	6,652
Mortgage and other loans receivable, net of allowance	690	16,727	742		2,078	20,237
Flight equipment primarily under operating leases, net of accumulated depreciation	-	-	38,510		-	38,510
Other invested assets	13,743	13,069	270		15,128	42,210
Short-term investments	11,799	19,160	3,878		8,901	43,738
Total investments <sup>(a)</sup>	118,963	178,829	44,001		68,619	410,412
Cash	572	270	302		414	1,558
Total invested assets	\$ 119,535	\$ 179,099	\$ 44,303		\$ 69,033	\$ 411,970

(a) At March 31, 2011, approximately 87 percent and 13 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 85 percent and 15 percent, respectively, at December 31, 2010.

(b) Total invested assets of businesses held for sale amounted to \$52.5 billion at March 31, 2011 and \$96.3 billion at December 31, 2010. See Note 4 to the Consolidated Financial Statements.

## Available for Sale Investments

The following table presents the amortized cost or cost and fair value of AIG's available for sale securities:

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than- Temporary Impairments in AOCI <sup>(a)</sup>
<b>March 31, 2011</b>					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 6,822	\$ 153	\$ (83)	\$ 6,892	\$ -
Obligations of states, municipalities and political subdivisions	42,676	1,545	(390)	43,831	(31)
Non-U.S. governments	15,821	486	(91)	16,216	-
Corporate debt	123,810	8,563	(1,147)	131,226	13
Mortgage-backed, asset-backed and collateralized:					
RMBS	26,087	874	(1,016)	25,945	(251)
CMBS	7,755	408	(606)	7,557	92
CDO/ABS	6,618	470	(440)	6,648	117
Total mortgage-backed, asset-backed and collateralized	40,460	1,752	(2,062)	40,150	(42)
<b>Total bonds available for sale<sup>(b)</sup></b>	<b>229,589</b>	<b>12,499</b>	<b>(3,773)</b>	<b>238,315</b>	<b>(60)</b>
Equity securities available for sale:					
Common stock	1,722	1,910	(28)	3,604	-
Preferred stock	93	29	-	122	-
Mutual funds	118	30	(1)	147	-
<b>Total equity securities available for sale</b>	<b>1,933</b>	<b>1,969</b>	<b>(29)</b>	<b>3,873</b>	<b>-</b>
<b>Total<sup>(c)</sup></b>	<b>\$ 231,522</b>	<b>\$ 14,468</b>	<b>\$ (3,802)</b>	<b>\$ 242,188</b>	<b>\$ (60)</b>
<b>December 31, 2010</b>					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 7,239	\$ 184	\$ (73)	\$ 7,350	\$ -
Obligations of states, municipalities and political subdivisions	45,297	1,725	(402)	46,620	2
Non-U.S. governments	14,780	639	(75)	15,344	(28)
Corporate debt	118,729	8,827	(1,198)	126,358	99
Mortgage-backed, asset-backed and collateralized:					
RMBS	20,661	700	(1,553)	19,808	(648)
CMBS	7,320	240	(1,149)	6,411	(218)
CDO/ABS	6,643	402	(634)	6,411	32
Total mortgage-backed, asset-backed and collateralized	34,624	1,342	(3,336)	32,630	(834)
<b>Total bonds available for sale<sup>(b)</sup></b>	<b>220,669</b>	<b>12,717</b>	<b>(5,084)</b>	<b>228,302</b>	<b>(761)</b>
Equity securities available for sale:					
Common stock	1,820	1,931	(52)	3,699	-
Preferred stock	400	88	(1)	487	-
Mutual funds	351	46	(2)	395	-
<b>Total equity securities available for sale</b>	<b>2,571</b>	<b>2,065</b>	<b>(55)</b>	<b>4,581</b>	<b>-</b>
<b>Total<sup>(c)</sup></b>	<b>\$ 223,240</b>	<b>\$ 14,782</b>	<b>\$ (5,139)</b>	<b>\$ 232,883</b>	<b>\$ (761)</b>

(a) Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive loss. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(b) At March 31, 2011 and 2010, bonds available for sale held by AIG that were below investment grade or not rated totaled \$16.2 billion and \$18.6 billion, respectively.

(c) Excludes \$43.7 billion and \$80.5 billion of available for sale securities at fair value from businesses held for sale at March 31, 2011 and December 31, 2010, respectively. See Note 4 herein.



The following table presents the fair value of AIG's available for sale U.S. municipal bond portfolio by state and type:

March 31, 2011 (in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value
<b>State:</b>				
California	\$ 677	\$ 1,471	\$ 3,741	\$ 5,889
Texas	222	3,055	2,310	5,587
New York	3	796	4,724	5,523
Washington	872	524	961	2,357
Florida	787	38	1,415	2,240
Massachusetts	1,065	10	1,085	2,160
Illinois	225	769	810	1,804
Georgia	666	95	513	1,274
Ohio	322	307	614	1,243
Arizona	-	209	984	1,193
Virginia	77	249	830	1,156
New Jersey	12	3	1,090	1,105
Pennsylvania	579	130	286	995
All Other	2,512	2,036	6,661	11,209
<b>Total<sup>(a)(b)</sup></b>	<b>\$ 8,019</b>	<b>\$ 9,692</b>	<b>\$ 26,024</b>	<b>\$ 43,735</b>

(a) Excludes certain university and not-for-profit entities that issue in the corporate debt market. Includes industrial revenue bonds.

(b) Includes \$6.4 billion of pre-refunded U.S. municipal bonds.

At March 31, 2011, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with 98 percent of the portfolio rated A or higher.

The following table presents the industry categories of AIG's available for sale corporate debt securities<sup>(a)</sup> based on amortized cost:

Industry Category	March 31, 2011	December 31, 2010
<b>Financial institutions:</b>		
Money Center/Global Bank Groups	12%	12%
Regional banks – other	3	3
Life insurance	4	4
Securities firms and other finance companies	1	2
Insurance non-life	1	4
Regional banks – North America	2	2
Other financial institutions	6	5
<b>Utilities</b>	<b>16</b>	<b>16</b>
Communications	8	8
Consumer noncyclical	9	8
Capital goods	7	6
Energy	7	6
Consumer cyclical	6	8
Other	18	16
<b>Total<sup>(b)</sup></b>	<b>100%</b>	<b>100%</b>

(a) Excludes corporate debt of businesses held for sale.

(b) At March 31, 2011 and December 31, 2010, approximately 94 percent and 93 percent, respectively, of these investments were rated investment grade.

**Investments in RMBS**

The following table presents AIG's RMBS investments by year of vintage:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
<b>Total RMBS*</b>										
2011	\$ 4,866	\$ 25	\$ (5)	\$ 4,886	19%	\$ -	\$ -	\$ -	\$ -	-%
2010	5,063	16	(66)	5,013	19	4,157	11	(53)	4,115	20
2009	852	8	(3)	857	3	881	9	(3)	887	4
2008	864	38	(2)	900	3	937	39	(2)	974	5
2007	2,837	163	(111)	2,889	11	2,836	114	(213)	2,737	14
2006 and prior	11,605	624	(829)	11,400	45	11,850	527	(1,282)	11,095	57
<b>Total RMBS</b>	<b>\$ 26,087</b>	<b>\$ 874</b>	<b>\$ (1,016)</b>	<b>\$ 25,945</b>	<b>100%</b>	<b>\$ 20,661</b>	<b>\$ 700</b>	<b>\$ (1,553)</b>	<b>\$ 19,808</b>	<b>100%</b>
<b>Agency</b>										
2011	\$ 4,866	\$ 25	\$ (5)	\$ 4,886	30%	\$ -	\$ -	\$ -	\$ -	-%
2010	4,994	14	(66)	4,942	31	4,067	10	(52)	4,025	40
2009	764	8	(3)	769	5	784	9	(3)	790	8
2008	864	38	(2)	900	5	937	39	(2)	974	9
2007	623	34	(2)	655	4	526	36	(2)	560	5
2006 and prior	3,990	360	(1)	4,349	25	3,825	357	(1)	4,181	38
<b>Total Agency</b>	<b>\$ 16,101</b>	<b>\$ 479</b>	<b>\$ (79)</b>	<b>\$ 16,501</b>	<b>100%</b>	<b>\$ 10,139</b>	<b>\$ 451</b>	<b>\$ (60)</b>	<b>\$ 10,530</b>	<b>100%</b>
<b>Alt-A</b>										
2011	\$ -	\$ -	\$ -	\$ -	-%	\$ -	\$ -	\$ -	\$ -	-%
2010	69	1	-	70	2	70	1	(1)	70	2
2009	-	-	-	-	-	-	-	-	-	-
2008	-	-	-	-	-	-	-	-	-	-
2007	962	61	(42)	981	29	1,004	39	(76)	967	28
2006 and prior	2,330	49	(241)	2,138	69	2,449	41	(380)	2,110	70
<b>Total Alt-A</b>	<b>\$ 3,361</b>	<b>\$ 111</b>	<b>\$ (283)</b>	<b>\$ 3,189</b>	<b>100%</b>	<b>\$ 3,523</b>	<b>\$ 81</b>	<b>\$ (457)</b>	<b>\$ 3,147</b>	<b>100%</b>
<b>Subprime</b>										
2011	\$ -	\$ -	\$ -	\$ -	-%	\$ -	\$ -	\$ -	\$ -	-%
2010	-	-	-	-	-	-	-	-	-	-
2009	-	-	-	-	-	-	-	-	-	-
2008	-	-	-	-	-	-	-	-	-	-
2007	43	17	(4)	56	4	44	19	(5)	58	3
2006 and prior	1,148	36	(226)	958	96	1,215	16	(317)	914	97
<b>Total Subprime</b>	<b>\$ 1,191</b>	<b>\$ 53</b>	<b>\$ (230)</b>	<b>\$ 1,014</b>	<b>100%</b>	<b>\$ 1,259</b>	<b>\$ 35</b>	<b>\$ (322)</b>	<b>\$ 972</b>	<b>100%</b>
<b>Prime non-agency</b>										
2011	\$ -	\$ -	\$ -	\$ -	-%	\$ -	\$ -	\$ -	\$ -	-%
2010	-	-	-	-	-	20	-	(1)	19	-
2009	88	1	-	89	2	97	-	-	97	2
2008	-	-	-	-	-	-	-	-	-	-
2007	1,051	46	(40)	1,057	21	1,097	19	(71)	1,045	21
2006 and prior	3,807	142	(286)	3,663	77	4,010	96	(483)	3,623	77
<b>Total Prime non-agency</b>	<b>\$ 4,946</b>	<b>\$ 189</b>	<b>\$ (326)</b>	<b>\$ 4,809</b>	<b>100%</b>	<b>\$ 5,224</b>	<b>\$ 115</b>	<b>\$ (555)</b>	<b>\$ 4,784</b>	<b>100%</b>
<b>Total Other</b>										
<b>Housing Related</b>	<b>\$ 488</b>	<b>\$ 42</b>	<b>\$ (98)</b>	<b>\$ 432</b>	<b>100%</b>	<b>\$ 516</b>	<b>\$ 18</b>	<b>\$ (159)</b>	<b>\$ 375</b>	<b>100%</b>

\* Includes foreign and jumbo RMBS-related securities.

The following table presents AIG's RMBS investments by credit rating:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
<b>Rating:</b>										
<b>Total RMBS</b>										
AAA	\$ 18,811	\$ 515	\$ (194)	\$ 19,132	72%	\$ 13,009	\$ 477	\$ (277)	\$ 13,209	63%
AA	1,160	50	(191)	1,019	5	1,265	46	(274)	1,037	6
A	535	5	(119)	421	2	548	2	(144)	406	3
BBB	597	8	(91)	514	2	610	5	(113)	502	3
Below investment grade	4,960	296	(416)	4,840	19	5,209	170	(744)	4,635	25
Non-rated	24	-	(5)	19	-	20	-	(1)	19	-
<b>Total RMBS*</b>	<b>\$ 26,087</b>	<b>\$ 874</b>	<b>\$ (1,016)</b>	<b>\$ 25,945</b>	<b>100%</b>	<b>\$ 20,661</b>	<b>\$ 700</b>	<b>\$ (1,553)</b>	<b>\$ 19,808</b>	<b>100%</b>
<b>Agency RMBS – AAA</b>										
	\$ 16,101	\$ 479	\$ (79)	\$ 16,501	100%	\$ 10,139	\$ 451	\$ (60)	\$ 10,530	100%
<b>Alt-A RMBS</b>										
AAA	\$ 828	\$ 4	\$ (37)	\$ 795	25%	\$ 862	\$ 1	\$ (63)	\$ 800	24%
AA	442	37	(55)	424	13	462	30	(89)	403	13
A	156	2	(35)	123	5	148	1	(41)	108	4
BBB	77	-	(14)	63	2	102	1	(15)	88	3
Below investment grade	1,858	68	(142)	1,784	55	1,949	48	(249)	1,748	56
Non-rated	-	-	-	-	-	-	-	-	-	-
<b>Total Alt-A</b>	<b>\$ 3,361</b>	<b>\$ 111</b>	<b>\$ (283)</b>	<b>\$ 3,189</b>	<b>100%</b>	<b>\$ 3,523</b>	<b>\$ 81</b>	<b>\$ (457)</b>	<b>\$ 3,147</b>	<b>100%</b>
<b>Subprime RMBS</b>										
AAA	\$ 389	\$ -	\$ (25)	\$ 364	33%	\$ 417	\$ -	\$ (63)	\$ 354	33%
AA	219	12	(48)	183	18	259	15	(67)	207	21
A	94	2	(30)	66	8	108	1	(33)	76	9
BBB	97	-	(26)	71	8	78	-	(23)	55	6
Below investment grade	368	39	(96)	311	31	397	19	(136)	280	31
Non-rated	24	-	(5)	19	2	-	-	-	-	-
<b>Total Subprime</b>	<b>\$ 1,191</b>	<b>\$ 53</b>	<b>\$ (230)</b>	<b>\$ 1,014</b>	<b>100%</b>	<b>\$ 1,259</b>	<b>\$ 35</b>	<b>\$ (322)</b>	<b>\$ 972</b>	<b>100%</b>
<b>Prime non-agency</b>										
AAA	\$ 1,466	\$ 31	\$ (50)	\$ 1,447	30%	\$ 1,564	\$ 24	\$ (89)	\$ 1,499	30%
AA	457	-	(73)	384	9	502	1	(103)	400	10
A	218	2	(28)	192	4	221	-	(40)	181	4
BBB	337	8	(27)	318	7	338	4	(44)	298	7
Below investment grade	2,468	148	(148)	2,468	50	2,579	86	(278)	2,387	49
Non-rated	-	-	-	-	-	20	-	(1)	19	-
<b>Total prime non-agency</b>	<b>\$ 4,946</b>	<b>\$ 189</b>	<b>\$ (326)</b>	<b>\$ 4,809</b>	<b>100%</b>	<b>\$ 5,224</b>	<b>\$ 115</b>	<b>\$ (555)</b>	<b>\$ 4,784</b>	<b>100%</b>
<b>Total Other</b>										
Housing Related	488	42	(98)	432	100%	\$ 516	18	(159)	375	100%

\* The weighted average expected life is 7 years and 6 years at March 31, 2011 and December 31, 2010, respectively.

AIG's underwriting practices for investing in RMBS, other asset-backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction. AIG's strategy is typically to invest in securities rated AA or better at the time of the investment.

## Investments in CMBS

The following table presents the amortized cost, gross unrealized gains (losses) and fair value of AIG's CMBS investments:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
CMBS (traditional)	\$ 6,442	\$ 337	\$ (457)	\$ 6,322	83%	\$ 6,428	\$ 204	\$ (919)	\$ 5,713	88%
ReRemic/CRE CDO	470	59	(139)	390	6	508	23	(219)	312	7
Agency	754	12	(3)	763	10	297	13	(1)	309	4
Other	89	-	(7)	82	1	87	-	(10)	77	1
<b>Total</b>	<b>\$ 7,755</b>	<b>\$ 408</b>	<b>\$ (606)</b>	<b>\$ 7,557</b>	<b>100%</b>	<b>\$ 7,320</b>	<b>\$ 240</b>	<b>\$ (1,149)</b>	<b>\$ 6,411</b>	<b>100%</b>

The following table presents AIG's CMBS investments by year of vintage:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
<b>Year:</b>										
2011	\$ 485	\$ 2	\$ (2)	\$ 485	6%	\$ -	\$ -	\$ -	\$ -	-%
2010	204	-	(2)	202	2	86	-	-	86	1
2009	44	1	-	45	1	42	1	-	43	1
2008	217	10	(1)	226	3	217	8	(1)	224	3
2007	2,175	204	(264)	2,115	28	2,205	118	(484)	1,839	30
2006 and prior	4,630	191	(337)	4,484	60	4,770	113	(664)	4,219	65
<b>Total</b>	<b>\$ 7,755</b>	<b>\$ 408</b>	<b>\$ (606)</b>	<b>\$ 7,557</b>	<b>100%</b>	<b>\$ 7,320</b>	<b>\$ 240</b>	<b>\$ (1,149)</b>	<b>\$ 6,411</b>	<b>100%</b>

The following table presents AIG's CMBS investments by credit rating:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
<b>Rating:</b>										
AAA	\$ 2,760	\$ 88	\$ (16)	\$ 2,832	36%	\$ 2,416	\$ 88	\$ (21)	\$ 2,483	33%
AA	883	11	(31)	863	11	772	7	(94)	685	11
A	1,005	17	(44)	978	13	1,061	18	(100)	979	14
BBB	1,108	19	(167)	960	14	1,140	12	(302)	850	16
Below investment grade	1,977	273	(348)	1,902	26	1,931	115	(632)	1,414	26
Non-rated	22	-	-	22	-	-	-	-	-	-
<b>Total</b>	<b>\$ 7,755</b>	<b>\$ 408</b>	<b>\$ (606)</b>	<b>\$ 7,557</b>	<b>100%</b>	<b>\$ 7,320</b>	<b>\$ 240</b>	<b>\$ (1,149)</b>	<b>\$ 6,411</b>	<b>100%</b>

The following table presents the percentage of AIG's CMBS investments by geographic region based on amortized cost:

	March 31, 2011	December 31, 2010
<b>Geographic region:</b>		
New York	16%	17%
California	11	12
Texas	5	6
Florida	5	6
Virginia	3	3
Illinois	3	3
New Jersey	3	3
Georgia	2	2
Maryland	2	3
Pennsylvania	2	2
Nevada	2	2
Washington	2	2
All Other*	44	39
<b>Total</b>	<b>100%</b>	<b>100%</b>

\* Includes Non-U.S. locations.

The following table presents the percentage of AIG's CMBS investments by industry based on amortized cost:

	March 31, 2011	December 31, 2010
<b>Industry:</b>		
Office	32%	34%
Retail	25	27
Multi-family	22	17
Lodging	8	8
Industrial	6	6
Other	7	8
<b>Total</b>	<b>100%</b>	<b>100%</b>

There have been disruptions in the CMBS market due to weakness in underlying commercial real estate fundamentals and the market's anticipation of increasing delinquencies and defaults. Although the market value of the holdings has improved and CMBS spreads have tightened during the first quarter of 2011, it continues to be below amortized cost. The majority of AIG's investments in CMBS are in tranches that contain substantial protection features through collateral subordination. As indicated in the tables, downgrades have occurred on many CMBS holdings. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

**Investments in CDOs**

The following table presents AIG's CDO investments by collateral type:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
<b>Collateral Type:</b>										
Bank loans (CLO)	\$ 1,740	\$ 82	\$ (192)	\$ 1,630	80%	\$ 1,697	\$ 62	\$ (321)	\$ 1,438	76%
Synthetic investment grade	16	96	-	112	1	78	102	(2)	178	4
Other	381	183	(30)	534	18	433	151	(52)	532	19
Subprime ABS	23	4	(13)	14	1	24	2	(12)	14	1
<b>Total</b>	<b>\$ 2,160</b>	<b>\$ 365</b>	<b>\$ (235)</b>	<b>\$ 2,290</b>	<b>100%</b>	<b>\$ 2,232</b>	<b>\$ 317</b>	<b>\$ (387)</b>	<b>\$ 2,162</b>	<b>100%</b>

The following table presents AIG's CDO investments by credit rating:

(in millions)	March 31, 2011					December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
<b>Rating:</b>										
AAA	\$ 51	\$ -	\$ (1)	\$ 50	2%	\$ 27	\$ -	\$ (2)	\$ 25	1%
AA	272	4	(10)	266	13	133	1	(13)	121	6
A	757	20	(92)	685	35	558	17	(99)	476	25
BBB	584	29	(87)	526	27	787	21	(181)	627	35
Below investment grade	496	311	(45)	762	23	727	277	(92)	912	33
Non-rated	-	1	-	1	-	-	1	-	1	-
<b>Total</b>	<b>\$ 2,160</b>	<b>\$ 365</b>	<b>\$ (235)</b>	<b>\$ 2,290</b>	<b>100%</b>	<b>\$ 2,232</b>	<b>\$ 317</b>	<b>\$ (387)</b>	<b>\$ 2,162</b>	<b>100%</b>

**Commercial Mortgage Loans**

At March 31, 2011, AIG had direct U.S. commercial mortgage loan exposure of \$13.4 billion. At that date, over 98 percent of the U.S. loans were current.

The following table presents the U.S. commercial mortgage loan exposure by state and class of loan:

March 31, 2011

(dollars in millions)	Number of Loans	Class						Total	Percent of Total	
		Apartments	Offices	Retails	Industrials	Hotels	Others			
<b>State:</b>										
California	191	\$ 112	\$ 1,279	\$ 213	\$ 972	\$ 406	\$ 530	\$ 3,512	26%	
New York	66	266	820	165	43	43	81	1,418	11	
New Jersey	58	517	315	268	8	-	73	1,181	9	
Florida	99	28	309	242	104	28	211	922	7	
Texas	62	57	333	120	250	81	25	866	6	
Pennsylvania	63	114	102	137	124	17	14	508	4	
Ohio	58	165	46	95	67	40	12	425	3	
Maryland	23	26	184	166	1	4	4	385	3	
Colorado	22	11	211	1	4	27	60	314	2	
Arizona	16	94	55	60	9	9	86	313	2	
Other states	389	342	1,312	742	434	297	425	3,552	27	
<b>Total*</b>	<b>1,047</b>	<b>\$ 1,732</b>	<b>\$ 4,966</b>	<b>\$ 2,209</b>	<b>\$ 2,016</b>	<b>\$ 952</b>	<b>\$ 1,521</b>	<b>\$ 13,396</b>	<b>100%</b>	

\* Excludes portfolio valuation losses.

Other-Than-Temporary Impairments

The following table presents other-than-temporary impairment charges in earnings by segment and type of impairment:

(in millions)	Chartis	SunAmerica	Financial Services	Other	Total
<b>Three Months Ended March 31, 2011</b>					
Impairment Type:					
Severity	\$ 7	\$ 1	\$ -	\$ -	\$ 8
Change in intent	-	4	-	-	4
Foreign currency declines	2	-	-	-	2
Issuer-specific credit events	11	203	1	12	227
Adverse projected cash flows on structured securities	-	13	-	-	13
<b>Total</b>	<b>\$ 20</b>	<b>\$ 221</b>	<b>\$ 1</b>	<b>\$ 12</b>	<b>\$ 254</b>
<b>Three Months Ended March 31, 2010</b>					
Impairment Type:					
Severity	\$ 20	\$ 8	\$ -	\$ 3	\$ 31
Change in intent	1	7	-	-	8
Foreign currency declines	2	-	-	1	3
Issuer-specific credit events	79	648	-	95	822
Adverse projected cash flows on structured securities	-	-	-	-	-
<b>Total</b>	<b>\$ 102</b>	<b>\$ 663</b>	<b>\$ -</b>	<b>\$ 99</b>	<b>\$ 864</b>

The following table presents other-than-temporary impairment charges in earnings by type of security and type of impairment:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Income	Equities/Other Invested Assets*	Total
<b>Three Months Ended March 31, 2011</b>						
Impairment Type:						
Severity	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 8
Change in intent	-	-	-	2	2	4
Foreign currency declines	-	-	-	2	-	2
Issuer-specific credit events	143	2	37	7	38	227
Adverse projected cash flows on structured securities	13	-	-	-	-	13
<b>Total</b>	<b>\$ 156</b>	<b>\$ 2</b>	<b>\$ 37</b>	<b>\$ 11</b>	<b>\$ 48</b>	<b>\$ 254</b>
<b>Three Months Ended March 31, 2010</b>						
Impairment Type:						
Severity	\$ -	\$ -	\$ -	\$ -	\$ 31	\$ 31
Change in intent	-	-	-	7	1	8
Foreign currency declines	-	-	-	3	-	3
Issuer-specific credit events	247	4	330	24	217	822
Adverse projected cash flows on structured securities	-	-	-	-	-	-
<b>Total</b>	<b>\$ 247</b>	<b>\$ 4</b>	<b>\$ 330</b>	<b>\$ 34</b>	<b>\$ 249</b>	<b>\$ 864</b>

\* Includes other-than-temporary impairment charges on partnership investments and direct private equity investments.

The following table presents other-than-temporary impairment charges in earnings by type of security and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Income	Equities/Other Invested Assets*	Total
<b>Three Months Ended March 31, 2011</b>						
Rating:						
AAA	\$ 8	\$ -	\$ -	\$ -	\$ -	\$ 8
AA	25	-	-	2	-	27
A	9	-	-	-	6	15
BBB	6	1	1	-	-	8
Below investment grade	108	1	36	9	-	154
Non-rated	-	-	-	-	42	42
<b>Total</b>	<b>\$ 156</b>	<b>\$ 2</b>	<b>\$ 37</b>	<b>\$ 11</b>	<b>\$ 48</b>	<b>\$ 254</b>
<b>Three Months Ended March 31, 2010</b>						
Rating:						
AAA	\$ 2	\$ -	\$ -	\$ 4	\$ -	\$ 6
AA	7	1	-	-	-	8
A	19	-	6	3	3	31
BBB	23	-	36	1	-	60
Below investment grade	196	3	288	25	1	513
Non-rated	-	-	-	1	245	246
<b>Total</b>	<b>\$ 247</b>	<b>\$ 4</b>	<b>\$ 330</b>	<b>\$ 34</b>	<b>\$ 249</b>	<b>\$ 864</b>

\* Includes other-than-temporary impairment charges on partnership investments and direct private equity investments.



Notwithstanding AIG's intent and ability to hold its securities which suffered severity losses until they had recovered their cost or amortized cost basis, and despite structures that indicated, at the time, that a substantial amount of the securities should have continued to perform in accordance with original terms, AIG concluded, at the time, that it could not reasonably assert that the impairment would be temporary.

Determinations of other-than-temporary impairments are based on fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, AIG expects to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit losses were not recognized.

AIG recorded other-than-temporary impairment charges in the three-month periods ended March 31, 2011 and 2010 related to:

- securities for which AIG has changed its intent to hold or sell;
- declines due to foreign exchange rates;
- issuer-specific credit events;
- certain structured securities; and
- other impairments, including equity securities, partnership investments and private equity investments.

With respect to the issuer-specific credit events shown above, no other-than-temporary impairment charge with respect to any one single credit was significant to AIG's consolidated financial condition or results of operations, and no individual other-than-temporary impairment charge exceeded 0.03 percent and 0.10 percent of Total equity in the three-month periods ended March 31, 2011 and 2010, respectively.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign exchange related, AIG generally prospectively accretes into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining expected holding period of the security. The amounts of accretion recognized in earnings were \$103 million and \$92 million for the three-month periods ended March 31, 2011 and 2010, respectively. For a discussion of AIG's other-than-temporary impairment accounting policy, see Note 7 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K.

**An aging of the pre-tax unrealized losses of fixed maturity and equity securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the fair value is less than amortized cost or cost), including the number of respective items was as follows:**

March 31, 2011	Less Than or Equal to 20% of Cost <sup>(b)</sup>			Greater Than 20% to 50% of Cost <sup>(b)</sup>			Greater Than 50% of Cost <sup>(b)</sup>			Total		
Aging <sup>(a)</sup> (dollars in millions)	Cost <sup>(c)</sup>	Unrealized Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Unrealized Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Unrealized Loss	Items <sup>(e)</sup>	Cost <sup>(c)</sup>	Unrealized Loss <sup>(d)</sup>	Items <sup>(e)</sup>
<b>Investment grade bonds</b>												
0-6 months	\$ 42,534	\$ 951	4,134	\$ 106	\$ 33	13	\$ 5	\$ 1	4	\$ 42,645	\$ 985	4,151
7-12 months	2,768	120	318	32	10	6	141	74	4	2,941	204	328
> 12 months	11,530	773	1,346	1,979	562	229	173	110	52	13,682	1,445	1,627
<b>Total</b>	<b>\$ 56,832</b>	<b>\$ 1,844</b>	<b>5,798</b>	<b>\$ 2,117</b>	<b>\$ 605</b>	<b>248</b>	<b>\$ 319</b>	<b>\$ 185</b>	<b>60</b>	<b>\$ 59,268</b>	<b>\$ 2,634</b>	<b>6,106</b>
<b>Below investment grade bonds</b>												
0-6 months	\$ 1,468	\$ 51	278	\$ 240	\$ 60	22	\$ 32	\$ 23	27	\$ 1,740	\$ 134	327
7-12 months	216	10	20	54	17	6	-	-	11	270	27	37
> 12 months	3,760	271	380	1,954	577	206	199	130	65	5,913	978	651
<b>Total</b>	<b>\$ 5,444</b>	<b>\$ 332</b>	<b>678</b>	<b>\$ 2,248</b>	<b>\$ 654</b>	<b>234</b>	<b>\$ 231</b>	<b>\$ 153</b>	<b>103</b>	<b>\$ 7,923</b>	<b>\$ 1,139</b>	<b>1,015</b>
<b>Total bonds</b>												
0-6 months	\$ 44,002	\$ 1,002	4,412	\$ 346	\$ 93	35	\$ 37	\$ 24	31	\$ 44,385	\$ 1,119	4,478
7-12 months	2,984	130	338	86	27	12	141	74	15	3,211	231	365
> 12 months	15,290	1,044	1,726	3,933	1,139	435	372	240	117	19,595	2,423	2,278
<b>Total<sup>(e)</sup></b>	<b>\$ 62,276</b>	<b>\$ 2,176</b>	<b>6,476</b>	<b>\$ 4,365</b>	<b>\$ 1,259</b>	<b>482</b>	<b>\$ 550</b>	<b>\$ 338</b>	<b>163</b>	<b>\$ 67,191</b>	<b>\$ 3,773</b>	<b>7,121</b>
<b>Equity securities</b>												
0-6 months	\$ 162	\$ 9	71	\$ 4	\$ 1	9	\$ -	\$ -	-	\$ 166	\$ 10	80
7-12 months	173	15	21	12	4	10	-	-	-	185	19	31
> 12 months	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 335</b>	<b>\$ 24</b>	<b>92</b>	<b>\$ 16</b>	<b>\$ 5</b>	<b>19</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>\$ 351</b>	<b>\$ 29</b>	<b>111</b>

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at March 31, 2011.

(c) For bonds, represents amortized cost.

(d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.

(e) Item count is by CUSIP by subsidiary.

For the three-month period ended March 31, 2011, net unrealized gains related to fixed maturity and equity securities increased by \$1.0 billion primarily resulting from the narrowing of credit spreads.

As of March 31, 2011, the majority of AIG's fixed maturity investments in an unrealized loss position of more than 50 percent for more than 12 months consisted of the unrealized loss of \$240 million related to CMBS and RMBS securities originally rated investment grade that are floating rate or that have low fixed coupons relative to current market yields. A total of 52 securities with an amortized cost of \$173 million and a net unrealized loss of \$110 million are still investment grade. As part of its credit evaluation procedures applied to these and other securities, AIG considers the nature of both the specific securities and the market conditions for those securities. For most security types supported by real estate-related assets, current market yields continue to be higher than the yields were at the respective issuance dates of the securities. This is largely due to investors demanding additional yield premium for securities whose performance is closely linked to the commercial and residential real estate sectors. In addition, for floating rate securities, persistently low LIBOR levels continue to make these securities less attractive.

AIG believes that the lack of demand for commercial and residential real estate collateral-based securities, low contractual coupons and interest rate spreads, and the deterioration in the level of collateral support due to real estate market conditions are the primary reasons for these securities trading at significant price discounts. Based on its analysis, and taking into account the level of subordination below these securities, AIG continues to believe that the expected cash flows from these securities will be sufficient to recover the amortized cost of its investment. AIG continues to monitor these positions for potential credit impairments that could result from further deterioration in commercial and residential real estate fundamentals.

See also Note 7 to the Consolidated Financial Statements for further discussion of AIG's investment portfolio.

## Enterprise Risk Management

For a complete discussion of AIG's risk management program, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management in AIG's 2010 Annual Report on Form 10-K.

### Credit Risk Management

AIG defines its aggregate credit exposures to a counterparty as the sum of its fixed maturities, loans, finance leases, reinsurance recoverables, derivatives (mark-to-market), deposits, reverse repurchase agreements, collateral extended to counterparties and letters of credit (in the case of financial institutions) and the specified credit equivalent exposure to certain insurance products which embody credit risk.

The following table presents AIG's largest credit exposures as a percentage of Total equity:

March 31, 2011	Risk Rating <sup>(a)</sup>	Credit Exposure as a Percentage of Total Equity <sup>(b)</sup>
<b>Category</b>		
<i>Investment Grade:</i>		
10 largest combined <sup>(c)</sup>	A+	100.8%
Single largest financial institution	AA-	6.8
Single largest corporate	AAA	3.9
Single largest sovereign	AAA	34.8
<i>Non-Investment Grade:</i>		
10 largest combined	BB	4.8
Single largest financial institution	BB-	0.6
Single largest corporate	BB	0.7
Single largest sovereign	BB+	0.6

(a) Reflects AIG's internal risk ratings.

(b) Amounts shown include Nan Shan which was held for sale at March 31, 2011.

(c) Six of the ten largest credit exposures are to financial institutions, three are to investment-grade rated sovereigns and one is to an AAA-rated corporate. Based on support from the U.S. Government, the exposure to government-sponsored entities (GSEs) and to mortgage-backed securities guaranteed by the GSEs is included in the U.S. Government total, rather than in financial institutions. None of the top ten is rated lower than BBB or its equivalent.

AIG monitors its aggregate cross-border exposures by country and regional group of countries. AIG includes in its cross-border exposures both aggregated cross-border credit exposures to unrelated third parties, its cross-border investments in its own international subsidiaries and operating aircraft leases. Eight countries have cross-border exposures in excess of 10 percent of Total equity at March 31, 2011. Based on AIG's internal risk ratings, as of March 31, 2011, six countries were rated AAA, one was rated AA, and one was rated A. The two largest cross-border exposures are to the United Kingdom and France.

In addition, AIG reviews and manages its industry concentrations. AIG's single largest industry credit exposure is to the global financial institutions sector, which includes banks and finance companies, securities firms and insurance and reinsurance companies. These exposures include fixed income securities, operating account balances, deposit placements, reverse repurchase agreements, the mark-to-market and potential future exposure to derivative exposures, collateral placed with counterparties, letters of credit received as collateral to insurance programs and credit exposure to captive insurance programs.

The following table presents AIG's largest credit exposures to the global financial institution sector as a percentage of Total equity:

March 31, 2011	Credit Exposure as a Percentage of Total Equity*
<b>Industry Category:</b>	
Money center/Global bank groups	67.8%
Global reinsurance companies	14.6
European regional financial institutions	14.4
Global life insurance companies	12.1
Global non-life insurance companies	7.8
North American based regional financial institutions	7.5

\* Amounts shown include Nan Shan which was held for sale at March 31, 2011.

AIG's exposure to its five largest money center/global bank group institutions was 26.8 percent of Total equity at March 31, 2011 compared to 21.4 percent of Total equity at December 31, 2010, reflecting the effect of the Recapitalization on total equity.

AIG also has a risk concentration through the investment portfolios of its insurance companies in the U.S. municipal sector. AIG holds approximately \$42.9 billion (amortized cost) of tax-exempt and taxable securities, \$5.9 billion of which are pre-refunded, issued by a wide number of municipal authorities across the U.S. and its territories. A majority of these securities are held in available-for-sale portfolios of AIG's domestic property-casualty insurance companies. These securities are comprised of the general obligations of states and local governments, revenue bonds issued by these same governments and bonds issued by transportation authorities, universities, state housing finance agencies and hospital systems. The weighted average credit quality of these issuers is A. AIG has \$906 million of additional exposure to the municipal sector outside of its insurance company portfolios.

Currently, several states, local governments and other issuers are facing pressures on their budgets from the effects of the recession and have had to cut spending, raise taxes and fees and draw on reserve funds. Consequently, several municipal issuers in AIG's portfolios have been downgraded one or more notches by the major nationally recognized statistical rating agencies. The most notable of these issuers is the State of California, of which AIG holds approximately \$653 million of general obligation bonds, \$45 million of which are pre-refunded, and the State of Illinois, of which AIG holds approximately \$221 million, \$69 million of which are pre-refunded.

AIG has credit exposure to several European sovereign governments whose ratings have been downgraded or placed under review in recent months by one or more major rating agencies. The downgrades primarily reflect the large government budget deficits and rising government debt to GDP ratios of these countries. As of March 31, 2011, AIG's exposure to the governments of Portugal, Ireland, Italy, Spain and Hungary amounted to \$860 million. AIG has no direct sovereign exposure to Greece. Four of the aforementioned six governments have experienced rating downgrades during the first quarter of 2011.

See also Investments herein for further information.

The Credit Risk Committee (CRC) reviews quarterly concentration reports in all categories listed above as well as credit trends by risk ratings. The CRC periodically adjusts limits to provide reasonable assurance that AIG does not incur excessive levels of credit risk and that AIG's credit risk profile is properly calibrated across business units.

## Market Risk Management

**Insurance and Financial Services (excluding Capital Markets) Sensitivities**

The following table provides estimates of AIG's sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

(dollars in millions)	Exposure		Sensitivity Factor	Effect	
	March 31, 2011	December 31, 2010		March 31, 2011	December 31, 2010
Yield sensitive assets <sup>(a)</sup>	\$ 370,300	\$ 403,500	100 bps parallel increase in all yield curves	\$ (18,300)	\$ (19,700)
Equity and alternative investments exposure <sup>(b)</sup>	\$ 44,600	\$ 54,300	20% decline in stock prices and value of alternative investments	\$ (8,900)	\$ (10,861)
Foreign currency exchange rates net exposure <sup>(c)</sup>	\$ 5,000	\$ 6,200	10% depreciation of all foreign currency exchange rates against the U.S. dollar	\$ (500)	\$ (620)

(a) Excluding Nan Shan, which is held for sale, at March 31, 2011 and December 31, 2010, Yield sensitive assets were \$317.8 billion and \$350.7 billion, respectively.

(b) Excluding Nan Shan, which is held for sale, at March 31, 2011 and December 31, 2010, Equity and Alternative Investments were \$40.7 billion to \$50.6 billion, respectively.

(c) Excluding Nan Shan, which is held for sale, at March 31, 2011 and December 31, 2010, Total foreign exchange exposures were \$4.2 billion and \$5.7 billion, respectively.

Exposures for yield curves include assets that are directly sensitive to yield curve movements, such as fixed maturity securities, loans, finance receivables and short-term investments (excluding consolidated separate account assets). Exposures for equity and alternative investment prices include investments in common stocks, preferred stocks, mutual funds, hedge funds, private equity funds, commercial real estate and real estate funds (excluding consolidated separate account assets and consolidated managed partnerships and funds). Exposures to foreign currency exchange rates reflect AIG's consolidated non-U.S. dollar net capital investments on a GAAP basis, net of Nan Shan DAC adjustment.

- Total yield sensitive assets decreased 8 percent or \$33.2 billion at March 31, 2011 compared to December 31, 2010, primarily due to the divestiture of AIG Star/Edison in the first quarter of 2011 (\$41.7 billion) as well as a decline in cash and other assets of \$7 billion. This decline was partially offset by increases in fixed income assets of \$15.4 billion.
- Total equity and alternative investments exposure decreased 18 percent or \$9.7 billion compared to December 31, 2010, primarily due to: AIG's sale of MetLife equity securities (\$6.5 billion); lower common and preferred stock holdings in Japan (\$1.5 billion) due to the sale of AIG Star/Edison; and decrease in mutual fund value (\$0.9 billion) and real estate investment (\$0.9 billion). The decrease was partially offset by the appreciation of AIA stock (\$1.1 billion).
- The \$1.2 billion decrease in foreign currency exchange rates net exposure is primarily due to the divestiture of AIG Star/Edison (\$2.4 billion), partly offset by increases in AIG's continuing insurance operations (up \$0.8 billion) and in Nan Shan (up \$0.4 billion).

The above sensitivities of a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar were chosen solely for illustrative purposes. The selection of these specific events should not be construed as a prediction, but only as a demonstration of the potential effects of such events. These scenarios should not be construed as the only risks AIG faces; these events are shown as an indication of several possible losses AIG could experience. In addition, losses from these and other risks could be materially higher than illustrated. The sensitivity factors are the same as those used in AIG's 2010 Annual Report on Form 10-K.

### Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires the application of accounting policies that often involve a significant degree of judgment. AIG considers its accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed as critical accounting estimates, to be those relating to items considered by management in the determination of:

- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;
- recoverability of assets, including deferred policy acquisition costs (DAC) and flight equipment;
- estimated gross profits for investment-oriented products;
- impairment charges, including other-than-temporary impairments on financial instruments;
- liabilities for legal contingencies;
- estimates with respect to income taxes, including recoverability of deferred tax assets; and
- fair value measurements of certain financial assets and liabilities, including credit default swaps (CDS) and AIG's economic interest in ML II and equity interest in ML III.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG's financial condition and results of operations would be directly affected. Following is a discussion of updates to Critical Accounting Estimates during 2011. For a complete discussion of AIG's accounting estimates, see AIG's 2010 Annual Report on Form 10-K.

#### Deferred Policy Acquisition Costs — Short Duration (general insurance):

- *Recoverability:* based upon the current terms and profitability of the underlying insurance contracts.

Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. AIG assesses the recoverability of its DAC on an annual basis or more frequently if circumstances indicate an impairment may have occurred. This assessment is performed by comparing recorded unearned premium to the sum of expected claims, claims adjustment expenses and maintenance cost, unamortized DAC and anticipated maintenance costs. If the sum of these costs exceeds the amount of recorded unearned premium, the excess is recognized as an offset against the asset established for DAC. This offset is referred to as a premium deficiency charge. Investment income is not anticipated in assessing the recoverability of DAC. Increases in the expected claims, and claims adjustment expenses can have a significant impact on the likelihood and amount of a premium deficiency charge. Management tested the recoverability of DAC and determined that recorded unearned premiums of its Chartis U.S. and Chartis International operating segments exceeded the sum of these costs at March 31, 2011, by one percent and 19 percent, respectively, and, therefore, the DAC of these reporting units was considered to be recoverable. DAC for Chartis U.S. and Chartis International amounted to \$1.7 billion and \$1.8 billion, respectively, at March 31, 2011.

## Fair Value Measurements of Certain Financial Assets and Liabilities:

**Overview**

The following table presents the fair value of fixed income and equity securities by source of value determination:

<b>March 31, 2011 (in billions)</b>	<b>Fair Value</b>	<b>Percent of Total</b>
Fair value based on external sources <sup>(a)</sup>	\$ 242	90%
Fair value based on internal sources	28	10
<b>Total fixed income and equity securities<sup>(b)</sup></b>	<b>\$ 270</b>	<b>100%</b>

(a) Includes \$22.6 billion for which the primary source is broker quotes.

(b) Includes available for sale and trading securities.

See Note 6 to the Consolidated Financial Statements for more detailed information about AIG's accounting policy for the incorporation of credit risk in fair value measurements and the measurement of fair value of financial assets and financial liabilities.

**Level 3 Assets and Liabilities**

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair value. See Note 6 to the Consolidated Financial Statements for additional information about the three levels of observability.

At March 31, 2011, AIG classified \$37.0 billion and \$5.8 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 6.0 percent and 1.1 percent of the total assets and liabilities, respectively, at March 31, 2011. At December 31, 2010, AIG classified \$36.3 billion and \$6.2 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 5.3 percent and 1.1 percent of the total assets and liabilities, respectively, at December 31, 2010. Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. These measurements are made under circumstances in which there is little, if any, market activity for the asset or liability. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

Refer to Note 6 to the Consolidated Financial Statements for discussion of transfers of Level 3 assets and liabilities.

*Capital Markets Super Senior Credit Default Swap Portfolio:* AIGFP wrote credit protection on the super senior risk layer of collateralized loan obligations (CLOs), multi-sector CDOs and diversified portfolios of corporate debt, and prime residential mortgages. In these transactions, AIGFP is at risk of credit performance on the super senior risk layer related to such assets. To a lesser extent, AIGFP also wrote protection on tranches below the super senior risk layer, primarily in respect of regulatory capital relief transactions.

The following table presents the net notional amount, fair value of derivative (asset) liability and unrealized market valuation gain (loss) of the Capital Markets super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions, by asset class:

(in millions)	Net Notional Amount		Fair Value of Derivative (Asset) Liability at		Unrealized Market Valuation Gain (Loss)	
	March 31, 2011 <sup>(a)</sup>	December 31, 2010 <sup>(a)</sup>	March 31, 2011 <sup>(b)(c)</sup>	December 31, 2010 <sup>(b)(c)</sup>	Three Months Ended March 31, 2011 <sup>(c)</sup> 2010 <sup>(c)</sup>	
<b>Regulatory Capital:</b>						
Corporate loans	\$ 3,395	\$ 5,193	\$ -	\$ -	\$ -	\$ -
Prime residential mortgages	30,514	31,613	(196)	(190)	6	33
Other	1,211	1,263	8	17	9	6
<b>Total</b>	<b>35,120</b>	<b>38,069</b>	<b>(188)</b>	<b>(173)</b>	<b>15</b>	<b>39</b>
<b>Arbitrage:</b>						
Multi-sector CDOs <sup>(d)</sup>	6,158	6,689	3,076	3,484	273	158
Corporate debt/CLOs <sup>(e)</sup>	12,674	12,269	134	171	37	(7)
<b>Total</b>	<b>18,832</b>	<b>18,958</b>	<b>3,210</b>	<b>3,655</b>	<b>310</b>	<b>151</b>
Mezzanine tranches <sup>(f)</sup>	2,705	2,823	200	198	(2)	(71)
<b>Total</b>	<b>\$ 56,657</b>	<b>\$ 59,850</b>	<b>\$ 3,222</b>	<b>\$ 3,680</b>	<b>\$ 323</b>	<b>\$ 119</b>

(a) Net notional amounts presented are net of all structural subordination below the covered tranches.

(b) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.

(c) Includes credit valuation adjustment losses of \$6 million and \$113 million in the three-month periods ended March 31, 2011 and 2010, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.

(d) During 2011, AIGFP liquidated one multi-sector super senior CDS transaction with a net notional amount of \$188 million. The primary underlying collateral components, which consisted of individual ABS CDS transactions, were sold in an auction to counterparties, including AIGFP, at their approximate fair value at the time of the liquidation. AIGFP was the winning bidder on approximately \$107 million of individual ABS CDS transactions, which are reported in written single name credit default swaps as of March 31, 2011. As a result, a \$121 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. During 2011, AIGFP also paid \$14 million to its counterparties with respect to multi-sector CDOs. Upon payment, a \$14 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also include \$5.2 billion and \$5.5 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2011 and December 31, 2010, respectively.

(e) Corporate debt/CLOs include \$1.4 billion and \$1.3 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at March 31, 2011 and December 31, 2010, respectively.

(f) Net of offsetting purchased CDS of \$1.5 billion and \$1.4 billion in net notional amount at March 31, 2011 and December 31, 2010, respectively.



The following table presents changes in the net notional amount of the Capital Markets super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions:

(in millions)	Net Notional Amount December 31, 2010 <sup>(a)</sup>	Terminations	Effect of Foreign Exchange Rates <sup>(b)</sup>	Amortization/ Reclassification, net of Replenishments	Net Notional Amount March 31, 2011 <sup>(a)</sup>
<b>Regulatory Capital:</b>					
Corporate loans	\$ 5,193	\$ (1,425)	\$ 238	\$ (611)	\$ 3,395
Prime residential mortgages	31,613	-	2,007	(3,106)	30,514
Other	1,263	-	39	(91)	1,211
<b>Total</b>	<b>38,069</b>	<b>(1,425)</b>	<b>2,284</b>	<b>(3,808)</b>	<b>35,120</b>
<b>Arbitrage:</b>					
Multi-sector CDOs <sup>(c)</sup>	6,689	(188)	164	(507)	6,158
Corporate debt/CLOs <sup>(d)</sup>	12,269	-	418	(13)	12,674
<b>Total</b>	<b>18,958</b>	<b>(188)</b>	<b>582</b>	<b>(520)</b>	<b>18,832</b>
Mezzanine tranches <sup>(e)</sup>	2,823	(280)	165	(3)	2,705
<b>Total</b>	<b>\$ 59,850</b>	<b>\$ (1,893)</b>	<b>\$ 3,031</b>	<b>\$ (4,331)</b>	<b>\$ 56,657</b>

(a) Net notional amounts presented are net of all structural subordination below the covered tranches.

(b) Relates to the weakening of the U.S. dollar, primarily against the Euro and the British Pound.

(c) Multi-sector CDOs include \$5.2 billion and \$5.5 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2011 and December 31, 2010, respectively.

(d) Corporate debt/CLOs include \$1.4 billion and \$1.3 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at March 31, 2011 and December 31, 2010, respectively.

(e) Net of offsetting purchased CDS of \$1.5 billion and \$1.4 billion in net notional amount at March 31, 2011 and December 31, 2010, respectively.

The following table presents summary statistics for Capital Markets super senior credit default swaps at March 31, 2011 and totals for March 31, 2011 and December 31, 2010:

Category	Regulatory Capital Portfolio				Arbitrage Portfolio				Total	
	Corporate Loans	Prime Residential Mortgages	Other	Subtotal	Corporate Debt/ CLOs	Multi- Sector CDOs w/ Subprime	Multi- Sector CDOs w/ No Subprime	Subtotal	March 31, 2011	December 31, 2010
Gross Transaction Notional Amount (in millions)	\$ 4,291	\$ 36,134	\$ 1,419	\$ 41,844	\$ 18,874	\$ 5,205	\$ 8,405	\$ 32,484	\$ 74,328	\$ 78,305
Net Notional Amount (in millions)	\$ 3,395	\$ 30,514	\$ 1,211	\$ 35,120	\$ 12,674	\$ 2,940	\$ 3,218	\$ 18,832	\$ 53,952	\$ 57,027
Number of Transactions	3	9	1	13	15	8	6	29	42	46
Weighted Average Subordination (%)	20.87%	15.53%	14.67%	16.04%	24.23%	30.24%	26.26%	25.72%	20.27%	20.16%
Weighted Average Number of loans/Transaction	4,691	81,968	1,726	71,322	118	136	112			
Weighted Average Expected Maturity (Years)	1.49	3.58	4.54	3.40	4.75	6.56	5.05			

#### Regulatory Capital Portfolio

During the three-month period ended March 31, 2011, \$1.4 billion in net notional amount of regulatory capital CDSs were terminated or matured at no cost to AIGFP. AIGFP continues to reassess the expected maturity of this portfolio. As of March 31, 2011, AIGFP estimated that the weighted average expected maturity of the portfolio was 3.40 years. AIGFP has not been required to make any payments as part of terminations initiated by

counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties was generally derived from Basel I. In December 2010, the Basel Committee on Banking Supervision finalized Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties for these transactions, and this may reduce the period of time that such counterparties are expected to hold the positions. In prior years, it had been expected that financial institution counterparties would complete a transition from Basel I to an intermediate standard known as Basel II, which could have had similar effects on the benefits of these transactions, at the end of 2009. Basel III has now superseded Basel II, but the details of its implementation by the various European Central Banking districts have not been finalized. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame.

The weighted average expected maturity of the Regulatory Capital Portfolio increased as of March 31, 2011 by approximately 0.2 years from December 31, 2010 due to certain counterparties not terminating transactions with a combined net notional amount of \$3.8 billion. Where these counterparties continue to have a right to terminate the transaction early, AIGFP has extended the expected maturity dates by one year, which is based on how long AIGFP believes the relevant rules under Basel I will remain effective. Where the counterparties no longer have the right to terminate early, AIGFP has used the weighted average life of those transactions as their expected maturity. These counterparties in the Corporate Loan and Prime Residential Mortgage portfolios continue to receive favorable regulatory capital benefits under Basel I rules and, thus, AIG continues to categorize them as Regulatory Capital transactions.

Included in the Regulatory Capital portfolio are transactions with one counterparty that notified AIG that it would not terminate early two of its Prime Residential Mortgage transactions with a combined net notional amount of \$24.1 billion that were expected to be terminated in the first quarter of 2010. With respect to these transactions, the counterparty no longer has any rights to terminate the transactions early and is required to pay AIG fees on the original notional amounts reduced only by realized losses through the final contractual maturity. Since the two transactions have weighted average lives that are considerably less than their final contractual maturities, there is value to AIGFP representing counterparty contractual fees to be received beyond the date at which the net notional amounts have fully amortized through to the final contractual maturity date. The fair value of these two super senior transactions as of March 31, 2011 was a derivative asset of \$196 million. With respect to these two transactions, AIGFP has also written CDS transactions on the mezzanine tranches of these portfolios; however, the majority of the transactions on the mezzanine tranches were hedged by AIGFP with other third-party CDS transactions. In October 2008, following a credit ratings agency downgrade of AIG, AIGFP entered into a Credit Support Annex (CSA) to the agreements governing the transactions with this counterparty that requires AIGFP to post collateral. The CSA provides that one of two methodologies will be used for determining the amount of collateral to be posted. The same methodology has been used throughout the term of the CSA, and, at March 31, 2011, AIGFP had posted \$222 million of collateral. The counterparty has provided quotations from dealers that it contends support using the second methodology, and contends that a total amount of approximately \$1.9 billion should be posted by AIGFP. AIGFP continues to believe that the methodology currently being used is the correct one for computing collateral, that it has posted the amount of collateral required under the CSA, that the counterparty has not provided qualifying quotations and that the methodology the counterparty has used for calculating the amount of collateral to be posted is not valid. The counterparty recently notified AIGFP that it could bring litigation as soon as May 6, 2011 unless an agreement is reached either regarding the method for determining the amount of collateral to be posted, or regarding an alternative resolution of the matter.

In light of early termination experience to date and after analyses of other market data, to the extent deemed relevant and available, AIG determined that there was no unrealized market valuation adjustment for any of the transactions in this regulatory capital relief portfolio for 2011 other than (1) for transactions where AIGFP believes the counterparty is no longer using the transaction to obtain regulatory capital relief as discussed above and (2) for transactions where the counterparty has failed to terminate the transaction early as expected and no longer has any rights to terminate early in the future. Although AIGFP believes the value of contractual fees receivable on these transactions through maturity exceeds the economic benefits of any potential payments to the

counterparties, the counterparties' early termination rights, and AIGFP's expectation that such rights will be exercised, preclude the recognition of a derivative asset for these transactions.

The following table presents, for each of the regulatory capital CDS transactions in the corporate loan portfolio, the gross transaction notional amount, net notional amount, attachment points, inception to date realized losses and percent non-investment grade:

<i>(dollars in millions)</i>	Gross Transaction Notional Amount at March 31, 2011		Net Notional Amount at March 31, 2011		Attachment Point at Inception <sup>(a)</sup>	Attachment Point at March 31, 2011 <sup>(a)</sup>	Realized Losses through March 31, 2011 <sup>(b)</sup>	Percent Non-investment Grade at March 31, 2011 <sup>(c)</sup>
CDS								
1	\$	291	\$	189	10.03%	34.85%	0.52%	42.14%
2		1,186		935	10.00%	21.13%	0.20%	41.08%
3		2,814		2,271	13.26%	19.32%	0.00%	65.07%
Total	\$	4,291	\$	3,395				

(a) Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios, replenishment rights and partial terminations, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.

(b) Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through March 31, 2011 expressed as a percentage of the initial gross transaction notional amount.

(c) Represents non-investment grade obligations in the underlying pools of corporate loans expressed as a percentage of gross transaction notional amount.

The following table presents, for each of the regulatory capital CDS transactions in the prime residential mortgage portfolio, the gross transaction notional amount, net notional amount, attachment points, and inception to date realized losses:

<i>(dollars in millions)</i>	Gross Transaction Notional Amount at March 31, 2011		Net Notional Amount at March 31, 2011		Attachment Point at Inception <sup>(a)</sup>	Attachment Point at March 31, 2011 <sup>(a)</sup>	Realized Losses through March 31, 2011 <sup>(b)</sup>
CDS							
1	\$	381	\$	161	17.01%	56.23%	2.68%
2		222		77	18.48%	64.91%	2.18%
3		220		123	16.81%	43.71%	1.77%
4		275		185	13.19%	32.67%	0.55%
5 <sup>(c)</sup>		1,461		1,085	7.95%	25.55%	0.05%
6		8,995		8,149	7.50%	9.40%	0.10%
7		2,076		1,564	12.40%	24.64%	0.00%
8		18,103		15,916	9.20%	12.08%	0.14%
9		4,401		3,254	11.50%	26.08%	0.00%
Total	\$	36,134	\$	30,514			

(a) Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios, replenishment rights and partial terminations, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.

(b) Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through March 31, 2011 expressed as a percentage of the initial gross transaction notional amount.

(c) Delinquency information is not provided to Capital Markets for the underlying pools of residential mortgages of this transaction. However, information with respect to principal amount outstanding, defaults, recoveries, remaining term, property use, geography, interest rates, and ratings of the underlying junior tranches are provided to Capital Markets for such referenced pools.

All of the regulatory capital CDS transactions directly or indirectly reference tranching pools of large numbers of whole loans that were originated by the financial institution (or its affiliates) receiving the credit protection, rather than structured securities containing loans originated by other third parties. In the vast majority of transactions,

the loans are intended to be retained by the originating financial institution and in all cases the originating financial institution is the purchaser of the CDS, either directly or through an intermediary.

As further discussed below, AIGFP receives information monthly or quarterly regarding the performance and credit quality of the underlying referenced assets. AIGFP also obtains other information, such as ratings of the tranches below the super senior risk layer. The nature of the information provided or otherwise available to AIGFP with respect to the underlying assets in each regulatory capital CDS transaction is not consistent across all transactions. Furthermore, in a majority of corporate loan transactions and all of the residential mortgage transactions, the pools are blind, meaning that the identities of the obligors are not disclosed to AIGFP. In addition, although AIGFP receives periodic reports on the underlying asset pools, virtually all of the regulatory capital CDS transactions contain confidentiality restrictions that preclude AIGFP's public disclosure of information relating to the underlying referenced assets. The originating financial institutions, calculation agents or trustees (each a Report Provider) provide periodic reports on all underlying referenced assets as described below, including for those within the blind pools. While much of this information received by AIGFP cannot be aggregated in a comparable way for disclosure purposes because of the confidentiality restrictions and the inconsistency of the information, it does provide a sufficient basis for AIGFP to evaluate the risks of the portfolio and to determine a reasonable estimate of fair value.

For regulatory capital CDS transactions written on underlying pools of corporate loans, AIGFP receives monthly or quarterly updates from one or more Report Providers for each such referenced pool detailing, with respect to the corporate loans comprising such pool, the principal amount outstanding and defaults. In virtually all of these reports, AIGFP also receives information on recoveries and realized losses. AIGFP also receives quarterly stratification tables for each pool incorporating geography, industry and, when not publicly rated, the counterparty's assessment of the credit quality of the underlying corporate loans. Additionally, for a significant majority of these regulatory capital CDS transactions, upon the occurrence of a credit event with respect to any corporate loan included in any such pool, AIGFP receives a notice detailing the identity or identification number of the borrower, notional amount of such loan and the effective date of such credit event.

Ratings from independent ratings agencies for the underlying assets of the corporate loan portfolio are not universally available, but AIGFP estimates the ratings for the assets not rated by independent agencies by mapping the information obtained from the Report Providers to rating agency criteria. The "Percent Non-Investment Grade" information in the table above is provided as an indication of the nature of loans underlying the transactions, not necessarily as an indicator of relative risk of the CDS transactions, which is determined by the individual transaction structures. For example, Small and Medium Enterprise (SME) loan balances tend to be rated lower than loans to large, well-established enterprises. However, the greater number of loans and the smaller average size of the SME loans mitigate the risk profile of the pools. In addition, the transaction structures reflect AIGFP's assessment of the loan collateral arrangements, expected recovery values and reserve accounts in determining the level of subordination required to minimize the risk of loss. The percentage of non-investment grade obligations in the underlying pools of corporate loans varies considerably. One pool containing the highest percentages of non-investment grade obligations, which include all transactions with pools having non-investment grade percentages greater than 45 percent, are all granular SME loan pools which benefit from collateral arrangements made by the originating financial institutions and from work out of recoveries by the originating financial institutions. The number of loans in this pool is 6,635. This large number of SME loans increases the predictability of the expected loss and lessens the probability that discrete events will have a meaningful impact on the results of the overall pool. This transaction benefits from a tranche junior to it which was still rated AAA by at least two rating agencies at March 31, 2011. Two other pools, with a total net notional amount of \$1.1 billion, have non-investment grade percentages less than 45 percent, with a weighted average remaining life to maturity of 3.7 years. These pools have weighted average realized losses of 0.29 percent from inception through March 31, 2011 and have current weighted average attachment points of 23.83 percent. Approximately 4.18 percent of the assets underlying the corporate loan transactions are in default. The percentage of assets in default by transaction was available for all transactions and ranged from 3.29 percent to 6.63 percent.

For regulatory capital CDS transactions written on underlying pools of residential mortgages, AIGFP receives quarterly reports for each such referenced pool detailing, with respect to the residential mortgages comprising such pool, the aggregate principal amount outstanding, defaults and realized losses. These reports include additional information on delinquencies for the large majority of the transactions and recoveries for substantially all transactions. AIGFP also receives quarterly stratification tables for each pool incorporating geography for the underlying residential mortgages. The stratification tables also include information on remaining term, property use and interest rates for a large majority of the transactions.

Delinquency information for the mortgages underlying the residential mortgage transactions was available on 95.96 percent of the total gross transaction notional amount and mortgages delinquent more than 30 days ranged from 0.11 percent to 2.24 percent, averaging 0.82 percent. Except for one transaction, which comprised less than 1.25 percent of the total gross transaction notional amount, the average default rate (expressed as a percentage of gross transaction notional amount) was 0.26 percent and the default rates ranged from 0.00 percent to 5.78 percent. The default rate on this one transaction was 20.99 percent with a subordination level of 56.23 percent.

For all regulatory capital transactions, where the rating agencies directly rate the junior tranches of the pools, AIG monitors the rating agencies' releases for any affirmations or changes in such ratings, as well as any changes in rating methodologies or assumptions used by the rating agencies to the extent available. The tables below show the percentage of regulatory capital CDS transactions where there is an immediately junior tranche that is rated and the average rating of that tranche across all rated transactions.

AIGFP analyzes the information regarding the performance and credit quality of the underlying pools of assets to make its own risk assessment and to determine any changes in credit quality with respect to such pools of assets. This analysis includes a review of changes in pool balances, subordination levels, delinquencies, realized losses and expected performance under more adverse credit conditions. Using data provided by the Report Providers and information available from rating agencies, governments and other public sources that relate to macroeconomic trends and loan performance, AIGFP is able to analyze the expected performance of the overall portfolio because of the large number of loans that comprise the collateral pools.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief. Further, AIGFP expects that counterparties will, to the extent they retain termination rights, continue to terminate these transactions prior to their maturity.

The following table presents the Capital Markets Regulatory Capital CDS transactions in the Corporate loans portfolio by geographic location:

March 31, 2011 Exposure Portfolio	Net Notional Amount (in millions)	Percent of Total	Current Average Attachment Point <sup>(a)</sup>	Realized Losses through March 31, 2011 <sup>(b)</sup>	Weighted Average Maturity (Years)		Number of Transactions	Ratings of Junior Tranches <sup>(d)</sup>	
					To First Call <sup>(c)</sup>	To Maturity		Percent Rated	Average Rating
<b>Primarily Single Country –</b>									
Germany	\$ 3,395	100%	20.87%	0.11%	1.49	8.24	3	100%	A+

(a) Expressed as a percentage of gross transaction notional amount of the referenced obligations.

(b) Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through March 31, 2011 expressed as a percentage of the initial gross transaction notional amount.

(c) Where no call right remains, the weighted average expected maturity is used.

(d) Represents the weighted average ratings, when available, of the tranches immediately junior to Capital Markets super senior tranche. The percentage rated represents the percentage of net notional amount where there exists a rated tranche immediately junior to Capital Markets super senior tranche.

The following table presents the Capital Markets Regulatory Capital CDS transactions in the Prime residential mortgage portfolio summarized by geographic location:

March 31, 2011	Net Notional Amount (in millions)	Percent of Total	Current Average Attachment Point <sup>(a)</sup>	Realized Losses through March 31, 2011 <sup>(b)</sup>	Weighted Average Maturity (Years)		Number of Transactions	Ratings of Junior Tranches <sup>(d)</sup>		
					To First Call <sup>(c)</sup>	To Maturity		Percent Rated	Average Rating	
<b>Country:</b>										
Denmark	\$ 24,065	78.87%	11.19%	0.13%	4.45	28.50	2	100%	AAA	
France	1,085	3.56	25.55%	0.05%	0.73	27.73	1	100	AAA	
Germany	2,110	6.91	33.27%	0.95%	1.23	38.46	5	100	AAA	
Sweden	3,254	10.66	26.08%	0.00%	0.85	28.85	1	100	AAA	
<b>Total</b>	<b>\$ 30,514</b>	<b>100.00%</b>	<b>15.53%</b>	<b>0.21%</b>	<b>3.58</b>	<b>29.39</b>	<b>9</b>	<b>100%</b>	<b>AAA</b>	

(a) Expressed as a percentage of gross transaction notional amount of the referenced obligations.

(b) Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through March 31, 2011 expressed as a percentage of the initial gross transaction notional amount.

(c) Where no call right remains, the weighted average expected maturity is used.

(d) Represents the weighted average ratings, when available, of the tranches immediately junior to AIGFP's super senior tranche. The percentage rated represents the percentage of net notional amount where there exists a rated tranche immediately junior to AIGFP's super senior tranche.

#### Arbitrage Portfolio

A portion of the Capital Markets super senior credit default swaps as of March 31, 2011 are arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

#### Multi-Sector CDOs

The following table summarizes gross transaction notional amount of the multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, subordination below the super senior risk layer, net notional amount and fair value of derivative liability by underlying collateral type:

March 31, 2011 (in millions)	Gross Transaction Notional Amount <sup>(a)</sup>	Subordination Below the Super Senior Risk Layer	Net Notional Amount	Fair Value of Derivative Liability
High grade with sub-prime collateral	\$ 2,930	\$ 1,532	\$ 1,398	\$ 538
High grade with no sub-prime collateral	6,781	4,358	2,423	959
Total high grade <sup>(b)</sup>	9,711	5,890	3,821	1,497
Mezzanine with sub-prime collateral	2,275	734	1,541	1,056
Mezzanine with no sub-prime collateral	1,624	828	796	523
Total mezzanine <sup>(c)</sup>	3,899	1,562	2,337	1,579
<b>Total</b>	<b>\$ 13,610</b>	<b>\$ 7,452</b>	<b>\$ 6,158</b>	<b>\$ 3,076</b>

(a) Total outstanding principal amount of securities held by a CDO.

(b) "High grade" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly AA or higher at origination.

(c) "Mezzanine" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly A or lower at origination.

The following table summarizes net notional amounts of the remaining multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, by settlement alternative and currency:

(in millions)	March 31, 2011	December 31, 2010
<b>CDS transactions with cash settlement provisions</b>		
U.S. dollar-denominated	\$ 3,733	\$ 4,010
Euro-denominated	1,454	1,475
Total CDS transactions with cash settlement provisions	5,187	5,485
<b>CDS transactions with physical settlement provisions</b>		
U.S. dollar-denominated	7	68
Euro-denominated	964	1,136
Total CDS transactions with physical settlement provisions	971	1,204
<b>Total</b>	<b>\$ 6,158</b>	<b>\$ 6,689</b>

The following table summarizes changes in the fair values of the derivative liability of the Capital Markets super senior multi-sector CDO credit default swap portfolio:

(in millions)	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Fair value of derivative liability, beginning of year	\$ 3,484	\$ 4,418
Unrealized market valuation gain	(273)	(663)
Other terminations and realized losses	(135)	(271)
Fair value of derivative liability, end of period	\$ 3,076	\$ 3,484

The following table presents, for each multi-sector CDO that is a reference obligation in a CDS written by AIGFP, the gross and net notional amounts, attachment points and percentage of gross notional amount rated less than B-/B-3:

CDO	Gross Transaction Notional Amount at March 31, 2011	Net Notional Amount at March 31, 2011	Attachment Point at Inception <sup>(a)</sup>	Attachment Point at March 31, 2011 <sup>(a)</sup>	Percentage of Gross Notional Amount Rated Less than B-/B-3 at March 31, 2011
1	\$ 930	\$ 421	40.00%	54.75%	66.32%
2	667	326	53.00%	51.12%	65.49%
3	957	470	53.00%	50.91%	95.17%
4	1,038	291	76.00%	71.98%	86.36%
5	695	3	10.83%	0.19%	29.49%
6	860	411	12.27%	11.56%	6.32%
7	833	553	25.24%	28.78%	8.94%
8	1,197	1,105	10.00%	7.67%	36.11%
9	2,192	1,454	16.50%	18.75%	3.44%
10	300	171	32.00%	42.98%	83.47%
11	381	381	24.49%	0.00% <sup>(b)</sup>	74.12%
12	436	384	32.90%	11.76%	99.22%
13	228	184	34.51%	19.44%	97.27%
14	2,896	4	9.72%	21.73%	79.92%
<b>Total</b>	<b>\$ 13,610</b>	<b>\$ 6,158</b>			

(a) Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios, replenishment rights and partial terminations, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.

(b) AIGFP began making payments on realized losses in excess of the attachment point on this trade in 2010.

In a number of instances, the level of subordination with respect to individual CDOs has increased since inception relative to the overall size of the CDO. While the super senior tranches are amortizing, subordinate layers have not been reduced by realized losses to date. Such losses are expected to emerge in the future. At inception, substantially all of the underlying assets were rated B-/B3 or higher and in most cases at least BBB or Baa. Thus, the percentage of gross notional amount rated less than B-/B3 represents a deterioration in the credit quality of the underlying assets.

The following table summarizes the gross transaction notional amount, percentage of the total CDO collateral pools and ratings and vintage breakdown of collateral securities in the multi-sector CDOs, by asset-backed securities (ABS) category:

March 31, 2011 (in millions)													
ABS Category	Gross Transaction Notional Amount	Percent of Total	Ratings							Vintage			
			AAA	AA	A	BBB	BB	<BB	NR	2008	2007	2006	2005+P
RMBS Prime	\$ 1,315	9.67%	0.34%	0.01%	0.11%	0.01%	0.07%	9.13%	0.00%	0.44%	5.34%	3.00%	0.89%
RMBS Alt-A	2,301	16.91%	0.12%	0.08%	0.15%	0.17%	0.04%	16.35%	0.00%	0.48%	5.01%	6.67%	4.75%
RMBS													
Subprime	2,656	19.51%	0.49%	0.68%	0.40%	0.54%	0.67%	16.73%	0.00%	0.00%	1.03%	1.83%	16.65%
CMBS	3,072	22.57%	0.75%	1.65%	2.06%	2.04%	1.98%	13.93%	0.16%	0.12%	2.12%	9.99%	10.34%
CDO	1,424	10.46%	0.20%	0.72%	0.82%	0.97%	0.97%	6.64%	0.14%	0.00%	0.70%	2.15%	7.61%
Other	2,842	20.88%	4.74%	4.59%	5.31%	3.39%	1.46%	1.23%	0.16%	0.64%	1.15%	6.22%	12.87%
Total	\$ 13,610	100.00%	6.64%	7.73%	8.85%	7.12%	5.19%	64.01%	0.46%	1.68%	15.35%	29.86%	53.11%

### Corporate Debt/CLOs

The corporate arbitrage portfolio consists principally of CDS written on portfolios of corporate obligations that were generally rated investment grade at the inception of the CDS. These CDS transactions require cash settlement. This portfolio also includes CDS with a net notional amount of \$1.4 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

The following table summarizes gross transaction notional amount of CDS transactions written on portfolios of corporate obligations, percentage of the total referenced portfolios, and ratings by industry sector, in addition to the subordinations below the super senior risk layer, AIGFP's net notional amounts and fair value of derivative liability:

March 31, 2011 (in millions)	Gross Transaction Notional Amount	Percent of Total	Ratings						
			Aa	A	Baa	Ba	<Ba	NR	
<b>Industry Sector</b>									
<b>United States</b>									
Industrial	\$ 6,290	33.3%	0.1%	3.3%	17.1%	3.9%	6.2%	2.7%	
Financial	1,650	8.8%	0.1%	2.8%	3.0%	0.1%	1.7%	1.1%	
Utilities	461	2.4%	0.0%	0.1%	1.5%	0.0%	0.1%	0.7%	
Other	97	0.5%	0.0%	0.0%	0.2%	0.0%	0.0%	0.3%	
Total United States	8,498	45.0%	0.2%	6.2%	21.8%	4.0%	8.0%	4.8%	
<b>Non-United States</b>									
Industrial	8,304	44.0%	0.1%	4.5%	9.0%	5.0%	5.3%	20.1%	
Financial	914	4.9%	0.2%	1.6%	1.8%	0.1%	0.3%	0.9%	
Government	685	3.6%	0.0%	1.0%	1.5%	0.7%	0.0%	0.4%	
Utilities	306	1.6%	0.0%	0.2%	0.0%	0.1%	0.5%	0.8%	
Other	167	0.9%	0.0%	0.7%	0.0%	0.0%	0.0%	0.2%	
Total Non-United States	10,376	55.0%	0.3%	8.0%	12.3%	5.9%	6.1%	22.4%	
Total gross transaction notional amount	18,874	100.0%	0.5%	14.2%	34.1%	9.9%	14.1%	27.2%	
Subordination	6,200								
Net Notional Amount	\$ 12,674								
Fair Value of Derivative Liability	\$ 134								



The following table presents, for each of the corporate debt and CLO CDS transactions, the net notional amounts, attachment points and inception to date defaults:

(dollars in millions)

CDS	Type	Net Notional Amount at March 31, 2011	Attachment Point at Inception <sup>(a)</sup>	Attachment Point at March 31, 2011 <sup>(a)</sup>	Defaults through March 31, 2011 <sup>(b)</sup>
1	Corporate Debt	\$ 1,554	21.76%	18.94%	6.16%
2	Corporate Debt	5,598	22.00%	20.23%	3.76%
3	Corporate Debt	987	22.14%	20.21%	3.61%
4	Corporate Debt	982	20.80%	18.16%	5.26%
5	Corporate Debt	227	28.00%	27.68%	1.01%
6	Corporate Debt	639	24.00%	22.42%	4.46%
7	Corporate Debt	1,286	24.00%	22.32%	4.63%
8	CLO	150	35.85%	40.14%	3.39%
9	CLO	135	43.76%	43.82%	1.03%
10	CLO	202	44.20%	47.67%	0.00%
11	CLO	81	44.20%	47.67%	0.00%
12	CLO	154	44.20%	47.67%	0.00%
13	CLO	180	31.76%	30.85%	2.37%
14	CLO	379	30.40%	29.14%	0.00%
15	CLO	120	31.23%	30.10%	0.00%
Total		\$ 12,674			

(a) Expressed as a percentage of gross transaction notional amount of the referenced obligations.

(b) Represents defaults (assets that are technically defaulted but for which the losses have not yet been realized) from inception through March 31, 2011 expressed as a percentage of the gross transaction notional amount at March 31, 2011.

#### Collateral

Most of the Capital Markets credit default swaps are subject to collateral posting provisions. These provisions differ among counterparties and asset classes. Although AIGFP has collateral posting obligations associated with both regulatory capital relief transactions and arbitrage transactions, the large majority of these obligations to date have been associated with arbitrage transactions in respect of multi-sector CDOs.

#### Regulatory Capital Relief Transactions

As of March 31, 2011, 90.7 percent of the Capital Markets regulatory capital relief transactions (measured by net notional amount) were subject to CSAs linked to AIG's credit rating and 9.3 percent of the regulatory capital relief transactions were not subject to collateral posting provisions. In general, each regulatory capital relief transaction is subject to a stand-alone Master Agreement or similar agreement, under which the aggregate exposure is calculated with reference to only a single transaction.

The underlying mechanism that determines the amount of collateral to be posted varies by counterparty and there is no standard formula. The varied mechanisms resulted from individual negotiations with different counterparties. The following is a brief description of the primary mechanisms that are currently being employed to determine the amount of collateral posting for this portfolio.

*Reference to Market Indices* — Under this mechanism, the amount of collateral to be posted is determined based on a formula that references certain tranches of a market index, such as either iTraxx or CDX. This mechanism is used for CDS transactions that reference either corporate loans or residential mortgages. While the market index is not a direct proxy, it has the advantage of being readily obtainable.

*Negotiated Amount* — Under this mechanism, the amount of collateral to be posted is determined based on terms negotiated between AIGFP and the counterparty, which could be a fixed percentage of the notional amount or present value of premiums to be earned by AIGFP.

The following table presents the amount of collateral postings by underlying mechanism as described above with respect to the regulatory capital relief portfolio (prior to consideration of transactions other than the Capital Markets super senior credit default swaps subject to the same Master Agreements) as of the periods ended:

<i>(in millions)</i>	<i>December 31, 2010</i>		<i>March 31, 2011</i>	
Reference to market indices	\$	19	\$	7
Negotiated amount		217		222
Total	\$	236	\$	229

#### Arbitrage Portfolio — Multi-Sector CDOs

In the CDS transactions with physical settlement provisions, in respect of multi-sector CDOs, the standard CSA provisions for the calculation of exposure have been modified, with the exposure amount determined pursuant to an agreed formula that is based on the difference between the net notional amount of such transaction and the market value of the relevant underlying CDO security, rather than the replacement value of the transaction. As of any date, the "market value" of the relevant CDO security is the price at which a marketplace participant would be willing to purchase such CDO security in a market transaction on such date, while the "replacement value of the transaction" is the cost on such date of entering into a credit default swap transaction with substantially the same terms on the same referenced obligation (e.g., the CDO security). In cases where a formula is utilized, a transaction-specific threshold is generally factored into the calculation of exposure, which reduces the amount of collateral required to be posted. These thresholds typically vary based on the credit ratings of AIG and/or the reference obligations, with greater posting obligations arising in the context of lower ratings. For the large majority of counterparties to these transactions, the Master Agreement and CSA cover non-CDS transactions (e.g., interest rate and cross currency swap transactions) as well as CDS transactions. As a result, the amount of collateral to be posted by AIGFP in relation to the CDS transactions will be added to or offset by the amount, if any, of the exposure AIG has to the counterparty on the non-CDS transactions.

#### Arbitrage Portfolio — Corporate Debt/CLOs

All of the Capital Markets corporate arbitrage-CLO transactions are subject to CSAs. These transactions are treated the same as other transactions subject to the same Master Agreement and CSA, with the calculation of collateral in accordance with the standard CSA procedures outlined above.

The vast majority of corporate debt transactions are no longer subject to future collateral postings. In exchange for an upfront payment to an intermediary counterparty, AIGFP has eliminated all future obligations to post collateral on corporate debt transactions that mature after 2011.

#### Collateral Calls

AIGFP has received collateral calls from counterparties in respect of certain super senior credit default swaps, of which a large majority relate to multi-sector CDOs. To a lesser extent, AIGFP has also received collateral calls in respect of certain super senior credit default swaps entered into by counterparties for regulatory capital relief purposes and in respect of corporate arbitrage.

From time to time, valuation methodologies used and estimates made by counterparties with respect to certain super senior credit default swaps or the underlying reference CDO securities, for purposes of determining the amount of collateral required to be posted by AIGFP in connection with such instruments, have resulted in estimates that differ, at times significantly, from AIGFP's estimates. In almost all cases, AIGFP has been able to successfully resolve the differences or otherwise reach an accommodation with respect to collateral posting levels, including in certain cases by entering into compromise collateral arrangements. Due to the ongoing nature of collateral arrangements, AIGFP regularly is engaged in discussions with one or more counterparties in respect of these differences, including at the present time. Valuation estimates made by counterparties for collateral purposes

are, like any other third-party valuation, considered in the determination of the fair value estimates of the Capital Markets super senior credit default swap portfolio.

**The following table presents the amount of collateral postings with respect to the Capital Markets super senior credit default swap portfolio (prior to offsets for other transactions) as of the periods ended:**

<i>(in millions)</i>	<i>December 31, 2010</i>		<i>March 31, 2011</i>	
Regulatory capital	\$	236	\$	229
Arbitrage – multi-sector CDO		3,013		2,617
Arbitrage – corporate		537		541
Total	\$	3,786	\$	3,387

The amount of future collateral posting requirements generally is a function of AIG's credit ratings, the rating of the reference obligations and any further decline in the market value of the relevant reference obligations, with the latter being the most significant factor. While a high level of correlation exists between the amount of collateral posted and the valuation of these contracts in respect of the arbitrage portfolio, a similar relationship does not exist with respect to the regulatory capital portfolio given the nature of how the amount of collateral for these transactions is determined. Given the lack of observable data and the uncertainty regarding the potential effects on market prices of measures undertaken by the federal government to address the credit market disruption, AIGFP is unable to reasonably estimate the amounts of collateral that it may be required to post in the future.

#### *Valuation Sensitivity — Arbitrage Portfolio*

##### Multi-Sector CDOs

AIG utilizes sensitivity analyses that estimate the effects of using alternative pricing and other key inputs on AIG's calculation of the unrealized market valuation loss related to the Capital Markets super senior credit default swap portfolio. While AIG believes that the ranges used in these analyses are reasonable, given the current difficult market conditions, AIG is unable to predict which of the scenarios is most likely to occur. As recent experience demonstrates, actual results in any period are likely to vary, perhaps materially, from the modeled scenarios, and there can be no assurance that the unrealized market valuation loss related to the Capital Markets super senior credit default swap portfolio will be consistent with any of the sensitivity analyses. On average, prices for CDOs increased during 2011. Further, it is difficult to extrapolate future experience based on current market conditions.

For the purposes of estimating sensitivities for the super senior multi-sector CDO credit default swap portfolio, the change in valuation derived using the BET model is used to estimate the change in the fair value of the derivative liability. Out of the total \$6.2 billion net notional amount of CDS written on multi-sector CDOs outstanding at March 31, 2011, a BET value is available for \$3.8 billion net notional amount. No BET value is determined for \$2.4 billion of CDS written on European multi-sector CDOs as prices on the underlying securities held by the CDOs are not provided by collateral managers; instead these CDS are valued using counterparty prices. Therefore, sensitivities disclosed below apply only to the net notional amount of \$3.8 billion.

The most significant assumption used in the BET model is the estimated price of the securities within the CDO collateral pools. If the actual price of the securities within the collateral pools differs from the price used in estimating the fair value of the super senior credit default swap portfolio, there is potential for material variation in the fair value estimate. Any further declines in the value of the underlying collateral securities held by a CDO will similarly affect the value of the super senior CDO securities. While the models attempt to predict changes in the prices of underlying collateral securities held within a CDO, the changes are subject to actual market conditions which have proved to be highly volatile, especially given current market conditions. AIG cannot predict reasonably likely changes in the prices of the underlying collateral securities held within a CDO at this time.

The following table presents key inputs used in the BET model, and the potential increase (decrease) to the fair value of the derivative liability by ABS category at March 31, 2011 corresponding to changes in these key inputs:

(dollars in millions)	Average Inputs Used at March 31, 2011	Change	Increase (Decrease) to Fair Value of Derivative Liability						
			Entire Portfolio	RMBS Prime	RMBS Alt-A	RMBS Subprime	CMBS	CDOs	Other
Bond prices	47 points	Increase of 5 points	\$ (258)	\$ (6)	\$ (18)	\$ (119)	\$ (80)	\$ (23)	\$ (12)
		Decrease of 5 points	253	7	19	110	86	13	18
Weighted average life	5.92 years	Increase of 1 year	24	1	1	16	5	1	-
		Decrease of 1 year	(42)	(1)	(2)	(31)	(5)	(2)	(1)
Recovery rates	20%	Increase of 10%	(35)	-	(4)	(19)	(10)	(1)	(1)
		Decrease of 10%	29	-	4	14	10	-	1
Diversity score <sup>(a)</sup>	11	Increase of 5	(14)						
		Decrease of 5	51						
Discount curve <sup>(b)</sup>	N/A	Increase of 100bps	16						

(a) The diversity score is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible.

(b) The discount curve is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible. Furthermore, for this input it is not possible to disclose a weighted average input as a discount curve consists of a series of data points.

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by AIGFP for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

#### Corporate Debt

The following table represents the relevant market credit inputs used to estimate the sensitivity for the credit default swap portfolio written on investment-grade corporate debt and the estimated increase (decrease) in fair value of derivative liability at March 31, 2011 corresponding to changes in these market credit inputs:

Input Used at March 31, 2011 (in millions)	Increase (Decrease) in Fair Value of Derivative Liability
Credit spreads for all names	
Effect of an increase by 10 basis points	\$ 13
Effect of a decrease by 10 basis points	\$ (14)
All base correlations	
Effect of an increase by 1%	\$ 4
Effect of a decrease by 1%	\$ (4)
Assumed recovery rate	
Effect of an increase by 1%	\$ (3)
Effect of a decrease by 1%	\$ 3

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by AIGFP for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

*Other derivatives.* Valuation models that incorporate unobservable inputs initially are calibrated to the transaction price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates, credit spreads, volatilities, etc.). Model inputs are changed only when corroborated by observable market data.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 4. Controls and Procedures**

In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was carried out by AIG's management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on that evaluation, AIG's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2011, AIG's disclosure controls and procedures were effective. There has been no change in AIG's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, AIG's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a discussion of legal proceedings, see Note 11(a) to the Consolidated Financial Statements, which is incorporated herein by reference.

### **Item 1A. Risk Factors**

***AIG's ability to achieve its long-term aspirational goals with respect to ROE and EPS and other long-term aspirational goals are based on significant assumptions, and AIG's actual results may differ, possibly materially and adversely, from these goals.***

In setting its long-term aspirational goals for ROE and EPS, AIG has made significant assumptions that include, among other things, the general conditions of markets in which it operates, revenues and combined ratios of its subsidiaries, investment yields, subsidiaries' capacity to distribute dividends to AIG Parent, AIG's ability to apply deployable capital to share repurchases, dividend payments, acquisitions or organic growth, AIG's ability to maintain financial leverage commensurate with its current credit ratings, the exclusion of the impact on shareholders' equity of the reversal of the tax valuation allowance, the effectiveness of AIG's cost rationalization measures, the approval of planned actions (including with respect to any share repurchases, dividend payments or acquisitions) by AIG's regulators, the overall credit rating implications of AIG's proposed strategic actions and general financial market and interest rate conditions. These assumptions are not historical facts but instead represent only AIG's expectations regarding future events, many of which, by their nature, are inherently subject to significant uncertainties and contingencies and are outside AIG's control. It is very likely that one or more of the assumptions will not be met or will deviate materially from what is assumed. Accordingly, AIG's actual results are likely to differ from these aspirational goals and the difference may be material and adverse.

The aspirational goals and their underlying assumptions are forward-looking statements. AIG strongly cautions its shareholders and other investors not to place undue reliance on any of these assumptions or aspirational goals. AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any assumptions, goals, projections or other related statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. See "Cautionary Statement Regarding Forward-Looking Information" and "Executive Overview — Long-Term Aspirational Goals" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding the forward-looking statements.

### **Item 6. Exhibits**

See accompanying Exhibit Index.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**AMERICAN INTERNATIONAL GROUP, INC.**

(Registrant)

/s/ DAVID L. HERZOG

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David L. Herzog  
Executive Vice President  
Chief Financial Officer  
Principal Financial Officer

/s/ JOSEPH D. COOK

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Joseph D. Cook  
Vice President  
Controller  
Principal Accounting Officer

Dated: May 5, 2011

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Location</b>
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	
	(a) Amended and Restated Purchase Agreement, dated as of January 14, 2011, among American International Group, Inc., the United States Department of the Treasury and the Federal Reserve Bank of New York	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
	(b) Master Transaction Agreement, dated as of December 8, 2010, among American International Group, Inc., ALICO Holdings LLC, AIA Aurora LLC, the Federal Reserve Bank of New York, the United States Department of the Treasury and the AIG Credit Facility Trust	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on December 8, 2010 (File No. 1-8787).
	(c) Coordination Agreement, dated as of March 1, 2011, among ALICO Holdings LLC, American International Group, Inc. and MetLife, Inc.	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on March 3, 2011 (File No. 1-8787).
	(d) Letter Agreement, dated as of March 1, 2011, among American International Group, Inc., the United States Department of the Treasury, AIA Aurora LLC and ALICO Holdings LLC	Incorporated by reference to Exhibit 2.2 to AIG's Current Report on Form 8-K filed with the SEC on March 3, 2011 (File No. 1-8787).
3	Articles of incorporation and by-laws	
3(i)(a)	American International Group, Inc. Certificate of Designations of Series G Cumulative Mandatory Convertible Preferred Stock	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
3(i)(b)	American International Group, Inc. Certificate of Elimination of Series C Perpetual, Convertible, Participating Preferred Stock	Incorporated by reference to Exhibit 3.2 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
3(i)(c)	American International Group, Inc. Certificate of Elimination of Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock	Incorporated by reference to Exhibit 3.3 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
3(i)(d)	American International Group, Inc. Certificate of Elimination of Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock	Incorporated by reference to Exhibit 3.4 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
3(i)(e)	American International Group, Inc. Certificate of Designation and Terms of Participating Preferred Stock	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed with the SEC on March 9, 2011 (File No. 1-8787).
4	Instruments defining the rights of security holders, including indentures	
	(1) Registration Rights Agreement, dated as of January 14, 2011, between American International Group, Inc. and the United States Department of the Treasury	Incorporated by reference to Exhibit 99.4 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
	(2) Agreement to Amend Warrants, dated as of January 14, 2011, between American International Group, Inc. and the United States Department of the Treasury	Incorporated by reference to Exhibit 99.5 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).



Exhibit Number	Description	Location
	(3) Warrant Agreement (including Form of Warrant), dated January 6, 2011, between American International Group, Inc. and Wells Fargo Bank, N.A., as Warrant Agent	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on January 7, 2011 (File No. 1-8787).
	(4) Tax Asset Protection Plan, dated as of March 9, 2011, between American International Group, Inc. and Wells Fargo Bank, N.A., as Rights Agent, including as Exhibit A the forms of Rights Certificate and of Election to Exercise	Incorporated by reference to Exhibit 4.1 to AIG's Current Report on Form 8-K filed with the SEC on March 9, 2011 (File No. 1-8787).
10	Material contracts	
	(1) Guarantee, Pledge and Proceeds Application Agreement, dated as of January 14, 2011, among American International Group, Inc., AIA Aurora LLC and ALICO Holdings LLC, as Guarantors, and AIA Aurora LLC, ALICO Holdings LLC, AIG Capital Corporation, AIG Funding, Inc. and AIG Life Holdings (International) LLC as the Secured Parties	Incorporated by reference to Exhibit 99.1 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
	(2) AIA Aurora LLC Intercompany Loan Agreement, dated as of January 14, 2011, by and between AIA Aurora LLC and American International Group, Inc.	Incorporated by reference to Exhibit 99.2 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
	(3) ALICO Holdings LLC Intercompany Loan Agreement, dated as of January 14, 2011, by and between ALICO Holdings LLC and American International Group, Inc.	Incorporated by reference to Exhibit 99.3 to AIG's Current Report on Form 8-K filed with the SEC on January 14, 2011 (File No. 1-8787).
	(4) Letter Agreement, dated as of February 8, 2011, between American International Group, Inc. and the United States Department of the Treasury	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on February 9, 2011 (File No. 1-8787).
	(5) Determination Memorandum, dated April 1, 2011, from the Office of the Special Master for TARP Executive Compensation to American International Group, Inc.	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on April 1, 2011 (File No. 1-8787).

Exhibit Number	Description	Location
(6)	Master Transaction Agreement, dated as of April 19, 2011, by and among American Home Assurance Company, Chartis Casualty Company (f/k/a American International South Insurance Company), Chartis Property Casualty Company (f/k/a AIG Casualty Company), Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Co., National Union Fire Insurance Company of Pittsburgh, PA., New Hampshire Insurance Company, The Insurance Company of the State of Pennsylvania, Chartis Select Insurance Company (f/k/a AIG Excess Liability Insurance Company Ltd.), Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company), Landmark Insurance Company, Lexington Insurance Company, AIU Insurance Company, American International Reinsurance Company, Ltd. and American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, PA., New Hampshire Insurance Company and Chartis Overseas Limited acting as members of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc. (collectively, the Reinsureds), Eaglestone Reinsurance Company and National Indemnity Company	Filed herewith.
(7)	Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and American General Assurance Company	Filed herewith.
(8)	Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and American General Life Insurance Company of Delaware	Filed herewith.
(9)	Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and American General Life Insurance Company	Filed herewith.
(10)	Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and American General Life and Accident Insurance Company	Filed herewith.
(11)	Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and The United States Life Insurance Company in the City of New York	Filed herewith.
(12)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and AIU Insurance Company	Filed herewith.

Exhibit Number	Description	Location
(13)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and American Home Assurance Company	Filed herewith.
(14)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Commerce and Industry Insurance Company	Filed herewith.
(15)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Chartis Casualty Company	Filed herewith.
(16)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Chartis Property Casualty Company	Filed herewith.
(17)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Granite State Insurance Company	Filed herewith.
(18)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Illinois National Insurance Co.	Filed herewith.
(19)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and The Insurance Company of the State of Pennsylvania	Filed herewith.
(20)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Landmark Insurance Company	Filed herewith.
(21)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Lexington Insurance Company	Filed herewith.
(22)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and New Hampshire Insurance Company	Filed herewith.
(23)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and National Union Fire Insurance Company of Pittsburgh, PA.	Filed herewith.
(24)	Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Chartis Select Insurance Company	Filed herewith.

Exhibit Number	Description	Location
	(25) Unconditional Capital Maintenance Agreement, dated as of February 25, 2011, between American International Group, Inc. and Chartis Specialty Insurance Company	Filed herewith.
	(26) Unconditional Capital Maintenance Agreement, dated as of March 15, 2011, between American International Group, Inc. and AGC Life Insurance Company	Filed herewith.
	(27) Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and First SunAmerica Life Insurance Company	Filed herewith.
	(28) Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and SunAmerica Annuity and Life Assurance Company	Filed herewith.
	(29) Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and SunAmerica Life Insurance Company	Filed herewith.
	(30) Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and The Variable Annuity Life Insurance Company	Filed herewith.
	(31) Unconditional Capital Maintenance Agreement, dated as of March 30, 2011, between American International Group, Inc. and Western National Life Insurance Company	Filed herewith.
11	Statement re: Computation of Per Share Earnings	Included in Note 12 to the Consolidated Financial Statements.
12	Computation of Ratios of Earnings to Fixed Charges	Filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications*	Filed herewith.
32	Section 1350 Certifications*	Filed herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheet as of March 31, 2011 and December 31, 2010, (ii) the Consolidated Statement of Income (Loss) for the three months ended March 31, 2011 and 2010, (iii) the Consolidated Statement of Equity for the three months ended March 31, 2011, (iv) the Consolidated Statement of Cash Flows for the three months ended March 31, 2011 and 2010, (v) the Consolidated Statement of Comprehensive Income (Loss) for the three months ended March 31, 2011 and 2010 and (vi) the Notes to the Consolidated Financial Statements, tagged as blocks of text.**	Filed herewith.

\* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.



**MASTER TRANSACTION AGREEMENT**

**by and among**

**AMERICAN HOME ASSURANCE COMPANY**  
**CHARTIS CASUALTY COMPANY**  
 (f/k/a American International South Insurance Company)  
**CHARTIS PROPERTY CASUALTY COMPANY**  
 (f/k/a AIG Casualty Company)  
**COMMERCE AND INDUSTRY INSURANCE COMPANY**  
**GRANITE STATE INSURANCE COMPANY**  
**ILLINOIS NATIONAL INSURANCE CO.**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
**NEW HAMPSHIRE INSURANCE COMPANY**  
**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**  
**CHARTIS SELECT INSURANCE COMPANY**  
 (f/k/a AIG Excess Liability Insurance Company Ltd.)  
**CHARTIS SPECIALTY INSURANCE COMPANY**  
 (f/k/a American International Specialty Lines Insurance Company)  
**LANDMARK INSURANCE COMPANY**  
**LEXINGTON INSURANCE COMPANY**  
**AIU INSURANCE COMPANY**  
**AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**  
*and*  
**AMERICAN HOME ASSURANCE COMPANY**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
**NEW HAMPSHIRE INSURANCE COMPANY**  
**CHARTIS OVERSEAS LIMITED**  
*acting as members of the Chartis Overseas*  
*Association as respects business written or*  
*assumed by or from affiliated companies of*  
*Chartis Inc.*  
 (collectively, "**Reinsureds**," as further defined herein)  
  
**EAGLESTONE REINSURANCE COMPANY**  
  
*and*  
  
**NATIONAL INDEMNITY COMPANY**

**Dated as of April 19, 2011**

**TABLE OF CONTENTS**

	<b>Page</b>
ARTICLE I	
DEFINITIONS	
1.1 Definitions	2
ARTICLE II	
TRANSACTIONS TO BE EFFECTUATED AT CLOSING	
2.1 Place and Date of Closing	6
2.2 Loss Portfolio Transfer	7
2.3 Reconciliation	7
2.4 Additional Deliveries on or Prior to Closing	9
ARTICLE III	
REPRESENTATIONS, WARRANTIES, AND INVESTIGATION	

3.1	Representations and Warranties	9
3.2	No Other Representations or Warranties	10
3.3	Exclusive Remedy	11

#### ARTICLE IV

##### ADDITIONAL AGREEMENTS OF REINSUREDS, EAGLESTONE AND NICO

4.1	Conduct of Business	11
4.2	Expenses	12
4.3	Access; Certain Communications	13
4.4	Commercially Reasonable Efforts; Governmental Consents	13
4.5	Further Assurances	14
4.6	Notification of Certain Matters	14
4.7	Transfer and Maintenance of Books and Records	14
4.8	Cooperation after Closing	15
4.9	Confidentiality	15
4.10	Waiver of Duty of Utmost Good Faith	16

#### ARTICLE V

##### CONDITIONS PRECEDENT TO THE OBLIGATION OF NICO TO CLOSE

5.1	Covenants	16
5.2	Ancillary Agreements	16
5.3	Secretary's Certificates	16
5.4	Governmental Approvals and Consents	17
5.5	Injunction and Litigation	17

i

5.6	Frustration of Closing Conditions	17
-----	-----------------------------------	----

#### ARTICLE VI

##### CONDITIONS PRECEDENT TO THE OBLIGATION OF REINSUREDS AND EAGLESTONE TO CLOSE

6.1	Covenants	17
6.2	Ancillary Agreements	17
6.3	Secretary's Certificates	17
6.4	Governmental Approvals and Consents	18
6.5	Certain Facilities	18
6.6	Injunction and Litigation	18
6.7	Rating of NICO	18
6.8	Frustration of Closing Conditions	18

#### ARTICLE VII

##### TERMINATION

7.1	Termination of Agreement	19
7.2	Effect of Termination	19

#### ARTICLE VIII

##### DISPUTE RESOLUTION

8.1	Framework for Dispute Resolution	20
8.2	Negotiation Amongst the Parties	20
8.3	Obligation to Arbitrate	20
8.4	Arbitration Procedure	21
8.5	Judicial Proceedings	21
8.6	Limitation of Remedy	21

#### ARTICLE IX

##### MISCELLANEOUS PROVISIONS

9.1	Notices	22
9.2	Entire Agreement	23
9.3	Waiver and Amendment	23
9.4	Successors and Assigns	24
9.5	Headings	24

9.6	Construction; Interpretation	24
9.7	Governing Law and Jurisdiction	24
9.8	No Third Party Beneficiaries	24
9.9	Counterparts	25
9.10	Severability	25
9.11	Incontestability	25
9.12	Set-Off	25
9.13	Currency	26

9.14	Lead Representative of the Reinsureds	26
------	---------------------------------------	----

ARTICLE X

ASSIGNMENT OF INCLUDED REINSURANCE  
RECOVERABLES UPON CMA DEFAULT

10.1	Assignment Upon CMA Default	26
10.2	Effect of Assignment	26
10.3	Reassignment Upon Exhaustion of Retro Limit	27
10.4	Only Judicial Proceedings to Enforce Capital Maintenance Agreement	27

LIST OF EXHIBITS

Exhibit A	Form of Administrative Services Agreement
Exhibit B	Form of Collateral Trust Agreement
Exhibit C	Form of LPT Reinsurance Agreement
Exhibit D	Form of LPT Retrocession Agreement
Exhibit E	Form of Parental Guarantee Agreement
Exhibit F	Form of Capital Maintenance Agreement
Exhibit G	Form of Reconciliation Statement (Schedule 2.3)
Exhibit H	Form of Transition Services Agreement

LIST OF SCHEDULES

Schedule 2.3	Reconciliation Statement Calculations
Schedule 3.1(b)	Certain Transactions Since Inception
Schedule 3.1(c)	Information Provided
Schedule 3.1(c)-1	Certain Individuals

MASTER TRANSACTION AGREEMENT

**THIS MASTER TRANSACTION AGREEMENT**, dated as of April 19, 2011 (this “**Agreement**”), has been made and entered into by and among the **Reinsureds**, as defined herein, **Eaglestone Reinsurance Company**, a Pennsylvania property and casualty insurance company (“**Eaglestone**”), and **National Indemnity Company**, a Nebraska property and casualty insurance company (“**NICO**”).

WITNESSETH:

**WHEREAS**, pursuant the terms and conditions of this Agreement, the Reinsureds party hereto, Eaglestone, and NICO desire to enter into loss portfolio reinsurance transactions, pursuant to which Reinsureds will amend and restate their cession of certain Subject Asbestos Liabilities and certain other liabilities to Eaglestone and Eaglestone will retrocede 100% of the Subject Asbestos Liabilities to NICO;

**WHEREAS**, the cession by Reinsureds to Eaglestone will be effected by and pursuant to the terms and conditions of an Amended and Restated Loss Portfolio Transfer Reinsurance Agreement (as amended, modified, supplemented and in effect from time to time, the “**LPT Reinsurance Agreement**”) among Reinsureds and Eaglestone, substantially in the form annexed hereto as Exhibit C;

**WHEREAS**, the retrocession by Eaglestone to NICO will be effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Retrocession Agreement (as amended, modified, supplemented and in effect from time to time, the “**LPT Retrocession Agreement**”) between Eaglestone and NICO, substantially in the form annexed hereto as Exhibit D;

**WHEREAS**, in connection with entry into the LPT Retrocession Agreement, Reinsureds desire that NICO perform certain administrative functions on their behalf from and after the Closing Date with respect to the Subject Asbestos Liabilities, and the Parties hereto have agreed to enter into an Administrative Services Agreement (as amended, modified, supplemented and in effect from time to time, the “**Administrative Services Agreement**”), substantially in the form annexed hereto as Exhibit A, and a related Transition Services Agreement (as amended, modified, supplemented and in effect from time to time, the “**Transition Services Agreement**”), substantially in the form annexed hereto as Exhibit H;

**WHEREAS**, in connection with entry into the LPT Retrocession Agreement, Eaglestone, National Union, NICO and the Trustee have agreed to enter into a Collateral Trust Agreement (as amended, modified, supplemented and in effect from time to time, the “**Collateral Trust Agreement**”),



substantially in the form annexed hereto as Exhibit B, pursuant to which NICO will establish a grantor trust to secure NICO's obligations under the LPT Retrocession Agreement;

**WHEREAS**, Reinsureds, Eaglestone, and Berkshire Hathaway Inc., a Delaware corporation ("**Berkshire**") have agreed to enter into a parental guarantee agreement (as amended, modified, supplemented and in effect from time to time, the "**Parental Guarantee Agreement**"), substantially in the form annexed hereto as Exhibit E, pursuant to which Berkshire shall guarantee to Eaglestone and Reinsureds the payment or performance of certain obligations of NICO under the Ancillary Agreements;

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**WHEREAS**, the Parties hereto intend that National Union, as agent for the Reinsureds and on its own behalf, have the right to receive directly from NICO amounts payable under the LPT Retrocession Agreement in the event of the insolvency of Eaglestone; and

**WHEREAS**, Reinsureds, Eaglestone and NICO, or their respective Affiliates, shall execute and deliver such other agreements, instruments and documents as are described herein;

**NOW, THEREFORE**, in consideration of the foregoing, the representations, warranties, covenants and agreements set forth herein, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, and intending to be legally bound hereby, the Reinsureds party hereto, Eaglestone, and NICO (each individually, a "**Party**" and collectively, the "**Parties**") hereby agree as follows:

## ARTICLE I

### DEFINITIONS

#### 1.1 Definitions.

The following terms shall have the respective meanings set forth below throughout this Agreement:

"**Actually Paid**" shall have the meaning provided in the LPT Retrocession Agreement.

"**Administrative Services Agreement**" shall have the meaning provided in the recitals to this Agreement.

"**Affiliate**" means, as to any Person, a Person that controls, is controlled by, or is under common control with such other Person. For the avoidance of doubt, neither the United States Treasury nor the Federal Reserve Bank of New York is an Affiliate of Reinsureds or of Eaglestone.

"**Aggregate Net Payments**" means (i) the amount set forth on the Initial Reconciliation Statement, the Preliminary Reconciliation Statement or the Final Reconciliation Statement, as applicable, on the line item described as "Amount Due to Collateral Trust" and (ii) the amount set forth on the Initial Reconciliation Statement, the Preliminary Reconciliation Statement or the Final Reconciliation Statement, as applicable, on the line item described as "Amount Due to Eaglestone."

"**Agreement**" shall have the meaning provided in preamble to this Agreement.

"**AIG**" means American International Group, Inc., a Delaware corporation and the ultimate parent of Reinsureds and Eaglestone.

"**Ancillary Agreements**" means each of the agreements the forms of which are Exhibits A through H attached hereto and each of the agreements, exhibits, annexes, schedules and other attachments thereto; *provided, however*, that for purposes of Article IX, the Parental Guarantee Agreement shall not be deemed to be an Ancillary Agreement for all purposes under such Sections and Articles.

"**Applicable Interest Rate**" shall mean 4.25% per annum

"**Applicable Law**" means any domestic or foreign, federal, state or local statute, law, ordinance or code, or any written rules, regulations or administrative or judicial interpretations or

policies issued by any Governmental Authority pursuant to any of the foregoing, in each case applicable to any Party, and any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction applicable to the Parties as generally applicable.

"**Asbestos Claim**" shall have the meaning provided in the LPT Retrocession Agreement.

"**Berkshire**" shall have the meaning provided in recitals to this Agreement and includes successors and permitted assigns.

"**Books and Records**" shall have the meaning provided in the Administrative Services Agreement.

"**Burdensome Condition**" shall have the meaning set forth in Section 4.4(d).

"**Business Day**" means any day other than a Saturday, Sunday or a day on which commercial banks in New York City, New York are required or authorized by law to be closed.

"**Capital Maintenance Agreement**" means the Capital Maintenance Agreement between American International Group, Inc. and Eaglestone Reinsurance Company in substantially the form annexed hereto as Exhibit F.

"**Chartis Parties**" shall have the meaning set forth in Section 9.12(c).

“**Closing Date**” shall have the meaning set forth in Section 2.1.

“**Closing**” shall have the meaning set forth in Section 2.1.

“**CMA Default**” means any failure of AIG to provide the funding required under the Capital Maintenance Agreement that existed throughout, and is continuing following expiration of, the thirty-day period specified in Paragraph 7(b) of the Capital Maintenance Agreement.

“**CMA Default Effective Date**” means the third Business Day after the occurrence of a CMA Default.

“**Collateral Trust Account**” means the trust account established pursuant to the Collateral Trust Agreement.

“**Collateral Trust Agreement**” shall have the meaning set forth in the recitals to this Agreement.

“**Confidential Information**” shall have the meaning set forth in Section 4.9(c).

“**Designated Court**” shall have the meaning set forth in Section 8.5.

“**Disclosing Party**” shall have the meaning set forth in Section 4.9(a).

“**Dispute**” shall have the meaning set forth in Section 8.1.

“**Dollars**” or “**\$**” means United States dollars.

“**Eaglestone**” shall have the meaning provided in preamble to this Agreement and includes successors and permitted assigns.

“**Encumbrance**” means any pledge, security interest, mortgage, lien, attachment, right of first refusal, or option, including any restriction on receipt of income or exercise of any other attribute of ownership, except such restrictions as may be contained in any Applicable Law.

“**End Date**” shall have the meaning set forth in Section 7.1(d).

“**Extra-Contractual Obligations**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Final and Binding**” shall have the meaning set forth in Section 2.3(g).

“**Final Net Payments**” shall have the meaning set forth in Section 2.3(h).

“**Final Order**” means (a) an order or award of an arbitration panel that is by its terms final and as to which the time to petition for review has expired or (b) an order or judgment of a court of competent jurisdiction (including without limitation an order of the Designated Court with respect to an arbitration award) that is by its terms final and is no longer subject to appeal, either as of right or discretionary.

“**Final Reconciliation Statement**” shall have the meaning set forth in Section 2.3(d).

“**Governmental Authority**” means any government, political subdivision, court, board, commission, regulatory or administrative agency or other instrumentality thereof, whether federal, state, provincial, local or foreign and including any regulatory authority which may be partly or wholly autonomous.

“**Inception**” means 12:01 A.M. Eastern Standard Time on January 1, 2011.

“**Included Reinsurance Recoverables**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Independent Accountant**” shall have the meaning set forth in Section 2.3(e).

“**Initial Net Payments**” shall have the meaning set forth in Section 2.3(b).

“**Initial Reconciliation Statement**” shall have the meaning set forth in Section 2.3(b).

“**IRR Assignment**” shall have the meaning set forth in Section 10.1.

“**IRR Reassignment**” shall have the meaning provided in Section 10.3.

“**Lead Representative**” of a Party is the Representative of the Party designated from time to time to act as the Party’s coordinator vis-à-vis the other Parties with respect to the transactions contemplated hereby. National Union shall be the Lead Representative of the Reinsureds.

“**LPT Reinsurance Agreement**” shall have the meaning provided in the recitals to this Agreement.

“**LPT Retrocession Agreement**” shall have the meaning provided in the recitals to this Agreement.

“**National Union**” means National Union Fire Insurance Company of Pittsburgh, Pa. and includes successors and permitted assigns.

“**NICO Subject Business**” shall have the meaning provided in the LPT Retrocession Agreement.

“**NICO**” shall have the meaning set forth in the preamble to this Agreement. The term “NICO” as used herein shall include any predecessor or successor of such company, including by reason of sale of assets, merger, continuation, consolidation or otherwise.

“**Order**” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“**Other Recoverables**” has the meaning provided in the LPT Retrocession Agreement.

“**Other Recoveries**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Own Expense**” has the meaning provided in the LPT Retrocession Agreement.

“**Parental Guarantee Agreement**” shall have the meaning provided in the recitals to this Agreement.

“**Party**” or “**Parties**” shall have the meaning provided in the recitals to this Agreement.

“**Permit**” means any material license, permit, order, approval, consent, registration, membership, authorization or qualification under any Applicable Law or with any Governmental Authority or under any industry or non-governmental self-regulatory organization.

“**Person**” means any natural person, corporation, partnership, limited liability company, trust, joint venture or other entity, including a Governmental Authority.

“**Preliminary Reconciliation Statement**” shall have the meaning set forth in Section 2.3(c).

“**Receiving Party**” shall have the meaning set forth in Section 4.9(a).

“**Reinsureds**” shall have the meaning provided in the LPT Retrocession Agreement and is subject to supplementation as set forth therein, *provided* that any Reinsured added by such supplementation shall execute an addendum to this Agreement acknowledging that it is bound hereby.

“**Reinsurer**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Representatives**” means, with respect to any Person, such Person’s officers, directors, employees, members, partners, managing directors or members, agents, advisors and other representatives.

“**Retro Limit**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Subject Asbestos Liabilities**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Subject Business**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Subject Claim**” shall have the meaning provided in the Administrative Services Agreement.

“**Subsidiary**” means, when used with respect to any Person, any corporation, limited liability company, partnership, association, trust or other entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power (or, in the case of a partnership, more than 50% of the general partnership interests) are, as of such date, owned by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

“**Tax Authority**” means, with respect to any Tax, any government or political subdivision thereof that imposes such Tax, and any agency charged with the collection, assessment, determination or administration of such Tax for such government or subdivision.

“**Tax Return**” means any return, report, declaration, claim for refund, certificate, bill, or other return or statement, including any schedule or attachment thereto, and any amendment thereof, filed or required to be filed with any Tax Authority in connection with the determination, assessment or collection of any Tax.

“**Tax**” means any and all federal, state, foreign or local income, gross receipts, premium, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, ad valorem/personal property, stamp, excise, occupation, sales, use, transfer, value added, alternative minimum, estimated or other tax, fee, duty, levy, custom, tariff, impost, assessment, obligation or charge of the same or of a similar nature to any of the foregoing, including any interest, penalty or addition thereto.

“**Termination Date**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Third Party Reinsurance Agreements**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Third Party Reinsurance Recoverables**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Third Party Reinsurers**” shall mean the reinsurers under the Third Party Reinsurance Agreements.

“**Transition Services Agreement**” shall have the meaning set forth in the Recitals.

“**Trustee**” means the trustee named in the Collateral Trust Agreement and any successor trustee appointed as such pursuant to the terms of such Collateral Trust Agreement.

“**Ultimate Net Loss**” shall have the meaning provided in the LPT Retrocession Agreement.

## ARTICLE II

### TRANSACTIONS TO BE EFFECTUATED AT CLOSING

#### 2.1 Place and Date of Closing.

Unless otherwise agreed to by the Parties hereto, the closing (the “**Closing**”) of the transactions contemplated under this Agreement and the Ancillary Agreements will take place in the offices of Cahill Gordon & Reindel LLP, 80 Pine Street, New York 10005, at 10:00 a.m., Eastern Time, on the third Business Day after the date upon which each of the conditions set forth in Articles V and VI are satisfied or waived by the Party or Parties entitled to waive the same (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions at such time). Notwithstanding the foregoing, the Closing may occur at such other place, at such other time or on such other date as Reinsureds and NICO may mutually agree. The day on which the Closing takes place is referred to herein as the “**Closing Date**.” The Closing shall be deemed for all purposes to have occurred at 12:01 a.m., Eastern Time, on the Closing Date.

6

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#### 2.2 Loss Portfolio Transfer.

Subject to the satisfaction or waiver of all of the conditions to Closing set forth in Articles V and VI, and subject to the terms and conditions set forth in this Agreement, the LPT Reinsurance Agreement and the LPT Retrocession Agreement, at the Closing:

(a) Reinsureds and Eaglestone shall enter into the LPT Reinsurance Agreement, and Reinsureds shall make, or shall have made, payment to Eaglestone in the amount set forth in Section 3.2(a) thereof and in the manner specified in Section 3.2(c) thereof.

(b) Eaglestone and NICO shall enter into the LPT Retrocession Agreement, and Eaglestone shall cause payment to be made to NICO in the amount set forth in Section 3.3(a) thereof and in the manner specified in Section 3.3(b) thereof.

(c) NICO shall transfer and assign to the Collateral Trust Account, assets in the amount and pursuant to the terms set forth in Section 7.2 of the LPT Retrocession Agreement and in accordance with the terms of the Collateral Trust Agreement.

#### 2.3 Reconciliation.

(a) The Parties understand and agree that it is in their mutual interests to agree to a mechanism for reconciling the balances due and owing between them as of the Closing Date, as set forth in Section 3.2 of the LPT Reinsurance Agreement and Section 3.3 of the LPT Retrocession Agreement. The Parties shall follow the protocol set forth in Sections 2.3(b) through 2.3(i) in fully and finally reconciling amounts of these balances.

(b) Reinsureds shall, at least five (5) Business Days prior to the Closing Date, provide to NICO an estimated reconciliation statement as of the month ending prior to the Closing Date in the form attached hereto as Exhibit G (the “**Initial Reconciliation Statement**”), which shall be calculated in the manner set forth on Schedule 2.3 attached hereto and which shall be broken down by calendar quarter. The Initial Reconciliation Statement shall set forth the Aggregate Net Payments due to NICO and to Eaglestone (the “**Initial Net Payments**”), which amount due to Eaglestone shall on or prior to the Closing Date be deposited directly by Reinsureds on behalf of Eaglestone into the account that shall have been specified in writing by Eaglestone at least five (5) Business Days prior to the Closing Date, after which such amount due to NICO shall be deposited directly by Eaglestone on behalf of NICO into the Collateral Trust Account on the Closing Date.

(c) Reinsureds shall, within forty-five (45) calendar days following the Closing Date, provide to NICO a preliminary reconciliation statement in the same form as the Initial Reconciliation Statement (the “**Preliminary Reconciliation Statement**”), which shall be calculated as of the Closing Date and in the manner set forth on Schedule 2.3 attached hereto, setting forth the Aggregate Net Payments as of the Closing Date.

(d) After the receipt by NICO of the Preliminary Reconciliation Statement and until such time as the Final Reconciliation Statement is completed, NICO and its authorized Representatives shall have, upon prior written notice, reasonable access during normal business hours to the working papers of Reinsureds relating to the Preliminary Reconciliation Statement and the calculations set forth thereon. NICO shall have the right to review the Preliminary Reconciliation Statement and comment thereon for a period of thirty (30) Business Days after receipt thereof. Any changes in the Preliminary Reconciliation Statement that are agreed to by the Parties within such thirty (30) Business Day review period shall be incorporated into a final reconciliation

7

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statement (the “**Final Reconciliation Statement**”), as of the Closing Date. In the event NICO does not dispute the Preliminary Reconciliation Statement within such thirty (30) Business Day review period, the Preliminary Reconciliation Statement shall be deemed the Final Reconciliation Statement.

(e) In the event that the Parties are unable to agree on the manner in which any item or items should be treated in the Preliminary Reconciliation Statement within such thirty (30) Business Day review period, each of the Parties shall prepare separate written reports of such item or items remaining in dispute and refer such reports to PriceWaterhouseCoopers (or if PriceWaterhouseCoopers is unavailable, to another nationally recognized independent accounting or actuarial firm that is neutral and impartial as may be agreed by the parties) (the “**Independent Accountant**”) within ten (10) calendar days after the expiration of such thirty (30) Business Day review period; *provided, however*, that NICO shall have the right to dispute the determination of any such item or items only on the basis of, and to the extent it claims that, in determining such item (i) it was not calculated in the manner set forth on Schedule 2.3 for the calculation of the Aggregate Net Payment or (ii) there were mathematical errors in the calculation of such item; *provided, further*, that any portion of any amount payable to NICO or to Reinsureds pursuant to Section 2.3(h) that can be calculated from amounts that are not in dispute will be paid within ten (10) calendar days after such written reports are required to be submitted to the Independent Accountant.

(f) The Independent Accountant shall determine within thirty (30) calendar days the manner in which such item or items shall be treated in the Final Reconciliation Statement; *provided, however*, that the dollar amount of each item in dispute shall be determined within the range of dollar amounts proposed by NICO, on the one hand, and Reinsureds, on the other hand. The Parties acknowledge and agree that (i) the review by and determinations of the Independent Accountant shall be limited to, and only to, the item or items contained in the reports prepared and submitted to the Independent Accountant by the Parties, and (ii) the determinations by the Independent Accountant shall be based solely on the criteria set forth in the proviso in the first sentence of this Section 2.3(f).

(g) The determinations by the Independent Accountant as to the items in dispute shall be in writing and shall be Final and Binding on the parties and shall be reflected in the Final Reconciliation Statement. For purposes of this Section 2.3(g), “**Final and Binding**” means that the determinations made pursuant to this Section 2.3, including the determinations, if any, made by the Independent Accountant shall have the same preclusive effect for all purposes as if such determinations had been embodied in a final judgment, no longer subject to appeal, entered by a court of competent jurisdiction, and each Party may petition the Designated Court to reduce such decision to judgment. The fees, costs and expenses of retaining the Independent Accountant shall be allocated by the Independent Accountant between the Parties in accordance with the Independent Accountant’s judgment as to the relative merits of the respective Parties’ proposals in respect of the disputed items. Within five (5) Business Days following the resolution of all disputed items, Reinsureds shall prepare the Final Reconciliation Statement and shall deliver copies thereof to NICO.

(h) In the event that (i) the Aggregate Net Payment due to NICO or to Eaglestone, as the case may be, as determined in the Final Reconciliation Statement (the “**Final Net Payments**”) exceeds the Initial Net Payment to NICO or to Eaglestone, then Reinsureds shall pay to NICO or to Eaglestone, as applicable, cash in Dollars in an amount equal to such difference, less

8

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any portion of such difference previously paid to NICO or to Eaglestone, as applicable, pursuant to Section 2.3(e), within ten (10) calendar days after the Final Reconciliation Statement has been determined, plus interest on such amount from and including the Closing Date up to but not including the date of payment accrued at the Applicable Interest Rate, or (ii) the Final Net Payments to NICO or to Eaglestone, as applicable, is less than the Initial Net Payments to NICO or to Eaglestone, as applicable, then NICO or Eaglestone, as applicable, shall return to Reinsureds cash in Dollars in an amount equal to such difference, less any portion of such difference previously paid to Reinsureds pursuant to Section 2.3(e), within ten (10) calendar days after the Final Reconciliation Statement has been determined, plus interest on such amount from and including the Closing Date up to but not including the date of payment accrued at the Applicable Interest Rate.

(i) All cash required to be transferred from Reinsureds to NICO pursuant to Section 2.3 shall be by wire transfer of immediately available funds to the Collateral Trust Account and all cash required to be transferred from NICO to Reinsureds pursuant to Section 2.3 shall be by wire transfer of immediately available funds withdrawn from the Collateral Trust Account to one or more bank accounts specified in writing by Reinsureds, in each case free and clear of all Encumbrances. All transfers of funds pursuant to this Section 2.3 shall be accounted for consistently with Section 13.1 of the Administrative Services Agreement.

#### **2.4 Additional Deliveries on or Prior to Closing.**

Reinsureds, Eaglestone and NICO shall, and shall cause their applicable Affiliates to, enter into and deliver to each other Party, on or prior to the Closing Date:

- (i) LPT Reinsurance Agreement;
- (ii) LPT Retrocession Agreement;
- (iii) Administrative Services Agreement;
- (iv) Collateral Trust Agreement;
- (v) Parental Guarantee Agreement;
- (vi) Capital Maintenance Agreement;
- (vii) Transition Services Agreement;
- (viii) such other agreements, instruments and documents as are required under this Agreement or the Ancillary Agreements to be executed and delivered by Reinsureds, Eaglestone, NICO and any respective Affiliates of Reinsureds, Eaglestone and NICO.

### **ARTICLE III**

#### **REPRESENTATIONS, WARRANTIES, AND INVESTIGATION**

##### **3.1 Representations and Warranties.**

Reinsureds and Eaglestone hereby represent and warrant to NICO that as of the date hereof:

9

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- (a) Redomestication of Eaglestone.

Eaglestone has been redomesticated to Pennsylvania.

(b) Transactions Since Inception.

- (i) Except as set forth in Schedule 3.1(b) hereto, Reinsureds have not since January 1, 2011, to and including the date hereof, entered into (a) any settlements of claims within the Subject Asbestos Liabilities for an amount in excess of \$1 million as against any one claimant, exclusive of loss adjustment expenses, or (b) any commutation of any ceded reinsurance contract affecting the Subject Asbestos Liabilities.
- (ii) Reinsureds warrant that between the date hereof and the Closing Date they will provide notice to Eaglestone and NICO in writing in advance of finalizing any commutation of any ceded reinsurance contract affecting the Subject Asbestos Liabilities and that they will not effect any such commutation without the prior consent of Eaglestone and NICO in their sole discretion;
- (iii) Reinsureds warrant that between the date hereof and the Closing Date they will provide notice to Eaglestone and NICO in writing in advance of finalizing any settlement of claims within the Subject Asbestos Liabilities for an amount in excess of \$1 million as against any one claimant, exclusive of loss adjustment expenses and that they will not effect any such settlement without the prior consent of Eaglestone and NICO, which consent shall not be unreasonably withheld, conditioned, or delayed, *provided, however*, that each of Eaglestone and NICO shall be deemed to have consented unless it provides written objections the Reinsureds no later than seven days after its receipt of the notice provided for herein;

(c) Disclosed Information.

Reinsureds and Eaglestone have provided to NICO the information listed on Schedule 3.1(c). Reinsureds and Eaglestone acknowledge that such information was material to NICO in agreeing to enter into this Agreement and the Ancillary Agreements. Except as set forth in Schedule 3.1(c), to the knowledge of the Persons identified on Schedule 3.1(c)-1 hereto, after reasonable inquiry, no item so provided is inaccurate or incomplete in any material respect as to the matters set forth therein.

**3.2 No Other Representations or Warranties.**

- (a) Notwithstanding anything contained in this Agreement or any Ancillary Agreement to the contrary,
  - (i) none of any Reinsured, any Person on behalf of any Reinsured or Eaglestone has made or is making any representation or warranty whatsoever, express or implied, beyond those expressly made by Reinsureds or Eaglestone in Section 3.1 hereof;
  - (ii) NICO has not been induced by, or relied upon, any representations, warranties, or statements (written or oral), whether express or implied,

10

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made by any Person, that are not expressly set forth in Section 3.1; and

- (iii) except with respect to the express representation in Section 3.1(c), NICO acknowledges that it is entering into the transactions contemplated hereby notwithstanding the existence and/or substance of any information not disclosed to it by Reinsureds and/or Eaglestone.
- (b) Without limiting the generality of the foregoing, NICO acknowledges that
  - (i) no representations or warranties are made with respect to any projections, forecasts, estimates, budgets or claim or reserve information that has or may have been made available to NICO, its Affiliates or any of their respective Representatives;
  - (ii) no representations or warranties are made with respect to any other information or documents made available to NICO or any of its Affiliates or Representatives except, in the case of this clause (ii) only, as expressly covered by a representation or warranty contained in Section 3.1; and
  - (iii) NICO has conducted its own independent review and analysis of the Subject Asbestos Liabilities.

**3.3 Exclusive Remedy.**

The exclusive remedy for misrepresentation (including without limitation knowing and intentional misrepresentation) or breach of warranty with respect to Section 3.1 hereof is a claim for damages to be brought in an arbitration proceeding pursuant to Article VIII hereof. Any such proceeding shall be commenced no later than three years following the Closing Date. In any such proceeding the arbitrators may not award rescission or damages or reformation in lieu thereof but shall be limited to awarding damages proximately caused by the misrepresentation or breach of warranty, as measured by the economic difference, as to the specific item referenced, between the value to the transaction of the item as represented and the value to the transaction of the item under the actual facts.

**ARTICLE IV**

**ADDITIONAL AGREEMENTS OF REINSUREDS, EAGLESTONE AND NICO**

**4.1 Conduct of Business.**

Except as (a) consented to in writing by NICO (which consent shall not be unreasonably withheld, delayed or conditioned), (b) contemplated in this Agreement or the Ancillary Agreements or (c) required by any Order or Applicable Law, during the period from the date hereof through the earlier of the Closing Date or the termination of this Agreement, each of Reinsureds and Eaglestone:

- (i) shall not commute any Third Party Reinsurance Agreement providing reinsurance coverage for the Subject Asbestos Liabilities;

- (ii) shall not settle any Subject Claim for an amount in excess of five million dollars (\$5,000,000) (net of any Third Party Reinsurance Recoverables or Other Recoveries that are reasonably expected by Reinsureds to be collectible);
- (iii) shall not compromise any Subject Claim for an amount in excess of five million dollars (\$5,000,000) on any Third Party Reinsurance Recoverables or Other Recoveries inuring to the benefit of NICO;
- (iv) shall conduct the NICO Subject Business insofar as it relates to the Subject Asbestos Liabilities in the ordinary course consistent with past practice;
- (v) shall use commercially reasonable efforts to maintain its existing relations and goodwill with customers, suppliers, reinsurers, retrocessionaires, agents, brokers and distributors;
- (vi) shall not make any admission of liability, agreement or compromise with any Person in relation to any Subject Claim involving an amount in excess of five million dollars (\$5,000,000) (net of any Third Party Reinsurance Recoverables or Other Recoveries that are reasonably expected by Reinsureds to be collectible);
- (vii) shall not (A) adopt a plan of complete or partial liquidation, dissolution or rehabilitation, (B) undertake any action by a Reinsured or Eaglestone that results in redomestication of that entity to a jurisdiction outside of the United States or (C) adopt a plan of merger, consolidation, restructuring, recapitalization, redomestication or other reorganization or voluntarily undertake any other changes in the corporate structure of Reinsureds or Eaglestone that adversely affects in any material respect the Subject Asbestos Liabilities;
- (viii) shall keep its Books and Records accurate in all material respects;
- (ix) shall comply with all regulatory requirements with respect to the NICO Subject Business, except where the failure to do so would not individually or in the aggregate have a material adverse effect on the Subject Asbestos Liabilities, it being understood that this paragraph (ix) does not relate to matters included within the definition of "Extra Contractual Obligations"; and
- (x) shall not authorize or enter into an agreement or arrangement of any kind expressly to do any of the foregoing.

#### **4.2 Expenses.**

Regardless of whether any or all of the transactions contemplated by this Agreement and the Ancillary Agreements are consummated, and except as otherwise expressly provided herein or therein, NICO, Reinsureds and Eaglestone shall each bear their respective direct and indirect fees, costs and expenses incurred in connection with the negotiation, preparation and execution of this Agreement, the Ancillary Agreements and the consummation of the transactions contemplated hereby or thereby, including all fees and expenses of its Representatives.

#### **4.3 Access; Certain Communications.**

(a) Between the date of this Agreement and the Closing Date, Reinsureds and Eaglestone shall afford to NICO and its Representatives reasonable access, upon reasonable advance notice and during normal business hours, to contracts, documents and information relating to the assets, liabilities, business, operations and other aspects of the NICO Subject Business insofar as they relate to the Subject Asbestos Liabilities; *provided, however*, that Reinsureds and Eaglestone shall not be obligated to provide such access or information if Reinsureds or Eaglestone determine, in their reasonable judgment, that doing so would violate Applicable Law or a contract, agreement or obligation of confidentiality owing to a third-party or jeopardize the protection of an attorney-client privilege. Nevertheless, if either Reinsureds or Eaglestone proposes to withhold any access or information, such Party shall notify NICO of such proposal and specify the reason therefore. Such Party and NICO shall work together in good faith to determine a manner in which such access or information can be provided without such a violation.

(b) Between the date of this Agreement and the Closing Date, Reinsureds and Eaglestone shall cause their respective Representatives to cooperate in good faith with NICO and its Representatives in connection with all such access. Without limiting any of the terms thereof, the terms of Section 4.9 shall govern NICO's, its Affiliates' and their Representatives' obligations with respect to all Confidential Information with respect to the NICO Subject Business and Reinsureds, Eaglestone and their Affiliates and other related Persons, which has been provided or made available to them at any time, including during the period between the date of this Agreement and the Closing Date.

#### **4.4 Commercially Reasonable Efforts; Governmental Consents.**

(a) Upon the terms and subject to the conditions set forth in this Agreement, between the date of this Agreement and the Closing Date, Reinsureds, Eaglestone and NICO shall each use their commercially reasonable efforts to promptly (i) take, or to cause to be taken, all reasonable actions, and to do, or to cause to be done, and to provide reasonable assistance and cooperation to the other party in doing all things reasonably necessary, proper or advisable under Applicable Law or otherwise to consummate and make effective the transactions contemplated by this Agreement (including satisfying all Closing conditions) and the Ancillary Agreements, in each case as applicable to such Party; and (ii) obtain from any Governmental Authority any actions, non-actions, clearances, waivers, consents, approvals, Permits or Orders required to be obtained by such Party, or any of their respective Affiliates in connection with the authorization, execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby.

(b) Between the date of this Agreement and the Closing Date, Reinsureds, Eaglestone and NICO shall use their reasonable best efforts to provide each other with a reasonable opportunity to review and comment on any substantive submissions to any Governmental Authority (other than a Tax

Authority) in connection with the consents and approvals contemplated in Section 4.4(a), and shall keep one another reasonably informed of developments relating to their efforts to obtain such consents and approvals.

(c) Once all of the closing conditions set forth in Articles V and VI have been satisfied, no Party to this Agreement shall consent to any voluntary delay of the Closing at the behest of any Governmental Authority without the consent of the other Party to this Agreement, which consent shall not be unreasonably withheld, delayed or conditioned.

13

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(d) Notwithstanding anything herein to the contrary, between the date of this Agreement and the Closing Date, none of Reinsureds, Eaglestone or NICO shall be obligated to take or refrain from taking or to agree to it, or its Affiliates taking or refraining from any action or to suffer to exist any condition, limitation, restriction or requirement which would, individually or together with all other such actions, conditions, limitations, restrictions or requirements, reasonably be expected to materially and adversely affect the benefits, taken as a whole, which such Party could otherwise reasonably expect to derive from the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements had such Party not been obligated to take or refrain from or to agree to the taking or refraining from such action or suffer to exist such condition, limitation, restriction or requirement, excluding the effects of any such condition, limitation, restriction or requirement that (i) is customary for applicable Governmental Authorities to impose in transactions of the type contemplated by this Agreement or the Ancillary Agreements, or (ii) is otherwise agreed to by the Parties in terms of an amendment or change to any of the Ancillary Agreements (a "**Burdensome Condition**").

#### **4.5 Further Assurances.**

Subject to the terms and conditions of this Agreement and the Ancillary Agreements, each such Party shall, at or prior to the Closing Date, use its commercially reasonable efforts to fulfill or obtain the fulfillment of the conditions precedent to the consummation of the transactions contemplated hereby and by the Ancillary Agreements as applicable to such Party, including the execution and delivery of any documents, certificates, instruments or other papers and the taking of any other actions that are reasonably necessary for the consummation of the transactions contemplated hereby and by the Ancillary Agreements.

#### **4.6 Notification of Certain Matters.**

Prior to Closing, each Party shall give prompt notice to each other Party of (a) any adverse event, change or circumstance that (i) would, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of such Party or its Affiliates to consummate the transactions contemplated by this Agreement and the Ancillary Agreements, or (ii) would reasonably be expected to cause any condition set forth in Articles V and VI to be unsatisfied in any material respect at any time prior to the Closing Date, (b) any litigation or administrative proceeding pending or, to its knowledge, threatened in writing which challenges or seeks to restrain or enjoin the consummation of the transactions contemplated hereby and by the Ancillary Agreements, (c) any downgrade in the financial strength ratings by any applicable rating agency of a Party or any of their respective Affiliates that will be a Party to an Ancillary Agreement or of Berkshire, and (d) a change in the current jurisdiction of domicile of such Party; *provided, however*, in each case, the delivery of any notice pursuant to this Section 4.6 shall not limit or otherwise affect the remedies available hereunder to the Party receiving such notice.

#### **4.7 Transfer and Maintenance of Books and Records.**

Through the Closing Date, Reinsureds and Eaglestone shall maintain the Books and Records in all material respects in the same manner and with the same care that the Books and Records have been maintained prior to the execution of this Agreement. Following the Closing, the Parties shall maintain the Books and Records consistent with the requirements set forth in the Administrative Services Agreement. During the period between the date hereof and the Closing Date, the Parties shall in good faith agree upon a protocol to (a) transfer to NICO the Books and Records following the Closing and/or (b) provide NICO with reasonable access to the Books and

14

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Records during normal business hours following the Closing, as may be provided for under the Administrative Services Agreement or the Transition Services Agreement.

#### **4.8 Cooperation after Closing.**

After the Closing, Reinsureds, Eaglestone and NICO shall cooperate with each other by furnishing any additional information and executing and delivering any additional documents as may be reasonably requested by the other to further perfect or evidence the consummation of any transaction contemplated by this Agreement or any Ancillary Agreement; *provided, however*, that any such additional documents must be reasonably satisfactory to each of the Parties and not impose upon either Party any liability, risk, obligation, loss, or material cost or expense not contemplated by this Agreement or the Ancillary Agreements.

#### **4.9 Confidentiality.**

(a) Reinsureds, Eaglestone and NICO (each, the "**Receiving Party**") hereby covenant and agree, each on behalf of itself and on behalf of its Affiliates, that from and after the date hereof, the Receiving Party and its Affiliates will not disclose, give, sell, use or otherwise divulge any Confidential Information (defined below) of another Party (the "**Disclosing Party**") or permit their respective Representatives to do the same, except that each Receiving Party may disclose such Confidential Information or portions thereof (i) if legally compelled to do so or as required in connection with an examination by an insurance regulatory authority, (ii) to the extent necessary for the performance of such Receiving Party's obligations under this Agreement or the Ancillary Agreements, (iii) to the extent necessary for the enforcement of the rights of such Receiving Party and its Affiliates under this Agreement or the Ancillary Agreements, (iv) to those of such Receiving Party's Affiliates, and to their respective Representatives in each case who need to know such information for the foregoing purposes, (v) as required under any Applicable Law, (vi) as required to a Tax Authority to support a position taken on any Tax Return, or (vii) or as required by the rules of any stock exchange on which the stock of a Receiving Party's Affiliate is traded. If the Receiving Party or its Affiliates, or any of their respective Representatives become legally compelled to disclose any Confidential Information (other than as required in connection with an examination by an insurance regulatory authority or as required to a Tax Authority to support a position taken on any Tax Return), the Receiving Party shall provide



Disclosing Party with prompt written notice of such requirement so that the Disclosing Party may seek a protective order or other remedy or waive compliance with this Section 4.9. In the event that such protective order or other remedy is not obtained, or Disclosing Party waives compliance with this Section 4.9, the Receiving Party or its Affiliates, as applicable, shall furnish only that portion of Confidential Information which is legally required to be provided and exercise its commercially reasonable efforts to obtain assurances that appropriate confidential treatment will be accorded to the Confidential Information.

(b) The Receiving Party, on behalf of itself and on behalf of its Affiliates and their respective Representatives acknowledges that a breach of its obligations under this Section 4.9 may result in irreparable injury to the Disclosing Party. In the event of the breach by Receiving Party or any of its Affiliates or their respective Representatives of any of the terms and conditions of this Section 4.9 to be performed, the Disclosing Party shall be entitled to the remedies provided in Article VIII.

(c) For the purposes of this Agreement, "**Confidential Information**" means all confidential information (irrespective of the form of such information) of any kind, including any

analyses, compilations, data, studies, notes, translations, memoranda or other documents, concerning the Disclosing Party or any of its Affiliates obtained directly or indirectly from the Disclosing Party or any of its Affiliates, or Representatives in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, including any information regarding the Subject Business or any portion of this Agreement or any of the Ancillary Agreements that is not public, except information (i) which at the time of the disclosure or thereafter is ascertainable or available to the public (other than as a result of a disclosure directly or indirectly by the Receiving Party or any of its Affiliates, or Representatives), (ii) is or becomes available to the Receiving Party on a non-confidential basis from a source other than the Disclosing Party or any of its Affiliates, or Representatives, *provided* that, to the knowledge of such Receiving Party, such source was not prohibited from disclosing such information to the Receiving Party by a legal, contractual or fiduciary obligation owed to another Person, (iii) the Receiving Party can establish is already in its possession or the possession of any of its Affiliates, or Representatives (other than information furnished by or on behalf of the Disclosing Party), or (iv) which is independently developed by the Receiving Party or its Affiliates without the use or benefit of any information that would otherwise be Confidential Information.

#### **4.10 Waiver of Duty of Utmost Good Faith.**

Each Party absolutely and irrevocably waives resort to the duty of "utmost good faith" or any similar principle in connection with the negotiation and/or execution of this Agreement and the Ancillary Agreements; *provided, however*, that this waiver shall not apply to any such duty as may exist with respect to matters arising, and actions taken, on or after the Closing Date.

### **ARTICLE V**

#### **CONDITIONS PRECEDENT TO THE OBLIGATION OF NICO TO CLOSE**

NICO's obligation to consummate the transactions contemplated by this Agreement and the Ancillary Agreements is subject to the satisfaction (or waiver, if permissible under Applicable Law) on or prior to the Closing Date of the following conditions.

#### **5.1 Covenants.**

(a) Reinsureds and Eaglestone shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by Reinsureds and Eaglestone at or prior to the Closing.

(b) NICO shall have received a certificate from each of the Reinsureds and Eaglestone to the effect set forth in Section 5.1(a).

#### **5.2 Ancillary Agreements.**

The Ancillary Agreements shall have been duly executed and delivered by Reinsureds and Eaglestone and the Trustee, as applicable, and such agreements shall be in full force and effect with respect to Reinsureds and Eaglestone on the Closing Date.

#### **5.3 Secretary's Certificates.**

Reinsureds and Eaglestone shall have delivered to NICO a certificate of the secretary or assistant secretary of each of Reinsureds and Eaglestone, dated as of the Closing Date, as to the resolutions of the board of directors of each of Reinsureds and Eaglestone and their applicable

Affiliates authorizing the execution, delivery and performance of this Agreement and the Ancillary Agreements to which it is a party, as to the status and signature of each of their respective officers who executed and delivered this Agreement and such Ancillary Agreements.

#### **5.4 Governmental Approvals and Consents.**

All filings required to be made prior to the Closing with, and all regulatory consents and approvals required to be obtained prior to the Closing from, any Governmental Authority, in connection with the execution and delivery of this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby shall have been made or obtained.

#### **5.5 Injunction and Litigation.**

No Order issued by any court or other Governmental Authority of competent jurisdiction with valid enforcement authority restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements shall be in effect.

## **5.6 Frustration of Closing Conditions.**

NICO may not rely on the failure of any condition set forth in this Article V to be satisfied if such failure was caused by NICO's failure to use its commercially reasonable efforts to consummate the transactions contemplated by this Agreement and the Ancillary Agreements as required by and subject to Section 4.4.

## **ARTICLE VI**

### **CONDITIONS PRECEDENT TO THE OBLIGATION OF REINSUREDS AND EAGLESTONE TO CLOSE**

Reinsureds' and Eaglestone's obligation to consummate the transactions contemplated by this Agreement and the Ancillary Agreements is subject to the satisfaction (or waiver, if permissible under Applicable Law) on or prior to the Closing Date of the following conditions.

#### **6.1 Covenants.**

(a) NICO shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by NICO at or prior to the Closing.

(b) Reinsureds and Eaglestone shall have received a certificate from NICO to the effect set forth in Section 6.1(a).

#### **6.2 Ancillary Agreements.**

The Ancillary Agreements shall have been duly executed and delivered by NICO, or its Affiliates and the Trustee, as applicable, and such agreements shall be in full force and effect with respect to NICO or such Affiliate on the Closing Date.

#### **6.3 Secretary's Certificates.**

(a) NICO shall have delivered to Reinsureds and Eaglestone a certificate of the secretary or assistant secretary of NICO, dated as of the Closing Date, as to the resolution of the board of directors of NICO authorizing the execution, delivery and performance of this Agreement and

17

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the Ancillary Agreements to which it is a party, as to the status and signature of each of its respective officers who executed and delivered this Agreement and the Ancillary Agreements.

(b) Berkshire shall have delivered to Reinsureds and Eaglestone a certificate of the secretary or assistant secretary of Berkshire, dated as of the Closing Date, as to (i) the resolution of the board of directors of Berkshire authorizing the execution, delivery and performance of guarantees by Berkshire and certifying that such resolutions are still in full force and effect and (ii) the authority, status and signature of its officer who executed and delivered this Agreement and the Ancillary Agreements to which it is a party.

#### **6.4 Governmental Approvals and Consents.**

All filings required to be made prior to the Closing with, and all regulatory consents and approvals required to be obtained prior to the Closing from, any Governmental Authority, in connection with the execution and delivery of this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby shall have been made or obtained.

#### **6.5 Certain Facilities**

All consents and waivers, if any, required to be obtained prior to the Closing from the lenders under (i) the Letter of Credit and Reimbursement Agreement dated as of December 23, 2010 by and among Chartis Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, (ii) the 364-Day Credit Agreement dated as of December 23, 2010 by and among American International Group, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto and (iii) the Three Year Credit Agreement dated as of December 23, 2010 by and among Chartis Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, shall have been obtained and are in effect.

#### **6.6 Injunction and Litigation.**

No Order issued by any court or other Governmental Authority of competent jurisdiction with valid enforcement authority restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements shall be in effect.

#### **6.7 Rating of NICO.**

NICO's financial strength rating by A.M. Best Company, Inc. has not been reduced below "A++".

#### **6.8 Frustration of Closing Conditions.**

Reinsureds and Eaglestone may not rely on the failure of any condition set forth in this Article VI to be satisfied if such failure was caused by Reinsureds' or Eaglestone's failure to use their commercially reasonable efforts to consummate the transactions contemplated by this Agreement and the Ancillary Agreements as required by and subject to Section 4.4.

18

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## ARTICLE VII

### TERMINATION

#### 7.1 Termination of Agreement.

This Agreement may be terminated at any time prior to the Closing:

- (a) By mutual written consent of Reinsureds, Eaglestone and NICO.
- (b) By Reinsureds and Eaglestone in writing if NICO shall fail to perform in any material respect its agreements contained herein required to be performed by it prior to the Closing Date, in each case so as to cause a condition to Closing set forth in Section 6.1 to be incapable of satisfaction, which failure or breach is not cured within twenty (20) Business Days after Reinsureds and Eaglestone have notified NICO in writing of its intent to terminate this Agreement pursuant to this Section 7.1(b).
- (c) By NICO in writing if Reinsureds or Eaglestone shall fail to perform in any material respect their agreements contained herein required to be performed by them prior to the date of such termination, in each case so as to cause a condition to Closing set forth in Section 5.1 to be incapable of satisfaction, which failure or breach is not cured within twenty (20) Business Days after NICO has notified Reinsureds and Eaglestone in writing of its intent to terminate this Agreement pursuant to this Section 7.1(c).
- (d) By any of Reinsureds, Eaglestone or NICO if the Closing has not occurred on or before July 31, 2011 (the "End Date"); *provided, however*, that the right to terminate this Agreement pursuant to this Section 7.1(d) shall not be available to a Party if the failure of the transactions contemplated by this Agreement and the Ancillary Agreements to be consummated on or before the End Date was primarily due to the failure of such Party to perform any of its obligations under this Agreement.
- (e) By either Reinsureds, Eaglestone or NICO in the event of the issuance of a final nonappealable Order restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and the Ancillary Agreements; *provided, however*, that the right to terminate this Agreement under this Section 7.1(e) shall not be available to a Party if the issuance of such final, nonappealable Order was primarily due to the failure of such Party to perform any of its obligations under this Agreement.
- (f) By Reinsureds or Eaglestone in the event that A.M. Best Company, Inc. has reduced its rating of NICO such as would cause the condition set forth in Section 6.6 to fail to be satisfied, and such reduction has not publicly been reversed within ten (10) calendar days such that the condition in Section 6.6 would then be satisfied.

#### 7.2 Effect of Termination.

In the event of termination of this Agreement pursuant to Section 7.1 hereof, written notice of termination shall be given pursuant to the notice provisions herein, and this Agreement shall forthwith become null and void and there shall be no liability by any Party hereto, except (a) that the provisions of Article VIII, Article IX and Sections 3.3, 4.2 and 7.2 shall remain in full force and effect and (b) any confidentiality obligations of the Parties (arising under this Agreement or under any other confidentiality agreement entered into by Reinsureds, Eaglestone and NICO) shall survive the termination of this Agreement.

## ARTICLE VIII

### DISPUTE RESOLUTION

#### 8.1 Framework for Dispute Resolution.

(a) Any dispute arising under or in any way related to this Master Transaction Agreement, to the LPT Reinsurance Agreement, to the LPT Retrocession Agreement, to the Administrative Services Agreement, or to any of the Ancillary Agreements ("Dispute"), specifically including without limitation disputes concerning breach, termination, validity, or alleged fraud in the inducement of any of the foregoing agreements, or any other wrongful pre-Closing conduct, shall be first addressed in accordance with the procedures specified in Section 8.2, and subsequently, if necessary, Section 8.3 and Section 8.4.

(b) The procedures specified in Section 8.1(a) are the sole and exclusive procedures for the resolution of any Disputes, *provided, however*, that a Party that believes it will suffer irreparable injury in the period before such procedures can produce a final and binding result may apply to the Designated Court specified in Section 8.5 for relief, subject to the standards of Applicable Law relating to interim relief in aid of arbitration.

#### 8.2 Negotiation Amongst the Parties

(a) The Parties shall first attempt to resolve Disputes by informal in-person discussions and negotiations between the Representatives of Reinsureds and NICO and, to the extent Eaglestone has a separate and distinct interest not already accounted for in the discussions, of Eaglestone as well. If the Parties are unable to resolve any such Dispute through such in-person discussions and negotiations within thirty (30) calendar days of the day on which a Party receives from the other Party or Parties written notice of a Dispute, the Dispute shall be submitted for resolution to a designated executive officer of each of NICO and the Reinsureds (and, as applicable, Eaglestone) with authority to make a decision. If the designated executive officers are unable to reach a mutually acceptable resolution within ten (10) calendar days after expiration of such thirty-day period, on the request of any Party, the Dispute shall be resolved in accordance with subsection (b). All negotiations, discussions, and communications made or conducted pursuant to the procedures set forth in this Section 8.2(a) are confidential and will be treated as compromise and settlement negotiations for purposes of the Federal Rules of Evidence and any other applicable rules of evidence.

(b) Upon completion of the dispute resolution process described in subsection (a) of this Section 8.2 without resolution of the Dispute, any Party may submit the Dispute for resolution in accordance with Section 8.3.

**8.3 Obligation to Arbitrate.**

All Disputes, to the extent not resolved by negotiation between the Parties, shall be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the Dispute. Any Person that is a Party to any of the foregoing agreements shall have an absolute right to intervene in any such arbitration.

**8.4 Arbitration Procedure.**

The procedure for the arbitration shall be the Neutral Panel Version of the September 2009 Procedures for the Resolution of U.S. Insurance and Reinsurance Disputes, with the following modifications:

- (a) The Reinsureds as a group, together with Eaglestone, shall be treated as a single party to the arbitration unless Eaglestone is at the time of the arbitration under the control of a Department of Insurance or otherwise has a separate and distinct interest not adequately represented by Reinsureds, in which event Eaglestone shall be treated as a separate party.
- (b) The Panel shall be selected via the ARIAS-US Neutral Selection Procedure as in effect on the date hereof with the following parameters:
  - (i) The number of prospective panel members to be furnished by ARIAS in step 2 shall be 30.
  - (ii) The number of panelists to remain after the deletions and strikes in step 4 shall be 12.
  - (iii) If Eaglestone is being treated as a separate party pursuant to paragraph (a) above, it shall have one strike for every two of the Reinsured and NICO.
- (c) The seat of the arbitration shall be Philadelphia, Pennsylvania. This location is not subject to change except on written consent of all parties to the arbitration.

**8.5 Judicial Proceedings.**

The only suits, actions, or proceedings relating to a Dispute permitted to be brought in a judicial forum are those (i) to compel arbitration, (ii) for temporary injunctive relief in aid of arbitration or to preserve the status quo pending the appointment of the arbitrator(s), (iii) to enforce or vacate an arbitral award, or (iv) to obtain relief in connection with arbitration pursuant to the Federal Arbitration Act. Any such proceeding shall be brought exclusively in the United States District Court for the Eastern District of Pennsylvania (the "**Designated Court**"), provided that if said court does not have subject matter jurisdiction then such proceeding shall be brought exclusively the Court of Common Pleas of Pennsylvania in and for Philadelphia County, which shall then be the Designated Court. Reinsurer, NICO, and each Reinsured each hereby irrevocably submits to the exclusive jurisdiction of the Designated Court for such purpose and any appellate courts thereof, except that any judgment confirming a final arbitral award hereunder may be entered and enforced in any court having jurisdiction over any party or any of its assets.

**8.6 Limitation of Remedy.**

Each Party acknowledges the sophistication of the other Parties and the extensive due diligence conducted prior to entry into this Master Transaction Agreement and the Ancillary Agreements. Accordingly, in no event and under no circumstances, including allegations of actual fraud, may the arbitrators award the remedy of rescission, nor may they award rescissory damages or reformation in lieu of rescission. This Section 8.6 is a limitation on the remedial powers of the arbitrators and not on the scope of the obligation to arbitrate.

**ARTICLE IX**

**MISCELLANEOUS PROVISIONS**

**9.1 Notices.**

Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any Party hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on the date received (*provided* that any notice received after 5:00 p.m. (addressee's local time) shall be deemed given at 9:00 a.m. (addressee's local time) on the next Business Day), or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following address:

To Reinsurer:	David Fields President Eaglestone Reinsurance Company 180 Maiden Lane New York, NY 10038 Fax: (877) 551-7214
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With a copy to:	Eric S. Kobrick Deputy General Counsel and
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Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To Reinsureds: Sean Leonard  
Senior Vice President &  
Chief Financial Officer  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 484-1961

With a copy to: Christopher Blum  
Senior Vice President &  
General Counsel  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 326-0079

-and-

22

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Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To National Union: Christopher Blum  
Senior Vice President &  
General Counsel  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 326-0079

With a copy to: Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To NICO: National Indemnity Company  
100 First Stamford Place  
Stamford, CT 06902  
Attention: General Counsel  
Fax: (203) 363-5221

With a copy to: National Indemnity Company  
3024 Harney Street  
Omaha, NE 68131  
Attention: Treasurer  
Fax: (402) 916-3030

Any Party may change its notice provisions on fifteen (15) calendar days' advance notice in writing to the other Parties.

## 9.2 **Entire Agreement.**

This Agreement (including the exhibits and schedules hereto), the Ancillary Agreements and any other documents delivered pursuant hereto or thereto constitute the entire agreement among the Parties and their respective Affiliates with respect to the subject matters hereof and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the Parties with respect to the subject matters hereof and thereof.

## 9.3 **Waiver and Amendment.**

This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by an instrument in writing signed by the Parties hereto, or, in the case of a waiver, by the Party waiving compliance which specifically states it is being executed

and delivered pursuant to this [Section 9.3](#). No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

#### **9.4 Successors and Assigns.**

The rights and obligations of the Parties under this Agreement shall not be subject to assignment without the prior written consent of the other Parties, and any attempted assignment without the prior written consent of the other Parties shall be invalid *ab initio*. The terms of this Agreement shall be binding upon, inure to the benefit of and be enforceable by and against the successors and permitted assigns of the Parties.

#### **9.5 Headings.**

The headings of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

#### **9.6 Construction; Interpretation.**

Reinsureds and NICO have participated jointly in the negotiation and drafting of this Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Agreement. When a reference is made to an Article, Section, Schedule or Exhibit such reference shall be to an Article, Section, Schedule or Exhibit of or to this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The word "Agreement," means this Agreement as amended or supplemented, together with all Exhibits and Schedules attached hereto or incorporated by reference, and the words "hereof," "herein," "hereto," "hereunder" and other words of similar import shall refer to this Agreement in its entirety and not to any particular Article, Section or provision of this Agreement, *provided, however*, for the avoidance of doubt, the word "Agreement" shall not include the Ancillary Agreements unless, in each case, specifically incorporated therein by reference. Reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted and then in effect, and all rules and regulations promulgated thereunder. References to a Person are also to its successors and permitted assigns.

#### **9.7 Governing Law and Jurisdiction.**

This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's principles of conflict of laws that could compel the application of the laws of another jurisdiction.

#### **9.8 No Third Party Beneficiaries.**

Except as otherwise expressly set forth in any provision of this Agreement, nothing in this Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

#### **9.9 Counterparts.**

This Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the Parties notwithstanding the fact that all Parties are not signatory to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

#### **9.10 Severability.**

Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. If any provision of this Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Agreement, the Parties shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the Parties as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

#### **9.11 Incontestability.**

Each Party hereby acknowledges that this Agreement, and each and every provision hereof, is and shall be enforceable according to its terms. Each Party hereby irrevocably waives any right to contest in any respect the validity or enforceability hereof. This Agreement shall not be subject to rescission, or to an award of damages, restitution, or reformation in lieu of rescission, on any basis whatsoever, including intentional fraud but shall be subject to the remedy set forth in [Section 3.3](#). Nothing in this [Section 9.11](#) relieves a Party of liability, whether for damages or for specific performance, for breach of this Agreement.

#### **9.12 Set-Off.**

(a) Any debts or credits, matured or unmatured, liquidated or unliquidated, regardless of when they arose or were incurred, in favor of or against either of the Reinsureds and/or Eaglestone, on the one hand, and NICO, on the other hand, with respect to this Agreement, the Administrative Services

Agreement, the LPT Retrocession Agreement, and/or the LPT Reinsurance Agreement are deemed mutual debts or credits, as the case may be, and shall be set off, and only the net balance shall be allowed or paid.

(b) Notwithstanding the foregoing subsection (a), no Party may offset an item includable within a calculation of Ultimate Net Loss on the Subject Asbestos Liabilities against an item not so includable. For the avoidance of doubt, no amounts due under Coverage A of the LPT Reinsurance Agreement may be offset against amounts due under Coverage B of the LPT Reinsurance Agreement.

(c) For purposes of this Section 9.12, Reinsureds and Eaglestone (the “**Chartis Parties**”), on the one hand, and NICO, on the other hand, shall each be considered a single party,

25

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and setoff shall be allowed between the NICO and Chartis Parties as a group, without regard to which Chartis Party may be the debtor or creditor on any particular item.

(d) The rights of setoff established in this Section 9.12 shall be the exclusive rights of setoff, whether by contract, at common law, in equity, or otherwise, that the Parties have with respect to any debts or obligations arising under or in connection with this Agreement and the transactions contemplated hereby. With respect to such debts and/or obligations, whether now existing or arising in the future, the Parties hereby irrevocably waive any other rights of setoff. Nothing in this Section 9.12(d), however, affects the existence of any rights of setoff among debts and obligations none of which arise under or in connection with this Agreement or the transactions contemplated thereby.

### **9.13 Currency.**

All financial data required to be provided pursuant to the terms of this Agreement shall be expressed in Dollars. All payments and all settlements of account between the Parties shall be in Dollars unless otherwise agreed by the Parties.

### **9.14 Lead Representative of the Reinsureds.**

All notices or other writings required to be given to the Reinsureds under this Agreement or any Ancillary Agreement may be given solely to the Lead Representative of the Reinsureds.

## **ARTICLE X**

### **ASSIGNMENT OF INCLUDED REINSURANCE RECOVERABLES UPON CMA DEFAULT**

#### **10.1 Assignment Upon CMA Default**

Upon, but only upon, the occurrence of a CMA Default, on the CMA Default Effective Date corresponding thereto, Reinsureds hereby absolutely and irrevocably sell, transfer, assign, and convey to NICO all of their right, title, and interest to and in the Included Reinsurance Recoverables (the “**IRR Assignment**”). The IRR Assignment is absolute and unconditional and not merely for security. It shall take place automatically on such CMA Default Effective Date, without the need for any further act by any Person.

#### **10.2 Effect of Assignment**

(a) The authority and responsibility of NICO and Reinsureds with respect to Third Party Reinsurance Recoverables, as set forth principally in Article VI of the Administrative Services Agreement, shall remain unchanged by an IRR Assignment.

(b) Eaglestone hereby acknowledges that an IRR Assignment is not a violation of any right of Eaglestone under the LPT Reinsurance Agreement, including without limitation its rights as secured party under Section 3.6 thereof, and NICO hereby acknowledges that neither the foregoing acknowledgment by Eaglestone nor any other provision of this Agreement relating to IRR Assignment is a violation of any of NICO’s rights under the LPT Retrocession Agreement, including without limitation its rights as assignee under Section 3.5 thereof. Upon an IRR Assignment,

26

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- (i) Eaglestone hereby releases the security interest granted in Section 3.6 of the LPT Retrocession Agreement insofar as it relates to Included Reinsurance Recoverables, and
- (ii) NICO hereby releases the assignment granted in Section 3.5 of the LPT Retrocession Agreement insofar as it relates to Included Reinsurance Recoverables.
- (c) The payment mechanism set forth in Section 13.1 of the Administrative Services Agreement shall remain unchanged by an IRR Assignment, it being understood however that
  - (i) Eaglestone and Reinsureds acknowledge NICO’s absolute ownership of the Included Reinsurance Recoverables following the IRR Assignment;
  - (ii) “Actually Paid” with respect to Included Reinsurance Recoverables for all purposes of the LPT Reinsurance Agreement and the LPT Retrocession Agreement shall, following an IRR Assignment, be interpreted to refer only to recovery of such Included Reinsurance Recoverables by NICO, whether by payment, by offset, or otherwise; and

- (iii) Included Reinsurance Recoverables that are Actually Paid shall continue to be tracked and accounted for following an IRR Assignment, but solely as a notional account for measuring the amount of Ultimate Net Loss for which Eaglestone is liable under Coverage A of the LPT Reinsurance Agreement and for which NICO is liable under the retrocession thereof.
- (d) Except as expressly set forth in this Article X, no rights or obligations of any of the Parties are changed by an IRR Assignment.

**10.3 Reassignment Upon Exhaustion of Retro Limit**

(a) In the event that, following an IRR Assignment, the Retro Limit is exhausted and the LPT Retrocession Agreement terminates pursuant to Section 5.1(ii) thereof, then effective on the Termination Date NICO hereby absolutely sells, transfers, assigns, and conveys to Reinsureds all of NICO’s right, title, and interest to and in the Included Reinsurance Recoverables to the extent not Actually Paid prior to such date (the “**IRR Reassignment**”). The IRR Reassignment shall take place automatically upon such termination and on the Termination Date, without the need for any further act by any Person.

(b) Upon the IRR Reassignment, the provisions of Section 10.2(a) and (c) hereof shall no longer be effective, but the releases and acknowledgements of Section 10.2(b) shall still be effective.

**10.4 Only Judicial Proceedings to Enforce Capital Maintenance Agreement**

Notwithstanding any provision of this Agreement to the contrary, specifically including Article VIII hereof, and notwithstanding any provision of any other agreement to the contrary, NICO’s rights under Section 7 of the Capital Maintenance Agreement are not subject to arbitration, are enforceable only judicially, and are enforceable solely in the United States District Court for the Southern District of New York or, if such court does not have subject matter jurisdiction, the Supreme Court of the State of New York, County of New York.

*[The remainder of this page has been intentionally left blank.]*

**IN WITNESS WHEREOF**, the Parties hereby execute this Agreement as of the day and year first set forth above.

**AMERICAN HOME ASSURANCE COMPANY**

By: /s/ Sean Leonard  
 Name: Sean Leonard  
 Title: Senior Vice President

**CHARTIS CASUALTY COMPANY**  
 (f/k/a American International South Insurance Company)

By: /s/ Sean Leonard  
 Name: Sean Leonard  
 Title: Senior Vice President

**CHARTIS PROPERTY CASUALTY COMPANY**  
 (f/k/a AIG Casualty Company)

By: /s/ Sean Leonard  
 Name: Sean Leonard  
 Title: Senior Vice President

**COMMERCE AND INDUSTRY INSURANCE COMPANY**

By: /s/ Sean Leonard  
 Name: Sean Leonard  
 Title: Senior Vice President

**GRANITE STATE INSURANCE COMPANY**

By: /s/ Sean Leonard  
 Name: Sean Leonard  
 Title: Senior Vice President



**ILLINOIS NATIONAL INSURANCE CO.**

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**

(as Reinsured and as Agent for Reinsureds pursuant to Section 10.14 of the  
LPT Reinsurance Agreement)

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**NEW HAMPSHIRE INSURANCE COMPANY**

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**CHARTIS SELECT INSURANCE COMPANY**

(f/k/a AIG Excess Liability Insurance Company Ltd.)

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

[Signature Page to Master Transaction Agreement]

S-2

**CHARTIS SPECIALTY INSURANCE COMPANY**

(f/k/a American International Specialty Lines Insurance Company)

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**LANDMARK INSURANCE COMPANY**

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**LEXINGTON INSURANCE COMPANY**

By: /s/ Sean Leonard

Name: Sean Leonard  
Title: Senior Vice President

**AIU INSURANCE COMPANY**

By: /s/ James Bracken

Name: James Bracken

Title: Senior Vice President

**AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**

By: /s/ S. George Cubbon

Name: S. George Cubbon

Title: President

[Signature Page to Master Transaction Agreement]

S-3

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**AMERICAN HOME ASSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: /s/ James Bracken

Name: James Bracken

Title: Vice President

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: /s/ James Bracken

Name: James Bracken

Title: Vice President

**NEW HAMPSHIRE INSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: /s/ James Bracken

Name: James Bracken

Title: Vice President

**CHARTIS OVERSEAS LIMITED**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: /s/ S. George Cubbon

Name: S. George Cubbon

Title: President

[Signature Page to Master Transaction Agreement]

S-4

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**EAGLESTONE REINSURANCE COMPANY**

By: /s/ David Fields

Name: David Fields

Title: President

By: /s/ Brian Snover  
Name: Brian Snover  
Title: Vice President

[Signature Page to Master Transaction Agreement]

S-5

Exhibit A to the  
Master Transaction Agreement

**ADMINISTRATIVE SERVICES AGREEMENT**

by and between

**AMERICAN HOME ASSURANCE COMPANY**  
**CHARTIS CASUALTY COMPANY**  
(f/k/a American International South Insurance Company)  
**CHARTIS PROPERTY CASUALTY COMPANY**  
(f/k/a AIG Casualty Company)  
**COMMERCE AND INDUSTRY INSURANCE COMPANY**  
**GRANITE STATE INSURANCE COMPANY**  
**ILLINOIS NATIONAL INSURANCE CO.**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
**NEW HAMPSHIRE INSURANCE COMPANY**  
**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**  
**CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)  
**CHARTIS SPECIALTY INSURANCE COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)  
**LANDMARK INSURANCE COMPANY**  
**LEXINGTON INSURANCE COMPANY**  
**AIU INSURANCE COMPANY**  
**AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**  
*and*  
**AMERICAN HOME ASSURANCE COMPANY**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
**NEW HAMPSHIRE INSURANCE COMPANY**  
**CHARTIS OVERSEAS LIMITED**  
*acting as members of the Chartis Overseas  
Association as respects business written or  
assumed by or from affiliated companies of  
Chartis Inc.*  
(collectively, "**Reinsureds**," as further defined herein)

and

**NATIONAL INDEMNITY COMPANY**  
( "**NICO** ")

Dated as of [     ] 2011

**TABLE OF CONTENTS**

Page

ARTICLE I  
DEFINITIONS

1.1 Definitions

ARTICLE II  
AUTHORITY; SERVICE STANDARDS

2

2.1	Appointment	8
2.2	Services Standards	8
2.3	Compliance; Licensure	9
2.4	Independent Contractor	9
2.5	Subcontracting	9

ARTICLE III  
COMPENSATION

3.1	Compensation	10
-----	--------------	----

ARTICLE IV  
ADMINISTRATIVE SERVICES

4.1	Administrative Services	11
4.2	Levels of Authority	12
4.3	Mixed Accounts and Mixed Claims	13
4.4	Conflict of Interest	14

ARTICLE V  
CLAIMS HANDLING SERVICES

5.1	Claims Handling Services	15
5.2	Direct Claims Authority	16

ARTICLE VI  
ADMINISTRATION OF THIRD PARTY REINSURANCE AGREEMENTS

6.1	Third Party Reinsurance Administration	16
6.2	Expense of Reinsurance Recovery Efforts	17
6.3	Responsibility and Authority With Respect to Reinsurance Activities	18
6.4	Forgoing Collection of Third Party Reinsurance Recoverables	19
6.5	Allocation of Reinsurance Recoveries	19

ARTICLE VII  
ADMINISTRATION OF LPT REINSURANCE AGREEMENT

7.1	Role of NICO on Behalf of Reinsureds	20
7.2	No Role of NICO on Behalf of Eaglestone	20

ARTICLE VIII  
REPORTING AND REGULATORY COMPLIANCE

8.1	Regulatory Filings and Examinations	20
8.2	Financial Reporting Obligations	21
8.3	Change in Status	22
8.4	NICO Controls	22

ARTICLE IX  
REMEDY FOR ACTIONS IN EXCESS OF AUTHORITY

9.1	Materiality of Authority Limitations	23
9.2	Remedy	23

ARTICLE X  
BOOKS AND RECORDS

10.1	Transfer and Ownership of Books and Records	24
10.2	Maintenance of Books and Records	25
10.3	Access to Books and Records and Personnel	25

ARTICLE XI  
INABILITY TO PERFORM SERVICES; ERRORS

11.1	Inability to Perform Services	26
11.2	Errors	26

ARTICLE XII  
LEGAL ACTIONS

12.1	Regulatory Proceedings	26
12.2	Notification Requirements	27
12.3	Right to Associate	27

ARTICLE XIII  
BANK ACCOUNTS AND PAYMENTS

13.1	Payment and Receipt of Funds	27
13.2	Post-Closing Adjustments	28

Page

ARTICLE XIV  
COOPERATION

14.1	Cooperation	28
14.2	Relationship Management	29

ARTICLE XV  
DURATION; TERMINATION

15.1	Duration	29
15.2	Termination	29
15.3	Change in Settlement Authority on Reduction of Remaining Limit	30
15.4	Certain Actions Related to Termination	30
15.5	Survival	31

ARTICLE XVI  
CONFIDENTIALITY; PRIVACY REQUIREMENTS

16.1	Definitions	31
16.2	Obligations	32
16.3	Exceptions to Confidential Treatment	32
16.4	Privacy	33
16.5	Regulatory and Legal Communication	35
16.6	Systems Security	36

ARTICLE XVII  
FORCE MAJEURE

17.1	Force Majeure Event	37
------	---------------------	----

ARTICLE XVIII  
INDEMNIFICATION

18.1	Extra Contractual Obligations	38
18.2	Indemnification Obligation of NICO	38
18.3	Indemnification Obligation of Reinsureds	38
18.4	Exclusion from Indemnification Obligations	39
18.5	Notice of Indemnification Request	39
18.6	Notice of an Asserted Liability	39
18.7	Procedures	40
18.8	Survival	40

ARTICLE XIX  
DISPUTE RESOLUTION; ARBITRATION

19.1	Arbitration of Disputes Not Resolved by Negotiation	41
19.2	Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation	41

Page

19.3	Permitted Judicial Proceedings	41
------	--------------------------------	----

ARTICLE XX  
MISCELLANEOUS

20.1	Notices	41
20.2	Entire Agreement	43
20.3	Waiver and Amendment	43
20.4	Successors and Assigns	43
20.5	Headings	43
20.6	Construction; Interpretation	43
20.7	Governing Law and Jurisdiction	44
20.8	No Third Party Beneficiaries	44
20.9	Counterparts	44
20.10	Severability	44
20.11	Incontestability	44
20.12	Set-Off	45
20.13	Currency	45

LIST OF EXHIBITS

Exhibit A	Business Associate Agreement
Exhibit B	Transition Services Agreement

LIST OF SCHEDULES

Schedule 3.1(c)	Hourly Rates for Certain Personnel as of the Closing Date
Schedule 5.2	Relationship Insureds
Schedule 6.3(a)	Business Relationship Reinsurers
Schedule 6.3(e)	Permissible Discounts

**ADMINISTRATIVE SERVICES AGREEMENT**

**THIS ADMINISTRATIVE SERVICES AGREEMENT** (hereinafter referred to as this “**Administrative Services Agreement**”), dated as of \_\_\_\_\_, 2011, is made and entered into by and between American Home Assurance Company; Chartis Casualty Company (f/k/a American International South Insurance Company); Chartis Property Casualty Company (f/k/a AIG Casualty Company); Commerce and Industry Insurance Company; Granite State Insurance Company; Illinois National Insurance Co.; National Union Fire Insurance Company of Pittsburgh, Pa.; New Hampshire Insurance Company; The Insurance Company of the State of Pennsylvania; Chartis Select Insurance Company (f/k/a AIG Excess Liability Insurance Company Ltd.); Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company); Landmark Insurance Company; Lexington Insurance Company; AIU Insurance Company; American International Reinsurance Company Ltd.; and *American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company, and Chartis Overseas Limited, acting as members of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.* (collectively, “**Reinsureds**”), and National Indemnity Company, a Nebraska property and casualty insurance company (with its successors and permitted assigns, “**NICO**”), NICO and the Reinsureds each being a “**Party**” and collectively the “**Parties**.”

**WITNESSETH:**

**WHEREAS**, pursuant to a Master Transaction Agreement (as amended, modified, and supplemented and in effect from time to time, the “**Master Transaction Agreement**”), dated as of \_\_\_\_\_, 2011 among the Parties, and Eaglestone Reinsurance Company, a Pennsylvania property and casualty insurance company and an Affiliate of Reinsureds (with its successors and permitted assigns, “**Eaglestone**”), Reinsureds and Eaglestone agreed to enter into a loss portfolio reinsurance transaction, pursuant to which Reinsureds will cede, and Eaglestone will assume and reinsure, certain Subject Asbestos Liabilities and certain other liabilities to Eaglestone; and

**WHEREAS**, pursuant to the Master Transaction Agreement, Eaglestone and NICO agreed to enter into a loss portfolio transfer retrocession transaction, pursuant to which Eaglestone will retrocede to NICO, and NICO will assume and reinsure, 100% of the Subject Asbestos Liabilities ceded to Eaglestone by Reinsureds; and

**WHEREAS**, the cession by Reinsureds to Eaglestone has been effected by and pursuant to the terms and conditions of an Amended and Restated Loss Portfolio Transfer Reinsurance Agreement among Reinsureds and Eaglestone, dated as of the date hereof and referenced in the Master Transaction Agreement as the “**LPT Reinsurance Agreement**”; and

**WHEREAS**, the retrocession by Eaglestone to NICO has been effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Retrocession Agreement between Eaglestone and NICO, dated as of the date hereof and referenced in the Master Transaction Agreement as the “**LPT Retrocession Agreement**”; and

**WHEREAS**, Reinsureds desire that NICO perform certain administrative functions on behalf of Reinsureds from and after the date hereof with respect to the Subject Asbestos Liabilities, and the Parties have agreed to enter into this Administrative Services Agreement as a condition of Eaglestone and NICO’s entering into the LPT Retrocession Agreement,

**NOW, THEREFORE**, for and in consideration of these premises and the promises and the mutual agreements hereinafter set forth and set forth in the Master Transaction Agreement, the LPT Reinsurance Agreement and the LPT Retrocession Agreement, the Parties agree as follows:

**ARTICLE I**  
**DEFINITIONS**

**1.1 Definitions**

All capitalized terms not otherwise defined in this Administrative Services Agreement shall have the meaning given them under the Master Transaction Agreement, the LPT Reinsurance Agreement or the LPT Retrocession Agreement, as applicable. The following terms shall have the respective meanings set forth below throughout this Administrative Services Agreement:

“**Actually Paid**,” with respect to an item at a given time, means that liability on the item has been discharged as of such time, whether by payment, by offset, or otherwise. For the avoidance of doubt, the amount of the liability that is Actually Paid is measured by the amount of the consideration given for discharging the liability, not by the carrying value of the liability prior to discharge.

“**Administrative Services**” shall have the meaning set forth in Section 2.1(a) hereof.

“**Administrative Services Agreement**” shall have the meaning provided in the Preamble hereof.

“**Affiliate**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Allocated Loss Adjustment Expenses**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Ancillary Agreements**” shall have the meaning provided in the Master Transaction Agreement.

“**Applicable Law**” shall have the meaning provided in the Master Transaction Agreement.

“**Asbestos Claim**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Asserted Liability**” shall have the meaning set forth in Section 18.6 hereof.

“**Berkshire**” means Berkshire Hathaway Inc., a Delaware corporation and the ultimate parent company of NICO.

“**Berkshire Administered Entity**” shall have the meaning set forth in Section 4.4(a) hereof.

“**Berkshire Owned Entity**” shall have the meaning set forth in Section 4.4(a) hereof.

“**Books and Records**” means originals or copies of all records and all other data and information, whether created before or after Closing, and in whatever form maintained, in the possession or control of a Party or its Affiliates and relating to the Scope of Service, including (i) administrative records, (ii) claim records, (iii) policy files, (iv) sales records, (v) files and records relating to Applicable Law, (vi) reinsurance records, (vii) underwriting records,

2

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(viii) accounting records, and (ix) files, records, data and information relating to Retrospective Premiums, but excluding any (a) Tax Returns and Tax records and all other data and information with respect to Tax, (b) files, records, data, and information with respect to employees, (c) records, data and information with respect to any employee benefit plan, (d) any files, records, data and information not reasonably related to NICO’s or its Subcontractors’ administration of the Scope of Service, (e) any files, records, data and information relating to the monitoring and auditing by Reinsureds and their Affiliates of NICO’s performance in administering the Scope of Service and any internal reports related to such monitoring and auditing, (f) any materials prepared for the boards of directors of NICO, the Reinsured, or any Affiliate of any of them, and (g) any materials that are privileged and/or confidential for which the Reinsureds or their Affiliates do not have a common interest with NICO; *provided*, that if any such records or data referred to in the foregoing clauses (i) through (viii) contain information that does not relate to the Scope of Service, such information shall not constitute “Books and Records” for purposes of this Administrative Services Agreement.

“**Business Associate Agreement**” means the business associate agreement attached hereto as Exhibit A.

“**Business Day**” shall have the meaning provided in the Master Transaction Agreement.

“**Business Relationship Reinsurer**” means a reinsurer listed on Schedule 6.3(a).

“**Chartis**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Chartis-in-Consultation**” shall have the meaning provided in Section 4.2(a)(iv) hereof.

“**Chartis-Only**” shall have the meaning provided in Section 4.2(a)(v) hereof.

“**Closing**” means the completion of the transactions contemplated in the Master Transaction Agreement to take place on the Closing Date.

“**Closing Date**” shall have the meaning provided in the Master Transaction Agreement.

“**Collateral Triggering Event**” shall have the meaning provided in the Collateral Trust Agreement.

“**Collateral Trust Agreement**” shall have the meaning in the LPT Retrocession Agreement.

“**Confidential Information**” shall have the meaning set forth in Section 16.1(a) hereof.

“**Designated Court**” shall have the meaning provided in the Master Transaction Agreement.

“**Direct Costs**” shall have the meaning set forth in Section 4.3(b) hereof.

“**Dispute**” shall have the meaning provided in the Master Transaction Agreement.

“**Dollars**” or “**\$**” refers to United States dollars.

“**Eaglestone**” shall have the meaning provided in the recitals hereof.

“**Extra Contractual Obligations**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Force Majeure Event**” shall have the meaning set forth in Section 17.1 hereof.

3

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“**Governmental Authority**” shall have the meaning provided in the Master Transaction Agreement.

“**Group I Claim**” means an Asbestos Claim tendered by an account identified on Schedule 1.1(a) to the LPT Reinsurance Agreement.

“**Guest User**” shall have the meaning set forth in Section 16.6(a)(i).

“**Host**” shall have the meaning set forth in Section 16.6(a)(i).

“**Hourly Rates**” means, at any time, the reasonable hourly rates for personnel of the Reinsureds, or NICO, as the case may be, as of such time, including database, systems, benefits, facilities, and other overhead loads, and computed on a basis consistent with the Reinsureds’ hourly rates at the Closing Date set forth on Schedule 3.1(c).

“**Included Reinsurance Recoverables**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Indemnified Party**” shall have the meaning set forth in Section 18.5 hereof.

“**Indemnifying Party**” shall have the meaning set forth in Section 18.5 hereof.

“**Joint Authority**” shall have the meaning set forth in Section 4.2(a)(iii) hereof.

“**Legal Proceeding**” means any litigation, arbitration, mediation or other legal action, suit or proceeding.

“**Losses**” shall have the meaning provided in the LPT Retrocession Agreement.

“**LPT Reinsurance Agreement**” shall have the meaning provided in the recitals hereof.

“**LPT Retrocession Agreement**” shall have the meaning provided in the recitals hereof.

“**Master Transaction Agreement**” shall have the meaning provided in the recitals hereof.

“**Medicare Set Aside**” shall have the meaning provided in 42 U.S.C. § 1395y and the regulations thereunder.

“**Mixed Account**” shall have the meaning set forth in Section 4.3(a) hereof.

“**Mixed Claim**” shall have the meaning provided in the LPT Retrocession Agreement.

“**NICO**” shall have the meaning provided in the Preamble hereof.

“**NICO Client Entity**” shall mean any Berkshire Owned Entity, any Berkshire Administered Entity, or any insurance company as to which NICO or any NICO Affiliate is an assignee, or is otherwise the beneficiary, of reinsurance receivables or recoverables and/or salvage, subrogation, or other similar receivables or recoverables originally the property of such insurance company.

“**NICO-in-Consultation**” shall have the meaning provided in Section 4.2(a)(ii) hereof.

“**NICO-Only**” shall have the meaning provided in Section 4.2(a)(i) hereof.

“**NICO’s Indemnity Items**” shall have the meaning provided in Section 18.3 hereof.

“**Non-Asbestos Claims**” shall have the meaning provided in the LPT Reinsurance Agreement.

4

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“**Non-Included Recoverables**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Non-Subject Claims**” means claims that are not Subject Claims.

“**Nonpublic Personal Information**” shall have the meaning provided in Section 16.1(b) hereof.



“**Other Asbestos Claim**” means an Asbestos Claim that is not a Subject Claim or a Group I Claim.

“**Other Recoverables**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Own Expense**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Party**” or “**Parties**” shall have the meaning provided in the Preamble hereof.

“**Person**” shall have the meaning provided in the Master Transaction Agreement.

“**Personal Information**” shall have the meaning set forth in Section 16.1(c) hereof.

“**Prior Reinsurance Recoverables**” means Third Party Reinsurance Recoverables in respect of, but only in respect of, Losses, Allocated Loss Adjustment Expenses, and Extra-Contractual Obligations that were Actually Paid before Inception.

“**Quarterly Data File**” shall have the meaning set forth in Section 8.2(c) hereof.

“**Reinsureds**” shall have the meaning provided in the Preamble hereof, subject to supplementation as set forth in Section 2.1(e) hereof.

“**Reinsureds’ Actuarial Report**” shall have the meaning provided in Section 8.2(b) hereof.

“**Reinsureds’ Indemnity Items**” shall have the meaning provided in Section 18.2 hereof.

“**Remaining Incurred Limit**” means, at any time, the greater of (a) zero and (b) the Retro Limit *minus* Ultimate Net Loss paid by NICO at such time *minus* Reserves at such time in respect of NICO’s liability for Ultimate Net Loss under the LPT Retrocession Agreement. For purposes of calculating the Remaining Incurred Limit, Reserves shall be determined on an undiscounted basis.

“**Remaining Paid Limit**” means, at any time, the Retro Limit *minus* Ultimate Net Loss paid by NICO at such time.

“**Representative**” means, with respect to any Person, such Person’s officers, directors, employees, managing directors, agents, advisors, and other representatives.

“**Required Amount**” shall have the meaning provided in the Collateral Trust Agreement.

“**Reserves**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Resolute**” shall mean Resolute Management, Inc, a Delaware corporation.

“**Retro Limit**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Retrocession Credit Event**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Retrospective Premium**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Reverse Transition Services Agreement**” shall have the meaning set forth in Section 15.4(a)(i) hereof.

“**Reverse Transition Trigger**” shall have the meaning set forth in Section 15.4(a) hereof.

“**Scope of Service**” shall mean the Subject Business and the Third Party Reinsurance Agreements, but only as and to the extent they relate to (i) Subject Asbestos Liabilities, (ii) Included Reinsurance Recoverables, and (iii) to the extent set forth in Section 4.3 hereof, to Mixed Accounts and/or Mixed Claims. Scope of Service also includes, to the extent arising out of the Subject Asbestos Liabilities, any claim assertions that any Reinsured:

- (a) failed to warn any Person of potential asbestos exposure,
- (b) engaged in any unfair trade practice or failed to handle claims in good faith,
- (c) negligently or otherwise improperly conducted loss control functions,
- (d) failed to settle or pay claims within policy limits,
- (e) otherwise negligently or improperly conducted claims handling,
- (f) misrepresented, or otherwise committed a tort or fraud in connection with the Subject Business, or
- (g) failed to properly comply with Medicare or other laws.

“**Security Amount**” shall have the meaning provided in the Collateral Trust Agreement.

“**Security Incident**” shall have the meaning set forth in Section 16.5(c) hereof.

“**Security Requirements**” shall have the meaning set forth in Section 16.6(a)(i).

“**Special Event Trigger**” shall mean the occurrence of any of the following: (i) NICO’s A.M. Best Financial Strength Rating falls below A-, or (ii) NICO becomes subject to dissolution, liquidation, conservation, rehabilitation, bankruptcy, statutory reorganization, receivership, compulsory composition, or similar proceedings in any jurisdiction, or if one or more creditors of NICO take over its management, or if NICO otherwise enters into any arrangement with creditors, or makes an assignment in whole or in part for the benefit of creditors, or if any significant part of NICO’s undertakings or property is impounded or confiscated by action of any Governmental Authority, or if NICO consents to or its shareholder(s), Board, or management authorizes or consents to any of the foregoing.

“**Steady State**” means the period following the Transition Period, in which Administrative Services will be performed on an ongoing basis by the entity whose responsibility it is to perform them under this Administrative Services Agreement.

“**Subcontractor**” shall have the meaning set forth in Section 2.5(a) hereof.

“**Subject Asbestos Liabilities**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Subject Business**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Subject Claim**” means an Asbestos Claim within the Subject Asbestos Liabilities.

6

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“**Subject Contract**” means any Underlying Policy or any Third Party Reinsurance Agreement.

“**Systems**” shall have the meaning set forth in Section 16.6(a)(i) hereof.

“**Tax**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax Return**” shall have the meaning provided in the Master Transaction Agreement.

“**Third Party Reinsurance Agreements**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Third Party Reinsurance Recoverables**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Third Party Reinsurers**” shall have the meaning provided in the Master Transaction Agreement.

“**Transaction Documents**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Transition**” shall mean the transfer of systems, data, and functional capability from Reinsureds to NICO so that NICO may exercise its responsibilities under this Administrative Services Agreement.

“**Transition Period**” shall mean the period commencing with the Closing Date and ending at such time as the Parties agree that the Transition has been substantially completed. As of the date hereof, the Parties estimate that the Transition Period will be approximately twelve months.

“**Transition Services Agreement**” means the document annexed as Exhibit B hereto, which is incorporated into this Administrative Services Agreement and describes the services to be provided during the Transition Period by Reinsureds to NICO, and by NICO to Reinsureds, and the compensation therefor.

“**Ultimate Net Loss**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Underlying Policy**” means any policy, contract, slip, binder, or other evidence of insurance or reinsurance that has given rise to, or may in the future give rise to, Subject Asbestos Liabilities.

“**Virus**” means any “back door,” “time bomb,” “Trojan horse,” “worm,” “drop dead device,” “virus,” “malicious logic,” or other similar software routines, devices, computer codes, programs or hardware components or other undisclosed feature or file that (i) is designed to permit unauthorized access to software, hardware or data or other systems elements or (ii) intentionally may disrupt, disable, harm, erase or otherwise impede in any manner the operation of the foregoing features or files, any portion thereof or any other software, firmware, hardware, network or other systems element.

7

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## **ARTICLE II**

### **AUTHORITY; SERVICE STANDARDS**

#### **2.1 Appointment**

(a) Each of the Reinsureds hereby appoints NICO, for the period specified in Article XV hereof, as an independent contractor of such Reinsured to perform the administrative and other services identified herein as to be performed by NICO (the “**Administrative Services**”), solely within the Scope of Service and all on the terms, and subject to the limitations, as set forth in this Administrative Services Agreement.

(b) NICO accepts such appointment and agrees to perform the Administrative Services on behalf of Reinsureds on such terms and subject to such limitations.

(c) Each Party shall cooperate to the full extent reasonably possible with the other Parties in the transfer of responsibility for the performance of the Administrative Services from Reinsureds to NICO in accordance with the terms of this Administrative Services Agreement and the Transition Services

(d) In order to assist NICO in the performance of the Administrative Services hereunder, Reinsureds shall deliver to NICO and, if requested by NICO, to Resolute so long as it remains an Affiliate of NICO and is acting as a Subcontractor, an appropriate power of attorney that shall nominate, constitute, and appoint NICO and/or Resolute, as the case may be, as their attorney-in-fact with respect to the rights, duties, and privileges and obligations of Reinsureds in and to matters within the Scope of Service, with full power and authority to act in the name, place and stead of Reinsureds with respect thereto, including the power, without reservation, to service and enforce Subject Contracts within the Scope of Service, to adjust, to defend, to settle, and to pay Subject Claims, and to take such other and further action as may be necessary or desirable to effect the transactions contemplated by the LPT Reinsurance Agreement, the LPT Retrocession Agreement, the Master Transaction Agreement, this Administrative Services Agreement and the Transition Services Agreement, but in all cases only to the extent of the rights and authority granted to NICO pursuant to this Administrative Services Agreement and the Transition Services Agreement and in accordance with the terms of this Administrative Services Agreement and the Transition Services Agreement.

(e) At such time as an entity identified in paragraph (ii) or (iii) of the definition of Reinsured in the LPT Retrocession Agreement executes the addendum to the LPT Reinsurance Agreement specified in such definition, it shall likewise execute an addendum to this Administrative Services Agreement acknowledging that it is bound by the terms and conditions hereof, and it shall thereupon become a Reinsured for all purposes hereunder.

## 2.2 Services Standards

NICO shall perform the Administrative Services provided for hereunder (including under the Transition Services Agreement) on behalf of Reinsureds in a professional and competent manner and in accordance with (i) the terms of the Subject Contracts within the Scope of Service, (ii) to the extent not in conflict with any other provision of this Section 2.2, standards of service that conform with NICO's service standards for administering similar insurance contracts issued by NICO in its own name, and (iii) Applicable Law and, subject to the foregoing and the purposes of this transaction, shall act in such a manner as not to materially prejudice Reinsureds and with due regard for their reputation, or trust of their respective employees, directors and

officers, as insurers and as professional claims managers. NICO shall at all times maintain, or ensure that its Subcontractors maintain for it, sufficient facilities and trained personnel of the kind necessary to perform its obligations under this Administrative Services Agreement in accordance with the performance standards set forth herein. NICO acknowledges that the due and timely performance of all Administrative Services required by this Administrative Services Agreement and the Transition Services Agreement in a professional and competent manner is of critical importance to the Reinsureds.

## 2.3 Compliance; Licensure

(a) NICO shall comply with all Applicable Law including all licenses, consents, authorizations, permits, orders and qualifications from and filings with Governmental Authorities necessary to perform the Administrative Services required by this Administrative Services Agreement and the Transition Services Agreement in connection with the performance of its duties hereunder and shall act consistently in all material respects with, and not knowingly cause Reinsureds to be out of compliance with, the terms of the Subject Contracts. NICO shall communicate promptly to the Reinsureds in writing upon having knowledge of the non-renewal, lapse, suspension, or termination of any license, consent, authorization, permit, order, qualification or filing required by Applicable Law in connection with the Scope of Service.

(b) NICO shall execute data protection agreements, such as the Standard Contractual Clauses issued by the European Commission, to the extent required by Applicable Law in connection with its performance of the Administrative Services and the Transition.

(c) NICO warrants that it is, and it shall use its commercially reasonable efforts to insure that its Subcontractors are, and shall continue to be, and their respective employees, agents, and representatives are, or shall become and remain, licensed, in whatever capacity is required, including without limitation licensed as a third-party administrator by the Governmental Authorities of all jurisdictions in which Reinsureds are licensed as of the Closing Date. NICO shall bear at its Own Expense all costs and expenses relating to its own licensing and that of its Subcontractors and that of the employees, agents, and representatives of any of them.

## 2.4 Independent Contractor

For all purposes hereof (including the Transition Services Agreement), NICO shall at all times act as an independent contractor. NICO and its Affiliates, on the one hand, and Reinsureds and their Affiliates, on the other hand, shall not be deemed employees, representatives, partners, joint venturers, or fiduciaries of one another, nor shall this Administrative Services Agreement, the Transition Services Agreement or the Administrative Services or any activity or any transaction contemplated hereby be deemed to create any partnership or joint venture between the Parties or among their Affiliates. NICO and its Representatives are not eligible for, nor may they participate in, any employee benefit plans of Reinsureds or any of their Affiliates. Reinsureds and their Representatives are not eligible for, nor may they participate in, any employee benefit plans of NICO or any of its Affiliates.

## 2.5 Subcontracting

(a) NICO shall not subcontract the performance of any services that NICO is to provide hereunder (including under the Transition Services Agreement) to another Person (a "Subcontractor") without the prior written consent of Reinsureds (which consent shall not be unreasonably withheld, conditioned or delayed); *provided, however*, that such consent will not be required

if the applicable Subcontractor is Resolute for such time as it is an Affiliate of NICO and *provided further* that in the case of Administrative Services relating to other than claims handling, Reinsureds' consent will not be required if the applicable Subcontractor is an Affiliate of NICO.

(b) Notwithstanding the foregoing, NICO shall not permit a Subcontractor other than Resolute to participate in Transition activities at Reinsureds' Jersey City Asbestos Claims Unit without Reinsureds' prior written consent (which consent shall not be unreasonably withheld, conditioned or

delayed).

(c) In the event of any such subcontracting, NICO shall not be relieved from any of its obligations or liabilities hereunder, including compliance with Applicable Law and maintenance of proper licensure, and NICO shall remain responsible for all obligations or liabilities of such Subcontractor with respect to the providing of such service or services as if provided by NICO; *provided* to that the extent that a service is provided by one or more Subcontractors and employees of the Subcontractor(s) providing a service meet applicable licensing requirements, NICO shall be deemed to be in compliance with said licensure requirements.

### **ARTICLE III COMPENSATION**

#### **3.1 Compensation**

(a) Except as otherwise provided in Section 4.3, NICO shall perform the Administrative Services within the Scope of Service at its Own Expense and without any rights of reimbursement from Reinsureds, in consideration of Reinsureds having entered into the LPT Reinsurance Agreement and the Master Transaction Agreement and the transactions contemplated thereby, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged.

(b) Except as not otherwise permitted by Applicable Law or the Master Transaction Agreement or the Ancillary Agreements, and in accordance with the provisions of the Transition Services Agreement, the Reinsureds shall make available during the Transition Period the matters identified in the Transition Services Agreement. NICO shall at its Own Expense reimburse the Reinsureds for their Transition expenses in accordance with the Transition Services Agreement.

(c) At the reasonable request of NICO, Reinsureds shall perform searches for policy, reinsurance, claims, payment and underwriting files of the Reinsureds and shall provide copies and if necessary testimony with respect to, such policy, reinsurance, claims, payment and underwriting files, to NICO. NICO shall, at its Own Expense and upon demand therefor but without duplication of amounts paid under the Transition Services Agreement, pay (i) the Reinsureds' Hourly Rates for the performance of such searches for policy, reinsurance, claims and underwriting files, (ii) for all of the copies made pursuant to this Section 3.1(c) and (iii) the Reinsureds' Hourly Rates for time spent in connection with preparing to provide and providing testimony as to these matters. NICO shall likewise pay Reinsureds' Hourly Rates for significant reinsurance-related activities requested by NICO that are outside the scope of the Steady State activities listed in the Transition Services Agreement. NICO acknowledges that the hourly rates set forth in Schedule 3.1(c) are reasonable as of the Closing Date.

10

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(d) Reinsureds shall store and maintain closed claim files at their Own Expense and in accordance with the Reinsureds' closed claim file policy as in effect from time to time for storing and maintaining such closed claim files. Prior to destruction of any policy, reinsurance, claims, payment or underwriting files of the Reinsureds relating to the Subject Asbestos Liabilities, Reinsureds shall advise NICO and NICO, at its Own Expense, may retain such files.

(e) Reinsureds shall maintain existing arrangements for ceded broker fee-for-service contracts, or reasonable replacement thereof, and will be responsible for the payment of ceded broker fees.

### **ARTICLE IV ADMINISTRATIVE SERVICES**

#### **4.1 Administrative Services**

(a) Administrative Services to be performed by NICO with the respect to matters within the Scope of Service shall include the right and obligation to perform each of the following:

- (i) to adjust, handle, agree, settle, pay, compromise or repudiate any claims or any other liability, outgoing or expense;
- (ii) to commence, conduct, pursue, settle, appeal or compromise any legal arbitration or other proceedings whatsoever;
- (iii) to collect claim refunds, salvages and reinsurance recoveries;
- (iv) to agree to, or exercise any right to, set off any claims on behalf of Reinsureds against reinsurance recoveries or vice versa or to settle any balance of account owing to or from the Reinsureds;
- (v) to agree, on behalf of the Reinsureds, to fund the obligations of any third party in connection with any Subject Claim;
- (vi) to agree to any without prejudice payment or any extra-contractual payment of or on behalf of the Reinsureds;
- (vii) to enter into any arrangements that NICO considers will or may avoid or reduce any liability for Losses, Allocated Loss Adjustment Expenses, or Extra Contractual Obligations;
- (viii) to use the name of any Reinsured in connection with the exercise of any or all of the powers conferred by this Administrative Services Agreement;
- (ix) to exercise any rights of subrogation or other rights of recovery;
- (x) to enter into discussions or negotiations with any insured or reinsured Person or their Representatives in connection with the Subject Business;

- (xi) to enter into, amend or cancel any arrangements or agreements with third parties, including in relation to the handling or collection of claims, debts, or reinsurance recoveries;

- (xii) to coordinate with Reinsureds on the handling of escheat claims with respect to the Subject Asbestos Liabilities;
- (xiii) to share information received from Reinsureds, including any information in their files and records, with other insurers, reinsurers, claimants, and other Persons as may be necessary in the judgment of NICO to perform the Administrative Services to be performed by it pursuant to this Administrative Services Agreement;
- (xiv) to retain and instruct lawyers, claims adjusters, or other consultants or experts in connection with the foregoing;
- (xv) collect, pursue, settle or compromise Retrospective Premiums; and
- (xvi) all matters relating to the administration, settlement, and payment of claims and Extra Contractual Obligations with respect to Subject Asbestos Liabilities, all matters relating to administration of and pursuit of recovery of Included Reinsurance Recoverables and Other Recoverables, and all other matters reasonably ancillary to these enumerated matters.

For the avoidance of doubt, NICO's right to perform and performance of such Administrative Services is subject to all the terms and conditions of this Administrative Services Agreement, so that (by way of example only) services with respect to reinsurance recoveries are subject to Article VI hereof.

(b) The authority granted NICO in this Administrative Services Agreement, including without limitation Articles IV, V, and VI, relates solely to matters within the Scope of Service. NICO has no authority to act for or on behalf of Reinsureds for matters outside the Scope of Service except as expressly set forth within this Administrative Service Agreement and the Transition Services Agreement.

(c) From and after the Closing Date, Reinsureds shall not settle, commute, or compromise any direct Subject Claim, or any reinsurance claim arising from the Subject Asbestos Liabilities, or amend, alter or endorse any Underlying Policy insofar as it relates to the Subject Asbestos Liabilities except:

- (i) with the prior written consent of NICO (which consent shall not be unreasonably withheld, conditioned or delayed), or
- (ii) as expressly set forth in Articles IV, V and VI.

#### 4.2 Levels of Authority

(a) Subject at all times to the other terms and conditions hereof, authority with respect to given actions or groups of actions is given in this Administrative Services Agreement, at five levels, as follows:

- (i) "**NICO-Only**" means that NICO retains all authority with respect to the action or group of actions and need not consult with Reinsureds before proceeding.
- (ii) "**NICO-in-Consultation**" means that NICO retains ultimate responsibility with respect to the action or group of actions but must consult in good faith with Reinsureds before proceeding.

- (iii) "**Joint Authority**" means that neither NICO nor Reinsureds may act without the other Party's consent, which may be given, conditioned, or withheld in such other Party's sole discretion.
- (iv) "**Chartis-in-Consultation**" means that Reinsureds retain ultimate responsibility with respect to the action or group of actions but must consult in good faith with NICO before proceeding.
- (v) "**Chartis-Only**" means that Reinsureds retain all authority with respect to the action or group of actions and need not consult with NICO before proceeding.

(b) The Parties may, by mutual agreement, establish written protocols for how, when, and how often consultation shall take place with respect to any actions or groups of actions as to which authority is NICO-in-Consultation or Chartis-in-Consultation.

#### 4.3 Mixed Accounts and Mixed Claims

(a) The Parties acknowledge that there will be insureds within the Subject Business, or collections of related such insureds whose claims are normally processed in conjunction with one another, that have or may potentially have claims from more than one of the categories Subject Claims, Group I Claims, Other Asbestos Claims, Non-Asbestos Claims, and Mixed Claims. Each such insured or collection of related insureds is referred to in this Administrative Services Agreement as a "**Mixed Account**."

- (i) It is the Parties' general expectation that, in the administration of Mixed Accounts, (A) the Reinsureds shall administer such portions of the Mixed Account as relate to Non-Subject Claims, and (B) NICO shall administer such portions of the Mixed Account that relate to Subject Claims. NICO and the Reinsureds shall establish and maintain an open channel of communication with each other with respect to the claims contained within each Mixed Account.
- (ii) The Parties shall create during Transition and thereafter maintain and amend as necessary a list of the accounts that are currently being treated as Mixed Accounts.

(b) Where NICO provides services for a claim or related claims that are partially or in whole Non-Subject Claims, due either to lack of information or to the indivisibility of the claim or related claims, the Reinsureds shall reimburse NICO for the Direct Costs of providing such services, with the allocation of the Direct Costs between NICO and the Reinsureds to be on the basis of exposure each had on the claim (in the case of NICO, the exposure is in its capacity as retrocessionaire under the LPT Retrocession Agreement). If NICO has reason to believe that a claim it is handling is partially not within the Subject Asbestos Liabilities and NICO has reason to believe that the Reinsureds' exposure on the claim or related claims is in excess of \$100,000, NICO shall promptly notify the Representative of the Reinsureds or his designee, and the parties shall reach a good faith agreement on the handling of the claim or related claims. "**Direct Costs**" as referenced herein refers to the Hourly Rates of the individual(s) handling the account multiplied by the actual hours devoted by such individual(s) to the Mixed Account. To the extent practicable, allocation of Direct Costs will be by actual hours worked and otherwise in accordance with the principles set forth in subparagraphs (c) and (d) below.

13

(c) If an individual claim on a Mixed Account is a Subject Claim, inward or outward payments in connection with such claim shall be allocated to the Subject Asbestos Liabilities. If an individual claim on a Mixed Account is a Non-Subject Claim, then no inward or outward payment in connection with such claim shall be allocated to the Subject Asbestos Liabilities.

(d) To the extent practicable, inward and outward payments on any Mixed Claim whether or not arising from a Mixed Account, shall be allocated to, or not to, Ultimate Net Loss on the Subject Asbestos Liabilities based upon the actual cause of the injury or damage the claimant, identified at the time of settlement or judgment. If information as to the actual cause of injury or damage is unclear or unavailable, then indemnity payments shall be allocated among the Parties based upon the best available information within one year after the settlement or judgment as to any claims in such account. Such indemnity payments will be billed as they are made, without prejudice to either Party's right to adjust any allocation within one year of the settlement or judgment.

(e) To the extent that Allocated Loss Adjustment Expenses incurred for a Mixed Account or for a tranche of claims within a Mixed Account cannot practicably be allocated as incurred on specific claims within such account or tranche, then such expense payments shall be provisionally allocated on an equitable basis to, or not to, Ultimate Net Loss on the Subject Asbestos Liabilities in accordance with the allocation of the gross indemnity exposure on the claims in question. Such expense payments will be billed as they are made and shall be without prejudice to either Party's right to adjust any allocation, no later than one year after settlement or judgment of all claims in the account or tranche, in accordance with the manner indemnity payments, if any, on such account or tranche have been allocated.

(f) In the event that a claim arises subject to Section 4.3(c) and Section 4.3(d), above, the Parties shall use reasonable best efforts to obtain the data and information required to establish accurate allocations among the Parties. Notwithstanding the foregoing, the Parties may establish mutually agreed upon protocols for certain accounts and such protocols may set forth alternative allocations arrangements with respect to each such account.

#### **4.4 Conflict of Interest**

(a) Whenever a claim otherwise within the Scope of Service arises: (i) by, or from, any Reinsured against Berkshire or any insurer, reinsurer or other company that is a direct or indirect Subsidiary of Berkshire or is otherwise an Affiliate of Berkshire (each, a "**Berkshire Owned Entity**"), or that involve NICO or Rolute or another Berkshire Owned Entity as an administrator for a third party (a "**Berkshire Administered Entity**"), or (ii) against any Reinsured by, or from, a Berkshire Owned Entity, or that involve a Berkshire Administered Entity as such, NICO shall provide prompt written notice of such claim to the Reinsureds upon becoming aware thereof, including such details as may be appropriate. NICO shall use commercially reasonable efforts to keep itself informed as to the identity of Berkshire Owned Entities and Berkshire Administered Entities. If NICO and Reinsureds agree that NICO should handle the claim notwithstanding the conflict of interest, NICO shall do so in good faith and in pursuit of the singular interests of Reinsureds. Otherwise, Reinsureds shall handle all discretionary aspects of the claim in accordance with the standards set forth in Section 2.2, and NICO shall perform such ministerial tasks (such as making accounting entries or moving funds) as may be required under the direction of Reinsureds.

14

(b) Reinsureds and NICO acknowledge that Berkshire Owned Entities manage claims on behalf of entities in addition to Reinsureds. In recognition thereof:

- (i) If Berkshire Owned Entities are engaged in substantive settlement discussions (including without limitation discussions aimed at buyout agreements or coverage-in-place agreements) with an insured or a group of insureds both on behalf of Reinsureds and on behalf of one or more Berkshire Administered Entities not Affiliates of Reinsureds (regardless of whether the discussions are conducted together or are ostensibly or actually separate), or if it is contemplated that such discussions might take place either simultaneously or in near proximity in time, NICO shall consult with the Reinsureds as to how best to protect Reinsureds from the potential conflicts of interest inherent in such joint or nearly proximate negotiations while preserving to all parties such efficiencies as such joint negotiations may engender.
- (ii) NICO shall initiate similar consultations with Reinsureds in the event there are, or are contemplated to be, joint, simultaneous, or nearly proximate negotiations with one or more entities that reinsure both Reinsureds and at least one Berkshire Administered Entity.
- (iii) In the circumstances described in clauses (i) and (ii) above, claims and reinsurance authority that would otherwise be NICO-Only or NICO-in-Consultation shall be Joint Authority.

### **ARTICLE V CLAIMS HANDLING SERVICES**

#### **5.1 Claims Handling Services**

The Administrative Services shall include, as necessary and appropriate, all functions relating to the handling of Subject Claims, including those functions set forth in this Section 5.1.

(a) NICO shall acknowledge, consider, review, investigate, deny, settle, pay or otherwise dispose of each Subject Claim. All payments of Losses, Allocated Loss Adjustment Expenses, and Extra Contractual Obligations in respect of Subject Asbestos Liabilities shall be made in accordance with Section 13.1 hereof.

(b) Without limiting paragraph (a) of this Section 5.1, and subject to Reinsureds providing the services set forth in the Transition Services Agreement, as necessary and appropriate, NICO shall:

- (i) establish, maintain and organize Subject Claim files and maintain and organize other Subject Claims-related records;
- (ii) review all Subject Claims and determine whether the claimant is eligible for payment and if so, the nature and extent of such payment;
- (iii) maintain trained claims personnel;
- (iv) maintain a complaint log with respect to the Underlying Policies in accordance with applicable requirements of Governmental Authorities and provide a copy of such log upon the Reinsureds' request;

15

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- (v) subject to Section 8.1 and paragraph (vi) below, provide Reinsureds with such information as is necessary for them to comply with regulatory requirements related to the Subject Asbestos Liabilities;
- (vi) provide necessary Medicare Set Aside information as directed by Reinsureds and, subject to receipt of necessary information from Reinsureds, comply on behalf of Reinsureds with Medicare lien requirements, it being understood that NICO shall not be required to report directly to Centers for Medicare and Medicaid Services;
- (vii) subject to Section 8.1, respond promptly to all written or oral Subject Claims-related communications that NICO reasonably believes to require a response; and
- (viii) in accordance with Articles VIII and XII hereof, respond to, or assist Reinsureds in responding to, regulatory and legal matters to the extent such matters relate to Subject Claims.

## 5.2 Direct Claims Authority

Subject to Sections 4.3 and 4.4 hereof, NICO's authority with respect to direct claims handling within the Scope of Service is NICO-Only except as follows:

- (a) Claims of relationship insureds scheduled on Schedule 5.2 hereof, as such may be reasonably amended from time to time, are NICO-in-Consultation.
- (b) Claims involving coverage issues affecting multiple lines of business, as reasonably identified from time to time by Reinsureds to NICO, are NICO-in-Consultation.
- (c) Subject to Section 4.3(b), taking coverage positions on Mixed Claims or Mixed Accounts is NICO-in-Consultation.
- (d) Settlements of more than \$100 million or involving more than 10% of the Remaining Paid Limit are NICO-in-Consultation.
- (e) New or amended policy buybacks or coverage-in-place agreements, or amendments to Underlying Policies involving material amounts of exposure to both Subject Asbestos Liabilities and Non-Subject Liabilities are Joint Authority. Similar transactions for Mixed Accounts that are Subject-Asbestos-only or non-asbestos-only are NICO-in-Consultation or Chartis-in-Consultation, respectively. For the avoidance of doubt NICO does not have authority to amend, alter, or endorse any Underlying Policy.
- (f) Allocation of settlement amounts among affected policies is NICO-in-Consultation, if the amount being allocated exceeds \$10,000,000, unless another provision of this Administrative Services Agreement provides for greater control by Chartis, in which event such other provision shall control.

## ARTICLE VI

### ADMINISTRATION OF THIRD PARTY REINSURANCE AGREEMENTS

#### 6.1 Third Party Reinsurance Administration

(a) In performing the Administrative Services with respect to the Third Party Reinsurance Agreements within the Scope of Service, NICO shall have the right and obligation to,

16

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subject to the authority levels granted herein and the other terms and conditions hereof and pursuant to mutually agreed upon procedures:

- (i) administer and collect, on behalf of and in the name of the applicable Reinsureds, Included Reinsurance Recoverables and Other Recoverables due in respect of the Subject Asbestos Liabilities in accordance with the contractual terms of the applicable Third Party Reinsurance Agreements and Underlying Policies in a commercially reasonable manner;
- (ii) provide all necessary litigation management functions with respect to the Third Party Reinsurance Agreements;

- (iii) initiate Legal Proceedings in the name of the applicable Reinsured in those instances where such action is necessary in order for the applicable Reinsured to enforce or protect its rights under the Third Party Reinsurance Agreements in respect of the Subject Asbestos Liabilities;
- (iv) consult with Reinsureds in the filing of proofs of claim in any insolvent estate or scheme of arrangement;
- (v) secure and draw upon any letter of credit or other funds held as appropriate under any Third Party Reinsurance Agreement; and
- (vi) perform other certain administrative functions relating to the Third Party Reinsurance Agreements within the Scope of Service as agreed to by the Parties from time to time.

(b) In general terms, and subject to precise procedures to be agreed in the course of the Transition, NICO will provide on a monthly basis (bi-weekly in quarterly close months), or as agreed by the Parties data feeds to Reinsureds, with content and in formats specified by Reinsureds, concerning NICO's direct claims handling, and Reinsureds will process those feeds through Reinsureds' existing systems to generate reinsurance proofs, advices, and notices.

(c) NICO shall pay Reinsureds, at NICO's Own Expense, a fee to be determined during the course of Transition for the use of Reinsureds' reinsurance systems and personnel as provided in Section 6.1(b) above. The fee may include fixed monthly amounts and/or time charges at Hourly Rates, as the parties shall determine, and shall be based upon the principle that Reinsureds are entitled to be compensated for any activities that they would not be performing if NICO were performing all work in connection with collection of Included Reinsurance Recoverables and were simply reporting financial results to Reinsureds. Thus, by way of example only, Reinsureds are not entitled to compensation for Schedule F reporting activities, but they are entitled to compensation for use of their reinsurance systems to generate proofs, advices, and notices.

## **6.2 Expense of Reinsurance Recovery Efforts**

For the avoidance of doubt, it is agreed that except in unusual circumstances the only reinsurance recovery costs chargeable as Allocated Loss Adjustment Expenses are the costs of the Services identified in Section 6.1(a)(iii) above. The cost of the remaining services set forth in Section 6.1(a) is, in general, at NICO's Own Expense.

17

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## **6.3 Responsibility and Authority With Respect to Reinsurance Activities**

Authority with respect to reinsurance activities within the Scope of Service is NICO-Only except as otherwise set forth herein and as follows:

(a) Authority to draw upon reinsurance security posted by Business Relationship Reinsurers is Chartis-Only.

(b) Authority to demand and/or draw upon reinsurance security posted by reinsurers that are not Business Relationship Reinsurers is NICO-in-Consultation, *provided* that such authority is Joint Authority if there is a material amount of Non-Included Recoverables under the Third Party Reinsurance Agreement pursuant to which the security is to be demanded or posted.

(c) Authority to commute any Third Party Reinsurance Agreement that has a greater-than-*de minimis* amount of Included Reinsurance Recoverables is Joint Authority. Authority to commute other Third Party Reinsurance Contracts is Chartis-Only. Authority to effect a partial commutation of a Third-Party Reinsurance Agreement containing a greater-than-*de minimis* amount of Included Reinsurance Recoverables on a basis that excludes asbestos from the commutation is Chartis-in-Consultation.

(d) Authority to initiate Legal Proceedings against a reinsurer on a Third Party Reinsurance Agreement is NICO-in-Consultation, *provided, however*, that if Reinsureds decline to consent to commencement of Legal Proceedings, then NICO may not commence such proceedings for 60 days to enable Reinsureds to resolve the issues that led to their declining to consent. Thereafter, NICO may proceed, *provided, however*, that it shall, in doing so, endeavor to take into account the reasons for Reinsureds' declining to consent. If waiting 60 days would create a risk of a time bar, NICO may commence the Legal Proceedings at such time as is necessary to prevent application of the time bar but shall seek to stay the proceedings for the remainder of the 60-day period.

(e) Authority to settle claims or tranches of claims vis-à-vis reinsurer(s) on one or more Third Party Reinsurance Agreements, to the extent solely within the Subject Asbestos Liabilities, is NICO-Only, *provided* that NICO shall not accept a discount in percentage or dollar terms greater than the amounts set forth in Schedule 6.3(e) without Reinsureds' consent, which shall not be unreasonably withheld or delayed.

(f) Authority and responsibility for Third Party Reinsurance Recoverables arising out of Mixed Claims or Mixed Accounts follows the authority and responsibility for the underlying direct claim(s).

(g) NICO and Reinsureds shall meet periodically to discuss issues of treaty reinsurance coverage that have application and/or implications beyond Included Reinsurance Recoverables, and NICO shall not take coverage positions with respect to specific treaties contrary to those taken on those treaties as a matter of policy without the consent of Reinsureds, which shall be withheld only on an articulable basis of likely harm to Reinsureds with respect to recovery efforts for Non-Included Recoverables.

(h) Authority with respect to the following arbitration matters is as follows:

- (i) Selection of arbitrators and umpires is NICO-in-Consultation, and NICO shall in good faith make every reasonable effort to comply with Chartis's requests in this area.

18

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(ii) Selection of outside counsel and expert witnesses is NICO-in-Consultation, which selection to be taken from lists to be mutually agreed from time to time.

(i) Authority to bill and engage in routine collection activities vis-à-vis proportional treaty reinsurers and retrocessionaires of Chartis internal facilities is Chartis-Only. Handling asbestos-related audits with respect to such reinsurers and retrocessionaires shall be the mutual responsibilities of the Parties in accordance with their respective functions.

(j) Authority to take an offset against a Third-Party Reinsurer not in rehabilitation or insolvency is Joint Authority, *provided, however*, that authority shall be NICO-in-Consultation if Reinsureds have informed NICO that the Non-Included Recoverables from the Third-Party Reinsurer are *de minimis*, and *provided further* that authority is Chartis-Only if the Included Reinsurance Recoverables from the Third-Party Reinsurer are *de minimis*.

(k) Authority with respect to insolvent Third-Party Reinsurers is as follows:

(i) Submission of proofs of claim is NICO-Only for Subject Asbestos Liabilities, but is to be coordinated with the overall Chartis submission as needed.

(ii) Authority to settle claim amounts for individual claims or tranches of claims is as provided for solvent reinsurers.

(iii) Taking an offset against an insolvent is Joint Authority, *provided, however*, that authority shall be NICO-in-Consultation after the bar date set in the insolvency proceedings if the aggregate claims of Reinsureds for Non-Included Recoverables are *de minimis* and Chartis-in-Consultation if the aggregate claims of Reinsureds for Included Recoverables are *de minimis*.

#### **6.4 Forgoing Collection of Third Party Reinsurance Recoverables**

NICO shall have the authority to decide not to collect or attempt to collect Third Party Reinsurance Recoverables solely related to the Subject Asbestos Liabilities that NICO deems are uncollectible; *provided, however*, that neither NICO nor Reinsureds may decide to forgo the collection or attempted collection of any Third Party Reinsurance Recoverable that involves a Mixed Account claim that such Party is administering without the prior written consent of the other Party.

#### **6.5 Allocation of Reinsurance Recoveries**

Recoverables and recoveries from a given Third-Party Reinsurer will be allocated as follows between, on the one hand, Included Reinsurance Recoverables and, on the other hand, Prior Reinsurance Recoverables or other Non-Included Recoverables:

(a) To the extent feasible, allocation of reinsurance recoverables on account of Mixed Claims will follow the allocation of the direct liability.

(b) To the extent the Third-Party Reinsurer's remittance identifies the items being settled, and such items are either all Included Reinsurance Recoverables or all Non-Included Recoverables, the Third-Party Reinsurer's designation shall control.

19

(c) To the extent the Third-Party Reinsurer's remittance identifies the items being settled, and the portion of each item being settled is determinable from the face of the remittance, the Third-Party Reinsurer's designation shall control.

(d) If the Third-Party Reinsurer's remittance does not identify the portion of each item being settled, the Party receiving the remittance (*i.e.*, either NICO on behalf of Reinsureds or Reinsureds on their own behalf) may, following consultation with the other Party, inquire of the Third-Party Reinsurer as to what was intended to be settled, and if the response brings the remittance within paragraph (b) and/or (c) above, the Third-Party Reinsurer's designation shall control.

(e) Otherwise, recoveries from a given Third-Party Reinsurer with respect to Subject Asbestos Liabilities will be allocated *pro rata* to outstanding billed amounts.

(f) In all events, the allocation will follow wherever possible any designation the Third-Party Reinsurer makes on the remittance (except a designation that is clearly incorrect on its face), so that, by way of example only, a remittance identified to a particular treaty, but not identified further to specific billings, will be allocated by the foregoing rules only among outstanding invoices with respect to that treaty.

(g) Absent agreement of the Reinsureds and NICO in each instance, remittances will not be allocated to a billed amount that the Third-Party Reinsurer has made clear it is disputing unless and until all other billed amounts have been satisfied. This paragraph (g) controls over all other decision rules except (X) paragraph (f), to the extent applicable, and (Y) an express designation of the remittance by the Third-Party Reinsurer as being applicable to the disputed bill(s).

(h) Allocation of amounts recovered via offset or draws on reinsurance security shall follow the allocation methodology set forth in paragraphs (a)-(g) of this Section 6.5.

### **ARTICLE VII** **ADMINISTRATION OF LPT REINSURANCE AGREEMENT**

#### **7.1 Role of NICO on Behalf of Reinsureds**

(a) NICO, as administrator on behalf of Reinsureds, shall provide such accounts and other information to Reinsureds and Eaglestone as is necessary to prepare cession and cash accounts for the LPT Reinsurance Agreement.

(b) NICO has no authority to settle LPT Reinsurance Agreement accounts on behalf of Reinsureds other than by the mechanism set forth in Section 13.1 hereof.

## 7.2 No Role of NICO on Behalf of Eaglestone

Except for specific authority granted in the LPT Retrocession Agreement, NICO has no authority whatsoever to act on behalf of Eaglestone.

## ARTICLE VIII REPORTING AND REGULATORY COMPLIANCE

### 8.1 Regulatory Filings and Examinations

(a) Commencing to the extent possible on the Closing Date, and in any event no later than the completion of the Transition, and at all times thereafter, NICO shall at its Own Expense take all necessary action within its control so that Reinsureds, solely with respect to matters within

20

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the Scope of Service, satisfy all current and future informational reporting and any other requirements imposed by any Governmental Authority. Without limiting the foregoing, NICO shall timely transmit to Reinsureds the information necessary for Reinsureds to prepare such reports and summaries, including statistical summaries, as are necessary for Reinsureds to satisfy any requirements imposed by a Governmental Authority upon any Reinsured with respect to matters within the Scope of Service. In addition, NICO, upon any Reinsured's reasonable request, shall promptly provide to such Reinsured copies of all existing records relating to the Scope of Service (including, with respect to records maintained in machine readable form, hard copies) that are necessary to satisfy such requirements.

(b) NICO shall reasonably assist Reinsureds and cooperate with the Reinsureds in doing all things necessary, proper or advisable in connection with any and all market conduct or other examinations by Governmental Authorities relating to matters within the Scope of Service.

(c) Any reports or other materials required to be prepared by NICO under this Section 8.1 shall be prepared on a timely basis in order for Reinsureds to be able to comply with any filing deadlines required by contract or by Reinsureds' internal procedures and policies, in each case to the extent Reinsureds previously provided to NICO with sufficient advance notice thereof and reasonably consistent with NICO's own internal systems and procedures, or by Applicable Law. All such reports shall include such information as may reasonably be required by Reinsureds, as applicable, and shall be provided in a form, electronic or otherwise, as is reasonably requested by Reinsureds, as applicable.

### 8.2 Financial Reporting Obligations

NICO shall report and account to Reinsureds as set forth in this Section 8.2.

(a) On an annual basis, starting one year from the end of the Transition Period, NICO shall provide to the Reinsureds a current estimate of the ultimate exposure for Loss, Extra-Contractual Obligations, Included Reinsurance Recoverables, and Other Recoverables related to the Subject Asbestos Liabilities, by account, on a gross, ceded and net basis prior to the application of the LPT Reinsurance Agreement.

(b) In addition to and not in limitation of Reinsureds' rights under Section 10.3, NICO shall allow the Reinsureds and their Representatives reasonable access to NICO's actuarial and claims personnel, documentation, systems and records to the extent required by Reinsureds in order to complete Reinsureds' actuarial report (insofar as such report relates to the Subject Asbestos Liabilities, the "Reinsureds' Actuarial Report") and statutory actuarial opinion.

(c) Subject to an early processing systems cut-off date that will be agreed during Transition, within two (2) Business Days after the end of each quarter, NICO shall deliver to Reinsureds a quarterly data file (each a "Quarterly Data File"), in a form to be agreed during Transition, as required for financial reporting and other purposes, including requisite coding necessary for all statutory reporting obligations; it being understood that the initial Quarterly Data File shall be for the period from the Closing Date to the last day of the quarter in which this Administrative Services Agreement is executed. For claims and other transactions within the Scope of Service emanating from Chartis International, NICO shall supply such similar reports and information as Reinsureds shall reasonably require on a schedule that accommodates the non-calendar-quarter closings of Chartis International.

21

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(d) In addition to the reports described in paragraphs (a) through (c) of this Section 8.2, NICO shall provide the Reinsureds such information related to the Scope of Service as Reinsureds may reasonably request, *provided* that such information is compiled by NICO in the ordinary course of business.

(e) Solely for the purposes of determining (i) the Required Amount in a Retrocession Credit Event, (ii) the Security Amount in the event of a Collateral Triggering Event or (iii) if NICO may exercise its withdrawal rights pursuant to Section 6.3 of the Collateral Trust Agreement, NICO may request, from time to time during the term of this Administrative Services Agreement, a copy of the Reinsureds' Actuarial Report for the purpose of reviewing the Reinsureds' determination of Reserves. Upon receipt of such request, the Reinsureds shall provide a copy of the most recent available Reinsureds' Actuarial Report as promptly as possible to NICO. If NICO objects to the Reinsureds' determination of Reserves for the purposes set forth in this Section 8.2(e)(i)-(iii), above, the Parties shall retain either Milliman Inc. or Towers Watson or, if both firms refuse to act in such capacity, such other nationally recognized independent actuarial firm as may be agreed by the Parties, to conduct a review of the calculation of the Reserves set forth in such Reinsureds' Actuarial Report, and to prepare a report setting forth its findings and conclusions on such matter. To the extent the issue is determination of the Required Amount, the reporting actuarial firm shall adopt Reinsureds' determination of Reserves unless it determines that such determination was manifestly unreasonable. The fees, costs, and expenses of retaining such an actuarial firm shall be allocated by the actuarial firm between the Parties in accordance with the actuarial firm's judgment as to the relative merits of the Parties' proposals in respect of the disputed items.

### 8.3 Change in Status

(a) NICO shall (i) notify Reinsureds in writing promptly following (A) the public announcement of entry into any agreement that would result in a majority of the capital stock or a majority of the voting control of NICO no longer being owned or controlled, directly or indirectly, by Berkshire (or its

successor) or (B) the adoption of any plan to liquidate, merge or dissolve NICO and (ii) obtain the prior written consent of Reinsureds prior to the sale or transfer of assets of NICO that could reasonably be expected to render NICO unable to perform its obligations under this Administrative Services Agreement.

(b) NICO shall notify Reinsureds in writing prior to any material change to its claims handling procedures or operations.

#### **8.4 NICO Controls**

During the term of this Administrative Services Agreement, NICO shall maintain its accounting and oversight controls with respect to its operations consistent with the requirements under the Sarbanes-Oxley Act of 2002 (as that statute may be amended from time to time) and with past practice, to the extent consistent with Applicable Law and taking into consideration any wind-down of the Subject Asbestos Liabilities. NICO shall provide Reinsureds with documentation supporting such compliance upon the request of Reinsureds.

22

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### **ARTICLE IX** **REMEDY FOR ACTIONS IN EXCESS OF AUTHORITY**

#### **9.1 Materiality of Authority Limitations**

The Parties acknowledge that, among other things:

(a) There are Underlying Policies against which there are claims both within and without the Subject Asbestos Liabilities. Accordingly:

- (i) Actions taken by Reinsureds on matters ostensibly apart from the Subject Asbestos Liabilities can affect NICO's overall economic position vis-à-vis the Subject Asbestos Liabilities.
- (ii) Actions taken by NICO on matters ostensibly relating to the Subject Asbestos Liabilities can affect Reinsureds' overall economic position vis-à-vis matters apart from the Subject Asbestos Liabilities.

(b) Many of the Third-Party Reinsurance Agreements providing coverage to Reinsureds for Subject Asbestos Liabilities also provide coverage for matters not within the Subject Asbestos Liabilities. Accordingly:

- (i) Actions taken by NICO with respect to reinsurance coverage relating to the Subject Asbestos Liabilities can affect Reinsureds' overall economic position vis-à-vis their reinsurers on matters apart from the Subject Asbestos Liabilities.
- (ii) Actions taken by Reinsureds with respect to reinsurance coverage on claims not arising from the Subject Asbestos Liabilities can affect NICO's overall economic position vis-à-vis reinsurance recovery on Included Reinsurance Recoverables.

(c) Actions taken either by NICO or by Reinsureds vis-à-vis third parties, whether policyholders or reinsurers, can have consequences that are impossible to undo vis-à-vis such third parties.

(d) Accordingly, compliance with the authority limitations herein, both on NICO and on Reinsureds, is a material economic element of the overall transaction for both Parties. The Parties shall maintain an open channel of communication in an effort to identify as early as possible, and address in good faith, any disputes or differences as to how such authority limitations apply in specific circumstances.

#### **9.2 Remedy**

(a) If NICO takes action with respect to an underlying insured in excess of its authority to do so, and such action increases Reinsureds' exposure to that insured on matters apart from the Subject Asbestos Liabilities, then:

- (i) NICO shall be deemed to reinsure Reinsureds directly (*i.e.*, not via retrocession from Eaglestone), and at NICO's Own Expense, for the increase in exposure, such deemed reinsurance to be paid as and to the extent such increase manifests itself on a paid basis.

23

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- (ii) The burden of proof shall be on Reinsureds to establish that NICO acted in excess of its authority, that its action increased Reinsureds' economic exposure, and the amount, from time to time, by which such increase has manifested itself and thus is recoverable from NICO.

(b) If Reinsureds take action with respect to an underlying insured in excess of their authority to do so, and such action increases NICO's exposure to Ultimate Net Loss on the Subject Asbestos Liabilities, then:

- (i) The amount of such increase shall be at Reinsureds' Own Expense as and to the extent it manifests itself on a paid basis.
- (ii) The burden of proof shall be on NICO to establish that Reinsureds acted in excess of their authority, that their action increased NICO's economic exposure, and the amount, from time to time, by which such increase has manifested itself and thus is at Reinsureds' Own Expense.

(c) If NICO takes action vis-à-vis a reinsurer on a Third Party Reinsurance Agreement in excess of its authority to do so, and such action reduces the amount recoverable by Reinsureds on matters apart from the Subject Asbestos Liabilities, then

- (i) NICO shall be deemed to reinsure Reinsureds directly, and at NICO's Own Expense, for the increase in Reinsureds' net caused by the reduction in the recoverable, such deemed reinsurance to be paid as and to the extent such increase manifests itself on a paid basis.

(ii) The burden of proof shall be on Reinsureds to establish that NICO acted in excess of its authority, that its action reduced Reinsureds' recoverables, and the amount, from time to time, by which such reduction has manifested itself and thus is recoverable from NICO.

(d) If Reinsureds take action vis-à-vis a reinsurer on a Third Party Reinsurance Agreement in excess of their authority to do so, and such action reduces the amount recoverable by Reinsureds in respect of the Subject Asbestos Liabilities, then

(i) The calculation of Ultimate Net Loss at any time thereafter shall include as an Included Reinsurance Recovery the amount that would have been so included had Reinsureds not taken the action in excess of authority as and to the extent it manifests itself on a paid basis.

(ii) The burden of proof shall be on NICO to establish that Reinsureds acted in excess of their authority, that their action reduced the amount recoverable, and the amount, from time to time, by which such reduction has manifested itself and thus the deemed amount of Included Reinsurance Recoveries to be included in the calculation of Ultimate Net Loss.

## **ARTICLE X** **BOOKS AND RECORDS**

### **10.1 Transfer and Ownership of Books and Records**

In accordance with Section 4.7 of the Master Transaction Agreement, prior to Closing, the Parties shall have in good faith agreed upon a protocol to (a) transfer to NICO the Books and

24

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Records following the Closing and/or (b) provide NICO with reasonable access to the Books and Records during normal business hours following the Closing. Notwithstanding the foregoing, Reinsureds shall retain legal ownership of such Books and Records and shall be entitled to retain one or more copies and/or originals of such Books and Records. With respect to any Books and Records that are archived, Reinsureds shall not be required to transfer such archived Books and Records to NICO at the Closing, but instead shall provide NICO with reasonable access to such archived Books and Records. At any time following the Closing, Reinsureds shall at NICO's Own Expense transfer all or a portion of the archived Books and Records to NICO upon NICO's reasonable request.

### **10.2 Maintenance of Books and Records**

Subject to compliance with the provisions of Section 10.3, NICO shall maintain (including backing up its computer files and maintaining facilities and procedures for safekeeping and retaining documents) Books and Records of all transactions pertaining to the Subject Business in accordance with Reinsureds' record retention requirements in effect from time to time.

### **10.3 Access to Books and Records and Personnel**

(a) NICO and Reinsureds shall each make the Books and Records in its or their possession or under its or their control reasonably available to Reinsureds or NICO, as applicable, or their Representatives, during normal office hours, for such auditing or any other purposes related to the LPT Reinsurance Agreement, the LPT Retrocession Agreement, or this Administrative Services Agreement as Reinsureds or NICO, as applicable, may require. Reinsureds or NICO, as applicable, shall further, at their Own Expense, be entitled to make copies of the Books and Records for these purposes.

(b) NICO shall, from time to time at the reasonable request of Reinsureds, make its managerial personnel available for review and discussion with Reinsureds of any and all matters pertaining to the Scope of Service.

(c) NICO shall provide all reasonably needed information, including access to claim files and personnel, for the purpose of periodically updating actuarial studies of gross liabilities with respect to the gross, net and ceded Subject Asbestos Liabilities. This obligation shall survive the expiration of this Administrative Services Agreement and shall continue for so long as NICO may have any liability or obligations arising under this Administrative Services Agreement or the LPT Retrocession Agreement.

(d) To the extent that NICO may be required under the provisions of paragraphs (a), (b) or (c) above to provide information that it does not compile or have readily available in the ordinary course of business or to provide access to its personnel for other than routine meetings, Reinsureds shall reimburse NICO for its fully loaded cost of such compliance. For the avoidance of doubt, any access to personnel in connection with the fulfillment of the obligations of the Reinsureds or its Affiliates under SAS 70 (or related or successor requirement) shall not be considered routine.

(e) NICO and/or Reinsureds, as applicable, shall make the Books and Records and its personnel reasonably available at any such location and manner as may be required by any Third Party Reinsurance Agreement.

(f) NICO shall not, and shall cause its Affiliates and Subcontractors to not, dispose of, alter or destroy any material Books and Records related to Subject Claims or other relevant

25

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materials other than in accordance with NICO's books and records retention policies as may be in effect from time to time, but in no event will NICO dispose of, alter or destroy, or cause or permit any of its Affiliates to dispose of, alter or destroy, any such Books and Records or other relevant materials (i) prior to the seventh anniversary of the Closing and (ii) without providing Reinsureds with advance written notice and the opportunity to take possession of such Books and Records.

(g) Notwithstanding any other provision of this Section 10.3, a Party shall not be obligated to provide such access to any Books and Records, employees or information if such Party determines, in its reasonable judgment but subject to *de novo* review in an arbitration commenced pursuant to

Article XIX hereof, that doing so would violate Applicable Law or a contract, agreement or obligation of confidentiality owing to a third party; *provided, however*, that the Party requesting access shall have the right to require such other Party to use its commercially reasonable efforts to take steps in order to provide such access without causing such violations.

## **ARTICLE XI** **INABILITY TO PERFORM SERVICES; ERRORS**

### **11.1 Inability to Perform Services**

In the event that NICO shall be unable to perform normal and routine services as required by this Administrative Services Agreement for any reason for a period that can reasonably be expected to exceed thirty (30) consecutive calendar days, NICO shall provide notice to Reinsureds of its inability to perform the services and shall cooperate with Reinsureds in obtaining an alternative means of providing such services. NICO will be responsible at its Own Expense for all costs incurred by Reinsureds in obtaining such alternative means and/or restoring services except and to the extent that such inability to provide services results from Reinsureds' failure to comply with their obligations under the Transition Services Agreement, the consequences of which are dealt with in that agreement.

### **11.2 Errors**

NICO shall, at its Own Expense, use commercially reasonable efforts to correct any errors in Administrative Services caused by it as soon as practicable after discovering such error or receiving notice thereof from Reinsureds or other Person.

## **ARTICLE XII** **LEGAL ACTIONS**

### **12.1 Regulatory Proceedings**

(a) If Reinsureds or NICO receives notice of, or otherwise becomes aware of, any regulatory investigation, examination or proceeding or other significant inquiry relating to matters within the Scope of Service, Reinsureds or NICO, as applicable, shall promptly notify the other Party. Unless Reinsureds choose to delegate responsibility to NICO with respect to a specific matter, Reinsureds shall respond to and resolve all regulatory matters and regulatory investigations, examinations, inquiries and proceedings relating to matters within Scope of Service with the full assistance and cooperation of NICO.

26

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(b) Notwithstanding anything to the contrary contained in this Administrative Services Agreement, neither Reinsureds nor NICO shall have the authority to institute, prosecute or maintain any regulatory proceedings on behalf of the other Party without the prior written consent of such other Party.

### **12.2 Notification Requirements**

The following notification requirements are in addition to, and not in limitation of, notification requirements set forth elsewhere in this Administrative Service Agreement or in the other Ancillary Agreements or the Master Transaction Agreement.

(a) If Reinsureds or NICO receive notice of any litigation, arbitration, declaratory judgment or other legal proceeding against a Party to this Administrative Services Agreement that has been instituted either under, arising out of, or relating to any matter within the Scope of Service, Reinsureds or NICO, as applicable, shall promptly notify the other Party.

(b) NICO shall promptly notify Reinsureds in writing of any potential loss from an Subject Claim, set of interrelated Subject Claims, or a single account, that is reasonably likely to involve a loss, on a gross of third party ceded reinsurance basis, in the amount of \$15,000,000 or greater. Notice is deemed to have been given for any claim reserved at \$15,000,000 or more as of the Closing Date.

(c) NICO shall promptly notify Reinsureds in writing whenever a Berkshire Owned Entity or a Berkshire Administered Entity is an opposing party in any litigation, arbitration, declaratory judgment or other legal proceeding against Reinsureds that has been instituted either under, arising out of, or relating to any Underlying Policy or Third Party Reinsurance Agreement in respect to the Subject Asbestos Liabilities.

(d) NICO shall promptly, and in any event within thirty (30) calendar days of such event, notify Reinsureds in writing of any events that constitute a Retrocession Credit Event.

### **12.3 Right to Associate**

NICO shall prosecute or defend, pursuant to the terms of this Administrative Services Agreement and in the name of and on behalf of the applicable Reinsureds when necessary, any litigation, arbitration or other legal proceeding brought on any contract, policy, or other matter within the Scope of Service. NICO, when so requested, shall afford Reinsureds an opportunity to be associated with NICO, at Reinsureds' Own Expense, in the defense of any claim, suit or proceeding involving Subject Asbestos Liabilities, and the Parties shall cooperate in every respect in preparing to prosecute or defend or in the prosecution or defense of such claim, suit or proceeding.

## **ARTICLE XIII** **BANK ACCOUNTS AND PAYMENTS**

### **13.1 Payment and Receipt of Funds**

(a) Subject to Sections 13.1(b), (c), (d) and (e) below, NICO is authorized on transactions subject to this Administrative Services Agreement to pay funds from, and receive funds into, NICO's own proprietary accounts.

(b) NICO's payment of funds for Losses, Allocated Loss Adjustment Expenses, and/or Extra Contractual Obligations in respect of the Subject Asbestos Liabilities shall be

accounted for as (i) payment of the item by Reinsureds, (ii) payment by Eaglestone of Ultimate Net Loss ceded to it by Reinsureds, and (iii) payment by NICO of Ultimate Net Loss retroceded to it by Eaglestone.

(c) NICO's receipt of funds on account of Included Reinsurance Recoverables or Other Recoverables in respect of the Subject Asbestos Liabilities shall be accounted for as (i) receipt of the item by Reinsureds, (ii) payment by Reinsureds to Eaglestone of a credit against Ultimate Net Loss ceded to Eaglestone by Reinsureds, and (iii) payment by Eaglestone to NICO of a credit against Ultimate Net Loss retroceded to it by Eaglestone.

(d) In billing Third Party Reinsurers and in follow-up collection activity, NICO shall adopt procedures reasonably calculated to ensure that any remittance from a Third-Party Reinsurer is identifiable as pertaining to a specific NICO Client Entity.

(e) NICO shall maintain sufficient records and controls with respect to payments and receipts so that:

- (i) Payments made on behalf of Reinsureds are vouchered as such prior to the time of payment and are identifiable, from the moment payment is made, to the specific liability being discharged.
- (ii) To the extent funds received by NICO are not specifically identified to one or more NICO Client Entities, such funds shall be held in suspense by NICO until identification and/or allocation of such funds is made. Such identification and/or allocation, and the basis therefor, shall be documented in NICO's files prior to release of the item from suspense.

### 13.2 Post-Closing Adjustments

To the extent that payments and recoveries are made during Transition or otherwise after the Closing Date by or to Reinsureds in their own behalf that are accountable as part of Ultimate Net Loss, or to the extent NICO has paid or received amounts on behalf of or to Reinsureds that are not accountable as part of Ultimate Net Loss, Reinsureds and NICO shall cooperate in setting up reimbursement procedures for payment and receipt of amounts due between NICO and Reinsureds.

## **ARTICLE XIV COOPERATION**

### 14.1 Cooperation

The Parties shall cooperate in a commercially reasonable manner in order that the duties assumed by NICO pursuant to this Administrative Services Agreement will be effectively, efficiently and promptly discharged, and will not take any actions which would frustrate the intent of the transactions contemplated by this Administrative Services Agreement, the Master Transition Agreement, the LPT Reinsurance Agreement, the LPT Retrocession Agreement or any other Ancillary Agreements. Each Party shall, at all reasonable times under the circumstances and upon reasonable notice, make available to the other Party properly authorized personnel for the purpose of consultation and decision. The remedies of Article IX shall apply to this Section 14.1.

### 14.2 Relationship Management

In the interest of effective effectuation of this Administrative Services Agreement, the Parties will seek in good faith to have primary communications regarding documents, records, and request for information under this Administrative Services Agreement be made through the following authorized Representatives:

For NICO:

Brian G. Snover  
Vice President and General Counsel  
Berkshire Hathaway Reinsurance Division  
100 First Stamford Place  
Stamford, CT 06902  
Fax: (203) 363-5221

For Reinsureds:

Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

Any Party may change its Representative or add additional designated Representatives pursuant to this Section 14.2 on the date hereof or on five Business Days' advance notice in writing to the other Parties.

## **ARTICLE XV DURATION; TERMINATION**

## 15.1 Duration

This Administrative Services Agreement shall commence on the Closing Date and shall continue until it is terminated under Section 15.2.

## 15.2 Termination

- (a) Subject to the provisions regarding survivability set forth in Section 15.4 hereof, this Administrative Services Agreement shall terminate:
- (i) at any time upon the mutual written consent of the Parties, which writing shall state the effective date of termination, and consistent with Section 15.3 hereof, shall set forth in reasonable detail the procedure for transferring the Administrative Services to Reinsureds or their designee;
  - (ii) automatically when the Remaining Paid Limit first becomes zero;
  - (iii) at the option of Reinsureds, upon written notice to NICO, upon the occurrence of a Special Event Trigger;

29

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- (iv) at the option of Reinsureds, upon the entry of a final determination by an arbitration panel in accordance with Article XIX that NICO has persistently breached this Administrative Services Agreement in such manner as to materially affect the overall allocation of risk between the Parties to the Transaction Documents as a whole; and
- (v) at the option of Reinsureds, upon any event or occurrence subject to any change in status specified in Section 8.3(a)(ii) hereof without the prior written consent of Reinsureds.

(b) In the event that this Administrative Services Agreement is terminated pursuant to Section 15.2(a)(iii), (iv), or (v) Reinsureds shall promptly select a third-party administrator reasonably acceptable to NICO to perform the Administrative Services.

(c) Following any termination of this Administrative Services Agreement by Reinsureds pursuant to Section 15.2(a)(iii), (iv) or (v), NICO shall at its Own Expense reimburse Reinsureds for any reasonable out-of-pocket costs arising as a result of such termination, including, without limitation, (i) the cost of transitioning the Administrative Services to a substitute provider of Reinsureds and (ii) any fees paid to any such substitute provider.

## 15.3 Change in Settlement Authority on Reduction of Remaining Limit

If the Remaining Paid Limit drops below \$500 million, then NICO shall not thereafter enter into any settlement or coverage-in-place agreement requiring aggregate cash payments of \$30 million or more without the consent of Reinsureds, which shall not be unreasonably withheld or delayed. If Reinsureds decline to consent, they shall thereafter be responsible at their Own Expense for any Extra Contractual Obligations arising from the failure to settle.

## 15.4 Certain Actions Related to Termination

- (a) If (x) the Remaining Incurred Limit drops to zero or (y) any notice of termination is given under either the LPT Retrocession Agreement or this Administrative Services Agreement (each of (x) and (y) a "**Reverse Transition Trigger**"), then, upon the request of Reinsureds:
- (i) Reinsureds and NICO shall negotiate in good faith a services agreement (the "**Reverse Transition Services Agreement**") containing terms and conditions mutually acceptable to the Parties, whereby NICO and its Affiliates will provide, at NICO's fully allocated cost, which shall be at Reinsureds' Own Expense except as provided in Section 15.2(c), all transition or administrative services reasonably necessary or appropriate in order to transition to Reinsureds of the administration of the Subject Asbestos Liabilities.
  - (ii) To ensure an effective transition and transfer of the administration of the matters within the Scope of Service, NICO shall, and shall cause its Affiliates and their respective Representatives to, reasonably cooperate and work with Reinsureds in transition planning and implementation. Reinsureds shall at their Own Expense reimburse NICO for the fully allocated costs incurred by NICO or its Affiliates in connection with any actions undertaken by NICO at the request of Reinsureds in transitioning the administration to Reinsureds.

30

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(b) Unless otherwise agreed to in writing by the Parties, upon the termination or expiration of this Administrative Services Agreement, NICO shall, and shall cause each of its Affiliates, to, promptly transfer to Reinsureds, or their designee, originals or copies of all Books and Records in the possession or control of such Persons.

## 15.5 Survival

The provisions of Section 10.2, Section 10.3, paragraphs (b) and (c) of Section 15.2, Section 15.3, Section 15.4, Article XVI, Article XVIII, and Sections 20.1, 20.7, 20.10 and 20.12 shall survive the termination of this Administrative Services Agreement.

## ARTICLE XVI CONFIDENTIALITY; PRIVACY REQUIREMENTS

## 16.1 Definitions

The following terms, when used in this Administrative Services Agreement, shall have the meanings set forth in this Section:

(a) As used herein, “**Confidential Information**” means any information of NICO or Reinsureds that is not generally known to the public and at the time of disclosure is identified, or would reasonably be understood by the receiving Party to be proprietary or confidential, whether or not so marked and whether disclosed in oral, written, visual, electronic or other form, and to which the receiving Party (or its contractors or agents) has access to in connection with this Administrative Services Agreement. For purposes of clarification, Confidential Information includes: (i) business plans, strategies, forecasts, projects and analyses; (ii) financial information and fee structures; (iii) business processes, methods and models; (iv) employee and supplier information; (v) product and service specifications; (vi) manufacturing, purchasing, logistics, sales and marketing information; (vii) methods and training materials; and (viii) the computer systems, architecture, software, datasets, and databases used by a Party; and (ix) the terms and conditions of this Administrative Services Agreement, and in the case of Reinsureds, also includes (A) information about or owned by Reinsureds’ customers, insureds, or claimants; (B) information treated or defined as confidential under the Reinsureds’ policies and standards (to the extent such policies and standards are made known to NICO); and (C) Reinsureds’ data and Personal Information.

(b) “**Nonpublic Personal Information**” is as defined in Title V of the Financial Modernization Act (the Gramm-Leach-Bliley Act) (15 U.S.C. § 6801 et seq.) and related Applicable Law. Nonpublic Personal Information includes individually identifiable financial and medical or health-related information, including application, policy, or claim information; social security numbers, personal financial information, health information; medical records; and names or lists of individuals derived from nonpublic personally identifiable information becoming known by NICO through the performance of its obligations under this Administrative Services Agreement.

(c) “**Personal Information**” shall mean information that identifies an individual, personally, including, but not limited to (i) an individual’s first and last name; (ii) a home or other physical address; (iii) an email address; (iv) a credit card number; (v) a driver’s license number; (vi) a social security number; (vii) information on an individual’s financial status; (viii) an individual’s past, present or future physical, mental or behavioral health or condition; (ix) the provision of health care to any individual; (x) payment for the provision of health care to any individual;

31

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(xi) any information concerning an individual that would be considered “nonpublic personal information” within the meaning of Title V of the Gramm-Leach Bliley Act of 1999 (Public Law 106-102, 113 Stat. 1338) and its implementing regulations, as the same may be amended from time to time and related Applicable Law; (xii) any information that is considered personal information as defined by Applicable Law; or (xiii) any information regarding Insurer’s clients or prospective clients received by NICO in connection with the performance of its obligations under this Administrative Services Agreement, including, but not limited to (a) the fact that an individual has a relationship with the Insurer and/or its parent, affiliated or subsidiary companies, (b) an individual’s account information, and (c) any other information of or relating to an individual that is protected from disclosure by the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Part 160 and Part 164, Subparts A, D, and E or any other Applicable Law of similar import. Personal Information includes Nonpublic Personal Information.

## 16.2 **Obligations**

The receiving Party will use the same care and discretion to avoid disclosure, publication or dissemination of any Confidential Information received from the disclosing Party as the receiving Party uses with its own similar information that it does not wish to disclose, publish or disseminate (but in no event less than a reasonable degree of care). The receiving Party will: (a) use the disclosing Party’s Confidential Information only for the purpose for which it is disclosed in connection with the performance of its obligations under this Administrative Services Agreement or the full enjoyment of its rights hereunder; and (b) not disclose the disclosing Party’s Confidential Information except to: (i) its employees, Affiliates, agents, contractors, and Subcontractors (and their employees) who both (X) have a need to know such Confidential Information in connection with the performance of the receiving Party’s obligations under this Administrative Services Agreement or the full enjoyment of its rights hereunder and (Y) will take the necessary steps and measures to keep the Confidential Information confidential or (ii) its legal, financial, or other professional advisors, in each case subject to an obligation of confidentiality. The receiving Party shall ensure that any Affiliates, Subcontractors, agents, advisors and any other third parties to whom Confidential Information is disclosed hereunder have signed an agreement with the same or similar confidentiality obligations as set forth herein or are otherwise bound by similar confidentiality obligations. The receiving Party is liable for any unauthorized disclosure or misappropriation of Confidential Information by any of its Affiliates, Subcontractors, agents or advisors. The receiving Party will promptly report to the disclosing Party any breaches in confidentiality of which it is aware that may materially affect the disclosing Party and specify the corrective action taken. NICO will not commingle the Confidential Information or Personal Information of Reinsureds with any other personal or confidential information.

## 16.3 **Exceptions to Confidential Treatment**

(a) **General.** Except with respect to Personal Information of Reinsureds, this Administrative Services Agreement imposes no obligation upon any Party with respect to information that: (i) the receiving Party possessed prior to disclosure by the disclosing Party, without an obligation of confidentiality; (ii) is or becomes publicly available without breach of this Administrative Services Agreement by the receiving Party; (iii) is or was independently developed by the receiving Party without the use of any Confidential Information of the disclosing Party other than in connection with the Administrative Services; (iv) is or was disclosed by the disclosing Party without imposing any obligation of confidentiality on the receiving Party; or (v) is or was

32

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received by the receiving Party from a third party that does not have an obligation of confidentiality to the disclosing Party or its Affiliates.

(b) **Required Disclosure.** If either Party is requested or required to disclose Confidential Information of the other pursuant to any judicial or administrative process, then such receiving Party shall, to the extent it may legally do so, promptly notify the other Party in writing of such request or requirement. The Party whose Confidential Information is requested or required to be disclosed shall either: (i) promptly seek protective relief from such disclosure obligation, or (ii) direct the receiving Party to comply with such request or requirement. The receiving Party shall cooperate with efforts of the disclosing Party to maintain the confidentiality of such information or to resist compulsory disclosure thereof, to the extent it may legally do so, but any costs incurred by the receiving Party shall be reimbursed by the disclosing Party. If, after a reasonable opportunity to seek protective relief, such relief is not obtained by disclosing Party, or if such Party fails to obtain such relief, the receiving Party may disclose such portion of such Confidential Information that the receiving Party reasonably believes, on the basis of advice of such Party’s counsel, such Party is legally obligated to disclose. Either Party may disclose



Confidential Information to a state insurance regulator or to a tax authority as required under Applicable Law or as required to support that Party's position on any tax return.

(c) **Return or Destruction.** At Reinsureds' request and upon the termination of this Administrative Services Agreement, NICO will return or certify or cause the return or certification of destruction by itself, its Affiliates and its Subcontractors of all of Reinsureds' Confidential Information in NICO's possession or control. Reinsureds will have the same obligations with respect to NICO's Confidential Information as NICO has with respect to Reinsureds' Confidential Information under this section. The Parties shall be entitled to retain an archival copy of any Confidential Information (excluding Personal Information) to the extent required to enforce the terms of this Administrative Services Agreement or to comply with Applicable Law or to support its position on any tax return; *provided*, that such Confidential Information will be returned or destroyed in accordance with this provision and Reinsureds' document retention policy upon the expiration of the period specified in the Applicable Law, the expiration of the applicable statute of limitations and the final resolution of any pending dispute. Notwithstanding the foregoing, neither Party shall be obligated to return or destroy the Confidential Information of the other Party to the extent it is maintained in such Party's disaster recovery or other back-up media; *provided* that such Confidential Information shall only be accessed in connection with disaster recovery or back-up restoration and that such Confidential Information shall be securely destroyed in accordance with that Party's record retention policies, practices and procedures.

#### **16.4 Privacy**

To the extent of any conflict between the requirements of Section 16.2 and this Section 16.4, this Section 16.4 shall govern and control with respect to Personal Information.

(a) **Acknowledgement.** NICO acknowledges that it may have access to Personal Information in order to perform its duties under this Administrative Services Agreement and that Personal Information is protected under Applicable Law.

(b) **Use and Disclosure.** NICO agrees to use and disclose the Personal Information only: (i) as required for it to perform its duties and obligations under this Administrative Services Agreement; (ii) for any lawful purpose related to this Administrative Services Agreement; and (iii) as permitted by Applicable Law.

33

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(c) **Privacy Protection Protocol.** NICO shall at all times maintain a privacy protection protocol, which is sufficient to assure compliance with nondisclosure, privacy, security and other provisions of this Administrative Services Agreement that relate to Personal Information and Confidential Information and with all Applicable Law to the extent of NICO's obligations under Section 2.3.

(d) **Security Precautions.** NICO shall take all reasonable security precautions to maintain the confidentiality and security of all Personal Information, take all steps necessary to: (i) protect against unauthorized access to Personal Information, (ii) protect against any anticipated threats or hazards to the security of such information and (iii) protect Personal Information as required by Applicable Law. Among other things, NICO shall: (i) limit access to Personal Information to those actually performing Administrative Services for Reinsureds; (ii) limit access of personnel performing Administrative Services for Reinsureds to that Personal Information reasonably required for the performance of Administrative Services for Reinsureds; (iii) take all reasonable and necessary steps to ensure that Personal Information is transmitted only in a secure manner, including by encryption or equivalent means when reasonable and necessary and when required by Applicable Law; and (iv) take all reasonable and necessary steps to ensure that Personal Information is minimally disclosed, combined, amended, or otherwise altered by NICO personnel so as to maintain its integrity and accuracy.

(e) **Protected Health Information.** If NICO or NICO personnel will have access to "protected health information" (as such term is defined by the HIPAA Privacy Rule), NICO shall execute the Business Associate Agreement substantially in the form attached hereto as Exhibit A. NICO and NICO personnel shall comply with the terms of the Business Associate Agreement in performing the applicable Administrative Services. NICO shall be responsible under this Administrative Services Agreement for any failure of NICO or NICO personnel to comply with the terms of the Business Associate Agreement or the Applicable Law referenced in the Business Associate Agreement applicable to NICO in the same manner and to the same extent it would be responsible for any failure to comply with its other obligations under this Administrative Services Agreement.

(f) **Privacy Breach.** If NICO breaches the provisions of this Section 16.4, NICO shall immediately notify Reinsureds and shall, at NICO's Own Expense, cooperate with Reinsureds in mitigating any potential damages by:

- (i) immediately endeavoring to recover all Personal Information from the unauthorized recipient, if known, and instructing the unauthorized recipient to cease and desist from any use of the improperly disclosed Personal Information;
- (ii) at the request of Reinsureds, returning within ten (10) Business Days all Personal Information provided by Reinsureds to NICO pursuant to this Section 16.4;
- (iii) at the request of Reinsureds, deleting from NICO electronic systems and physical records within ten (10) Business Days all Personal Information provided by Reinsureds and providing certification that such deletion has occurred;

34

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- (iv) assisting and cooperating with any demand forwarded by Reinsureds to NICO as a result of a court order imposed on Reinsureds or from a Governmental Authority having jurisdiction over Reinsureds; and
- (v) assisting with taking any other remedial steps reasonably requested by Reinsureds.

(g) **No Limitation.** The inclusion of this Section 16.4 relating primarily to Personal Information shall not, in any way, limit the obligations of NICO under other sections of this Administrative Services Agreement that relate to the protection of Confidential Information generally.

#### **16.5 Regulatory and Legal Communication**

To the extent NICO may legally do so:

(a) **Government Requests.** NICO agrees that, should any Governmental Authority request NICO to submit any information or provide any communication related specifically to the Administrative Services provided by it or any of its Subcontractors or on its or their behalf pursuant to this Administrative Services Agreement, NICO will, to the extent permitted by Applicable Law, notify Reinsureds promptly in writing upon receipt of such request. In no case shall said notice be received by Reinsureds later than five (5) Business Days after receipt by NICO. NICO shall contact Reinsureds prior to any response NICO would make to any Governmental Authority that involves any Reinsured, any client of any Reinsured, or any Reinsureds' relationship with such Governmental Authority. This provision does not apply to reviews by tax authorities or to state insurance departments in connection with financial examinations.

(b) **Notice.** Without limiting anything in subsection (a) above, NICO shall, to the extent permitted by Applicable Law, provide Reinsureds with prompt written notice of any Governmental Authority review, audit or inspection of, or request to review, audit or inspect, any of NICO's facilities, processes, or products under the FCPA or any anti-bribery Applicable Law that relates specifically to the Administrative Services furnished to Reinsureds under this Administrative Services Agreement. Even if Reinsureds are not otherwise identified as involved in the review, audit, or inspection, NICO shall, to the extent permitted by Applicable Law, provide Reinsureds with the summary results of any such review, audit or inspection. If not legally prohibited, NICO shall provide Reinsureds a reasonable opportunity to provide assistance to NICO in responding to any such review, audit or inspection.

(c) **Security Incident.** In the event of an incident that does, or is reasonably likely to, result in an unauthorized disclosure of, or access to, Personal Information (a "**Security Incident**"), NICO shall promptly notify Reinsureds of the Security Incident, and NICO shall promptly (and in any event as soon as reasonably practical) (i) perform a root cause analysis and prepare a corrective action plan, (ii) provide Reinsureds with written reports and detailed information regarding any such Security Incident, including how and when such Security Incident occurred and what actions NICO is taking to remedy such Security Incident, (iii) cooperate in the investigation of the Security Incident at Reinsureds' request, (iv) reimburse Reinsureds for their reasonable out-of-pocket costs of notifying any individuals and/or authorities of the Security Incident if Reinsureds, in their good faith judgment, consider notification necessary, (v) remediate such Security Incident or potential Security Incident and take commercially reasonable actions to prevent its recurrence and assist Reinsureds with any steps required by Applicable Law;

35

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*provided, however*, to the extent such Security Incident or potential Security Incident is not caused by NICO's or its Subcontractors' failure to comply with this Administrative Services Agreement, Reinsureds shall at their Own Expense reimburse NICO for NICO's reasonable expenses incurred in such remediation, and (vi) promptly restore any lost Reinsureds data to the last available back-up.

(d) **Material Breach.** A breach of this Article XVI may be a material breach of this Administrative Services Agreement. Each Party acknowledges that monetary damages may not be a sufficient remedy for unauthorized disclosure of Confidential Information or Personal Information and that each Party may therefore be entitled to pre-arbitration injunctive relief pursuant to Section 8.5 of the Master Transaction Agreement.

## 16.6 **Systems Security**

### (a) **System Access.**

- (i) If any Party is given access (each in such capacity, a "**Guest User**") to the other Party's computer system(s), software, datasets and databases (collectively, "**Systems**") in connection with its performance or receipt of Administrative Services or its obligations or rights under this Administrative Services Agreement, such Guest User shall comply with the other Party's (each in such capacity, a "**Host**") generally applicable Systems security policies, procedures and requirements ("**Security Requirements**"), a copy of which will be provided to the Guest User prior to the Guest User's being given access. Any changes to the Security Requirements that the Host desires to make shall be provided to the Guest User prior to the date such Security Requirements will go into effect and with sufficient notice to the Guest User to implement the changes to the Security Requirements.
- (ii) The Guest User will not tamper with, intentionally compromise or circumvent any security or audit measures employed by the Host. The Guest User shall ensure that only those personnel specifically authorized to access the Host's Systems on behalf of Guest User do so. The Guest User shall make commercially reasonable efforts to prevent unauthorized destruction, alteration or loss of information contained on the Host's Systems.
- (iii) If at any time the Guest User determines, or the Host notifies the Guest User, that any Guest User personnel has sought to circumvent or has circumvented the Host's Security Requirements, or that any unauthorized Guest User personnel has accessed or may access the Host's Systems, or that any Guest User personnel has engaged in activities that may lead to the unauthorized access, destruction or alteration or loss of data, information or software, the Guest User shall immediately terminate and/or take other reasonable measures to block any such personnel's access to the Host's Systems and immediately notify the Host thereof. Without limiting the Guest User's obligations stated in the foregoing sentence, the Host may revoke such Guest User's personnel's Systems credentials

36

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and privileges or otherwise take measures to protect the Systems from such personnel. Each Host shall be provided reasonably sufficient access to monitor the Guest User's use of the Host's Systems and full compliance with the Host's Security Requirements. The Guest User and Host shall use good faith efforts at the termination or expiration of the applicable services to ensure that all applicable user IDs and passwords assigned to the Guest User are cancelled.

(b) **Maintenance of Security Requirements.** Each Party agrees to maintain its Security Requirements (or other requirements which are no less protective) for so long as this Administrative Services Agreement is in force. Each Party shall provide the other Party with reasonable access to copies of its Security Requirements upon reasonable prior written notice by the other Party during the term of this Administrative Services Agreement.

(c) Virus Protection. Each Party agrees to implement and maintain the regular use of Virus protection software programs which meet the industry standards that it uses for itself, but in no event less than reasonable measures to prevent Viruses from being coded or introduced into the Systems used in connection with this Administrative Services Agreement. If a Virus is found to have been introduced into the Systems used in connection with this Administrative Services Agreement, the Parties shall reasonably cooperate to eradicate and reduce the effects of such Virus and, if the Virus causes a loss of operational efficiency or loss of data, provide written notice in no event later than 48 hours after discovery thereof to the other Party and reasonably cooperate to mitigate any losses of operational efficiency or data caused by the Virus.

## **ARTICLE XVII** **FORCE MAJEURE**

### **17.1 Force Majeure Event**

Except for any failure of either Party to comply with the provisions of its then-existing disaster recovery plans, neither Party shall have any liability or responsibility, and shall be excused from performance for, any interruption, delay, impairment or other failure to fulfill any obligation under this Administrative Services Agreement to the extent and so long as the fulfillment of such obligation is interrupted, delayed, impaired, prevented or frustrated as a result of or by natural disaster, hurricane, earthquake, floods, fire, catastrophic weather conditions, diseases or other elements of nature or acts of God, acts of war (declared or undeclared), insurrection, riot, civil disturbance or disorders, rebellion, sabotage, government regulations or directives, embargoes, terrorist acts, or explosions, strikes, failure of or damage to public utility ("**Force Majeure Event**"); *provided* that such Party uses best efforts promptly to overcome or mitigate the cause of such delay or failure to perform, including the implementation of such Party's then-existing disaster recovery plan. Any Party so delayed in its performance shall immediately notify the other thereof by telephone and confirm promptly thereafter in writing, describing in reasonable detail the circumstances causing such delay, and shall resume the performance of its obligations as promptly as reasonably practicable after the Force Majeure Event has ceased to exist.

37

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## **ARTICLE XVIII** **INDEMNIFICATION**

### **18.1 Extra Contractual Obligations**

This Article XVIII does not address Extra Contractual Obligations as defined in the LPT Reinsurance Agreement and/or the LPT Retrocession Agreement nor does it cover matters subject to Article IX hereof, which shall be treated solely as provided in such Agreement(s) and/or such Article and not as subjects of indemnification hereunder.

### **18.2 Indemnification Obligation of NICO**

NICO shall, at its Own Expense, indemnify and hold harmless Reinsureds and each of their directors, officers, employees, agents or Affiliates (and the directors, officers, employees and agents of such Affiliates) and representatives thereof at any time and from time to time, from any and all losses, liabilities, costs, claims, demands, compensatory, extra contractual and/or punitive damages, fines, penalties and expenses (including reasonable attorneys' fees and expenses) (collectively, "**Reinsureds' Indemnity Items**," but only to the extent resulting in damages not included within the definition of Extra Contractual Obligations) arising out of or caused by: (i) fraud, theft or embezzlement by directors, officers, employees or agents of NICO, its Affiliates or its Subcontractors in connection with the provision of services under this Administrative Services Agreement during the term of this Administrative Services Agreement; (ii) the failure, either intentional or unintentional, of NICO, its Affiliates or its Subcontractors to properly perform the services or take the actions required by this Administrative Services Agreement, including, without limitation, the failure to provide requisite Medicare information or the failure to properly process, evaluate and pay disbursement requests in accordance with the terms of this Administrative Services Agreement; (iii) any other act of negligence or willful misconduct committed by directors, officers, employees or agents of NICO, its Affiliates or its Subcontractors in connection with the provision of services under this Administrative Services Agreement during the term of this Administrative Services Agreement; (iv) any breach of an express warranty hereunder; or (v) any failure of NICO or its Subcontractors to comply with Applicable Law in connection with the provision of services under this Administrative Services Agreement during the term of this Administrative Services Agreement, except to the extent that, in the case of (ii), (iii), (iv), or (v), the harm was caused by the action or inaction of Reinsureds, their Affiliates, or their Subcontractors, whether or not in compliance with the terms of this Administrative Services Agreement or the Transition Services Agreement. Nothing herein shall be construed to require NICO to indemnify Reinsureds with respect to any act or omission where the decision to take or omit such action was with the agreement of Reinsureds.

### **18.3 Indemnification Obligation of Reinsureds**

Reinsureds shall, at their Own Expense, indemnify and hold harmless NICO and any of its directors, officers, employees, agents or Affiliates (and the directors, officers, employees and agents of such Affiliates) and representatives thereof at any time and from time to time, from any and all losses, liabilities, costs, claims, demands, compensatory, extra contractual and/or punitive damages, fines, penalties and expenses (including reasonable attorneys' fees and expenses) (collectively, "**NICO's Indemnity Items**," but only to the extent resulting in damages not included within the definition of Extra Contractual Obligations) arising out of or caused by: (i) fraud, theft or embezzlement by directors, officers, employees or agents of Reinsureds or their Affiliates in connection with the provision of services under this Administrative Services Agreement

38

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during the term of this Administrative Services Agreement; (ii) the failure, either intentional or unintentional, of Reinsureds or their Affiliates to properly perform the services, if any, or take the actions required by this Administrative Services Agreement; (iii) any other act of negligence or willful misconduct committed by directors, officers, employees and agents of Reinsureds or their Affiliates in connection with the Scope of Service during the term of this Administrative Services Agreement; (iv) any failure of Reinsureds or their Affiliates to comply with Applicable Law in connection with the Scope of Service during the term of this Administrative Services Agreement other than any failure on the part of Reinsureds or NICO or their respective Affiliates caused by the action or inaction of NICO, its Affiliates or its Subcontractors, including when acting in the name or on behalf of Reinsureds, whether or not in compliance with the terms of this Administrative Services Agreement or (v) any failure of Reinsureds or their Subcontractors to comply with Applicable Law in connection with the provision of services, if any, under this Administrative Services Agreement during the term of this Administrative Services Agreement, except to the extent that, in the case of (ii), (iii), (iv), or (v), the harm was caused by the action or inaction of NICO, its Affiliates or its Subcontractors,

whether or not in compliance with the terms of this Administrative Services Agreement or the Transition Services Agreement. Nothing herein shall be construed to require Reinsureds to indemnify NICO with respect to any act or omission where the decision to take or omit such action was with the agreement of NICO.

#### **18.4 Exclusion from Indemnification Obligations**

Neither Party shall be obligated to indemnify the other under this Article XVIII for or against any liability for the intentional and malicious acts or omissions of the other Party's employees, officers, or directors, as so determined by a final adjudication of a court of competent jurisdiction in a proceeding in which such other Party was, or had the opportunity to be, a party.

#### **18.5 Notice of Indemnification Request**

In the event that either Party asserts a claim for indemnification hereunder, such Party seeking indemnification (the "**Indemnified Party**") shall give written notice to the other Party (the "**Indemnifying Party**") specifying the facts constituting the basis for, and the amount (if known) of, the claim asserted within one year of the date the claim is asserted against or should be known by the Indemnified Party.

#### **18.6 Notice of an Asserted Liability**

If an Indemnified Party asserts, or may in the future seek to assert, a claim for indemnification hereunder because of a claim or demand made, or an action, proceeding or investigation instituted, by any person not a party to this Administrative Services Agreement (a "**Third Party Claimant**") that may result in NICO Indemnity Items with respect to which NICO is entitled to indemnification pursuant to Section 18.2 hereof or Reinsureds Indemnity Items with respect to which Reinsureds are entitled to indemnification pursuant to Section 18.1 hereof (an "**Asserted Liability**"), the Indemnified Party shall so notify the Indemnifying Party as promptly as practicable, but in no event later than ten (10) Business Days after such Asserted Liability is actually known to the Indemnified Party. Failure to deliver notice with respect to an Asserted Liability in a timely manner shall not be deemed a waiver of the Indemnified Party's right to indemnification for its Indemnity Items in connection with such Asserted Liability but the amount of reimbursement to which the Indemnified Party is entitled shall be reduced by the amount, if any, by which the Indemnified Party's Indemnity Items would have been less had such notice been timely delivered.

39

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#### **18.7 Procedures**

(a) The Indemnifying Party shall have the right, upon written notice to the Indemnified Party, to investigate, contest, defend or settle the Asserted Liability; *provided* that the Indemnified Party may, at its option and at its Own Expense, participate in the investigation, contesting, defense or settlement of any such Asserted Liability through representatives and counsel of its own choosing. The failure of the Indemnifying Party to respond in writing to proper notice of an Asserted Liability within ten (10) Business Days after receipt thereof shall be deemed an election not to defend the same. Unless and until the Indemnifying Party elects to defend the Asserted Liability, the Indemnified Party shall have the right, at its option and at the Indemnifying Party's Own Expense, to do so in such manner as it deems appropriate, including, but not limited to, settling such Asserted Liability (after giving notice of the settlement to the Indemnifying Party) on such terms as the Indemnified Party deems appropriate.

(b) Except as provided in the immediately preceding sentence, the Indemnified Party shall not settle or compromise any Asserted Liability for which it seeks indemnification hereunder without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld, conditioned or delayed) during the ten (10) Business Day period specified above.

(c) The Indemnifying Party shall be entitled to participate in (but not to control) the defense of any Asserted Liability which it has elected, or is deemed to have elected, not to defend, with its own counsel and at its Own Expense.

(d) Except as provided in the first sentence of paragraph (a) of this Section 18.7, the Indemnifying Party shall at its Own Expense bear all reasonable costs of defending any Asserted Liability and shall at its Own Expense indemnify and hold the Indemnified Party harmless against and from all costs, fees and expenses incurred in connection with defending such Asserted Liability.

(e) NICO and Reinsureds shall make mutually available to each other all relevant information in their possession relating to any Asserted Liability (except to the extent that such action would result in a loss of attorney-client privilege) and shall cooperate with each other in the defense thereof.

(f) Notwithstanding the foregoing, neither the Indemnifying Party nor the Indemnified Party may settle any Asserted Liability without the consent of the other Party (which consent shall not be unreasonably withheld, conditioned or delayed); *provided*, the Indemnifying Party may, without the Indemnified Party's prior written consent, settle any Asserted Liability or consent to entry of any judgment with respect to any Asserted Liability which requires solely money damages paid by the Indemnifying Party and without any admission of wrongdoing (without any right of reimbursement or other recourse to the Indemnified Party), and which includes as an unconditional term thereof the release by the claimant or the plaintiff of the Indemnified Party from all liability in respect of such Asserted Liability.

#### **18.8 Survival**

The provisions of this Article XVIII shall survive the termination of this Administrative Services Agreement for a period of three (3) years.

40

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### **ARTICLE XIX DISPUTE RESOLUTION; ARBITRATION**

#### **19.1 Arbitration of Disputes Not Resolved by Negotiation.**

All Disputes arising under or in any way related to this Administrative Services Agreement, specifically including without limitation disputes concerning alleged fraud in the inducement hereof or other wrongful pre-Closing conduct shall, to the extent not resolved by negotiation between the Parties, be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the dispute. Any Person that is a Party to any of the Transaction Documents shall have an absolute right to intervene in any such arbitration.

**19.2 Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation.**

(a) The procedures for the arbitration and for the mandatory pre-arbitration negotiation are set forth in Article VIII of the Master Transaction Agreement, which is hereby incorporated herein. Arbitration hereunder shall be conducted in Philadelphia, Pennsylvania.

(b) In considering any relief to be awarded, the arbitrators (and the Designated Court, as appropriate) shall take into account the Parties' view that the nature and uniqueness of the relationships created under the Transaction Documents as a whole render specific performance the remedy of choice where it is possible to implement that remedy.

**19.3 Permitted Judicial Proceedings.**

The only permitted judicial proceedings relating to any Dispute are those set forth in, and are subject to the exclusive jurisdiction provisions of, Section 8.5 of the Master Transaction Agreement. Each Party finally and irrevocably waives any right to trial by jury of any matter or issue in such a permitted judicial proceeding.

**ARTICLE XX  
MISCELLANEOUS**

**20.1 Notices**

Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any Party hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on the date received (*provided* that any notice received after 5:00 p.m. (addressee's local time) shall be deemed given at 9:00 a.m. (addressee's local time) on the next Business Day), or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following address:

41

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To Reinsureds:

David Fields  
Chief Underwriting Officer and  
Chief Reinsurance Officer  
Chartis Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 551-7214

- and -

Sean Leonard  
Senior Vice President &  
Chief Financial Officer  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 484-1961

With a copy to:

Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To NICO:

National Indemnity Company  
100 First Stamford Place  
Stamford, CT 06902  
Attention: General Counsel  
Fax: (203) 363-5221

With a copy to:

Any Party may change its notice provisions on fifteen (15) calendar days' advance notice in writing to the other Parties.

## **20.2 Entire Agreement**

This Administrative Services Agreement (including the exhibits and schedules hereto), the Master Transaction Agreement, the LPT Reinsurance Agreement, the LPT Retrocession Agreement and the other Ancillary Agreements and any other documents delivered pursuant hereto and thereto, constitute the entire agreement among the Parties and their respective Affiliates with respect to the subject matter hereof and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the Parties with respect to the subject matter hereof and thereof.

## **20.3 Waiver and Amendment**

This Administrative Services Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by an instrument in writing signed by the Parties, or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. No waiver of any breach of this Administrative Services Agreement shall be held to constitute a waiver of any other or subsequent breach.

## **20.4 Successors and Assigns**

The rights and obligations of the Parties under this Administrative Services Agreement are personal to the Parties and no Party shall be relieved of any liability or responsibility hereunder by any assignment. They shall not be subject to assignment without the prior written consent of the other Parties in their sole discretion, and any attempted assignment without the prior written consent of the other Parties shall be invalid *ab initio*. The terms of this Administrative Services Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the successors and permitted assigns of the Parties.

## **20.5 Headings**

The headings of this Administrative Services Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

## **20.6 Construction; Interpretation**

Reinsureds and NICO have participated jointly in the negotiation and drafting of this Administrative Services Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Administrative Services Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Administrative Services Agreement. When a reference is made to an Article, Section, Schedule or Exhibit such reference shall be to an Article, Section, Schedule or Exhibit of or to this Administrative Services Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Administrative Services Agreement, they shall be deemed to be followed by the words "without limitation." The word "Agreement," means this Administrative Services Agreement as amended or supplemented, together with all Exhibits and Schedules attached hereto or incorporated by reference, and the words "hereof," "herein," "hereto," "hereunder" and other words of similar import shall refer to this Administrative Services Agreement in its entirety and not to any particular Article, Section or provision of this Administrative Services Agreement. Reference to

any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, and all rules and regulations promulgated thereunder. References to a Person are also to its successors and permitted assigns.

## **20.7 Governing Law and Jurisdiction**

This Administrative Services Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's principles of conflict of laws that could compel the application of the laws of another jurisdiction.

## **20.8 No Third Party Beneficiaries**

Except with respect to rights expressly granted to Eaglestone hereunder (including the right to receive the reports specified in [Section 7.1](#) and [Article VIII](#) hereof, to enforce the accounting provisions of [Section 13.1](#) hereof, and to effect setoff in accordance with [Section 20.12](#) hereof, nothing in this Administrative Services Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Administrative Services Agreement or any provision contained herein.

## **20.9 Counterparts**

This Administrative Services Agreement may be executed by the Parties in separate counterparts; each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the Parties notwithstanding the fact that all Parties are not signatory to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than

all, but together signed by all of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

**20.10 Severability**

Any term or provision of this Administrative Services Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Administrative Services Agreement or affecting the validity or enforceability of any of the terms or provisions of this Administrative Services Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. If any provision of this Administrative Services Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Administrative Services Agreement, such term or provision shall be reformed and the Parties shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the Parties as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

**20.11 Incontestability**

In consideration of the mutual covenants and agreements contained herein, each Party does hereby agree that this Administrative Services Agreement, and each and every provision hereof, is and shall be enforceable by and between them according to its terms, and each Party does hereby agree that it shall not contest in any respect the validity or enforceability hereof.

**20.12 Set-Off**

There are no common law or other non-contractual rights of set-off available to the Parties with respect to transactions under or relating to this Administrative Services Agreement. The sole and exclusive rights of set-off are those set forth in Section 9.12 of the Master Transaction Agreement.

**20.13 Currency**

All financial data required to be provided pursuant to the terms of this Administrative Services Agreement shall be expressed in Dollars. All payments and all settlements of account between the Parties shall be in United States currency unless otherwise expressly agreed by the Parties in writing.

*(The remainder of this page has been intentionally left blank.)*

**IN WITNESS WHEREOF**, this Administrative Services Agreement has been duly executed by a duly authorized officer of each Party hereto as of the date first above written.

**AMERICAN HOME ASSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS CASUALTY COMPANY**  
(f/k/a American International South Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS PROPERTY CASUALTY COMPANY**  
(f/k/a AIG Casualty Company)

By: \_\_\_\_\_  
Name:  
Title:

**COMMERCE AND INDUSTRY INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:

Title:

**GRANITE STATE INSURANCE COMPANY**

By: \_\_\_\_\_

Name:

Title:

S-1

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**ILLINOIS NATIONAL INSURANCE COMPANY**

By: \_\_\_\_\_

Name:

Title:

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**

By: \_\_\_\_\_

Name:

Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

By: \_\_\_\_\_

Name:

Title:

**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**

By: \_\_\_\_\_

Name:

Title:

**CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)

By: \_\_\_\_\_

Name:

Title:

S-2

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**CHARTIS SPECIALTY INSURANCE COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)

By: \_\_\_\_\_

Name:

Title:

**LANDMARK INSURANCE COMPANY**

By: \_\_\_\_\_

Name:

Title:



**LEXINGTON INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AIU INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**

By: \_\_\_\_\_  
Name:  
Title:

S-3

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**AMERICAN HOME ASSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS OVERSEAS LIMITED**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL INDEMNITY COMPANY**

By: \_\_\_\_\_  
Name: Brian Snover  
Title: Vice President

**HIPAA BUSINESS ASSOCIATE AGREEMENT**

This HIPAA Business Associate Agreement (the “**Business Associate Agreement**”), dated as of \_\_\_\_\_, 2011 (the “**Effective Date**”), is made and entered into by and among [Reinsured Company] (“**Covered Entity**”), and National Indemnity Company, a Nebraska property and casualty company (“**Business Associate**”).

**WHEREAS**, pursuant to a Master Transaction Agreement (the “**Master Transaction Agreement**”), dated as of \_\_\_\_\_, 2011, and certain other agreements identified therein, and subject to the terms and conditions thereof, certain Subject Asbestos Liabilities of Reinsureds have been reinsured by Eaglestone Re and retroceded by Eaglestone Re to Business Associate; and

**WHEREAS**, pursuant to an Administrative Services Agreement (the “**Administrative Services Agreement**”), dated as of \_\_\_\_\_, 2011, Business Associate has been appointed to perform certain administrative functions on behalf of Covered Entity with respect to such Subject Asbestos Liabilities;

**WHEREAS**, in connection with the Business Associate’s provision of products and/or services to or on behalf of Covered Entity, Covered Entity is required to provide Business Associate with Protected Health Information, as defined below, under the Health Insurance Portability and Accountability Act of 1996, Public Law 104-01, (hereafter “**HIPAA**”) and the Health Information Technology for Economic and Clinical Health Act (“**HITECH**”) in order to facilitate the provision of the products and/or services by Business Associate; and

**WHEREAS**, Business Associate agrees to receive such Protected Health Information subject to the terms and conditions of this Business Associate Agreement for the limited purpose of providing or continuing to provide the products and/or services to Covered Entity.

**NOW, THEREFORE**, for and in consideration of these premises and the promises and the mutual agreements hereinafter set forth and set forth in the Master Transaction Agreement, the agreements referenced therein, and the Administrative Services Agreement, Covered Entity and Business Associate (individually, a “**Party**” and collectively, the “**Parties**”) agree as follows:

**Section 1. Definitions.**

A term used herein, but not otherwise defined, in this Business Associate Agreement shall have the same meaning as those terms set out in the Privacy Rule pursuant to HIPAA and the HIPAA regulations at 45 Code of Federal Regulations (CFR) Section 160 and Section 164. For purposes of this Business Associate Agreement, the following terms shall have the meanings set forth below:

“**Breach**” shall have the same meaning as the term “breach” in 45 CFR § 164.402.

“**Business Associate**” shall have the same meaning as the term “business associate” in 45 CFR § 160.103, and, in this Business Associate Agreement shall mean the entity named and so designated in the preamble hereto.

A-1

“**Covered Entity**” shall have the same meaning as the term “covered entity” in 45 CFR § 160.103, and, in this Business Associate Agreement shall mean the entity or entities named and so designated in the preamble hereto.

“**Designated Record Set**” shall have the same meaning as the term “designated record set” in 45 CFR § 164.501.

“**Disclose/s**” or “**Disclosure**” shall have the same meaning as the term “disclosure” in 45 CFR § 160.103.

“**Health Information**” shall have the same meaning as the terms “health information” in 45 CFR § 160.103.

“**Individual**” shall have the same meaning as the term “individual,” in 45 CFR § 160.103 and shall include a person who qualifies as a personal representative in accordance with 45 CFR § 164.502 (g).

“**Individually Identifiable Health Information**” shall have the same meaning as the term “individually identifiable health information” in 45 CFR § 160.103.

“**Privacy Rule**” shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Part 160 and Part 164, Subparts A, D, and E.

“**Protected Health Information**” (hereafter “**PHI**”) shall have the same meaning as the term “protected health information” in 45 CFR § 160.103, limited to the information created or received by Business Associate from or on behalf of Covered Entity.

“**Required By Law**” shall have the same meaning as the term “required by law” in 45 CFR § 160.103.

“**Secretary**” shall mean the Secretary of the Department of Health and Human Services or his designee.

“**Standard Transaction**” shall mean a transaction, for which the Secretary has adopted a standard, under part 162 of Title 45 of the Code of Federal Regulations.

“**Unsecured PHI**” shall have the same meaning as the term “unsecured protected health information” in 45 CFR § 164.403.

“Use/s” shall have the same meaning as the term “use” in 45 CFR § 160.103.

## **Section 2. Obligations and Activities of Business Associate.**

- (a) Business Associate agrees to not utilize or distribute PHI other than as permitted or required by the Administrative Services Agreement, this Business Associate Agreement or as Required By Law.
- (b) Business Associate agrees to utilize appropriate safeguards to prevent Use or Disclosure of the PHI other than as provided for by the Administrative Services Agreement or this Business Associate Agreement.
- (c) Business Associate agrees to report to Covered Entity any suspected Breach of Unsecured PHI of which Business Associate becomes aware. Such report shall be provided as soon as possible after the occurrence of the suspected Breach, but in no event later than 60 days after the Breach would be treated as “discovered” within the meaning of 45 CFR § 164.404,

A-2

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provided that, if a law enforcement official requests a delay in accordance with the standards of 45 CFR § 164.412, Business Associate may delay the report for the applicable period of time. Business Associate’s report shall include identification of the Individuals whose Unsecured PHI has been, or is reasonably believed to have been, the subject of a Breach and a draft letter by which the Covered Entity may notify such Individuals. The report in addition shall include a description, to the greatest extent possible, of the nature of the Breach (including date of occurrence and date of discovery); the types of Unsecured PHI involved in the Breach; any steps the Individuals should take to protect themselves from potential harm resulting from the Breach; what Business Associate is doing to investigate the Breach, mitigate losses, and protect against further Breaches; and contact procedures by which Individuals may obtain additional information regarding the Breach. The draft letter shall reflect the information provided in the report. Business Associate shall also promptly supplement the report with any other information regarding the Breach that Covered Entity reasonably requests or that becomes available subsequently.

- (d) Business Associate agrees to report to Covered Entity as soon as possible upon discovery but in no event later than 60 days any Use or Disclosure of the PHI not provided for by this Business Associate Agreement, of which it becomes aware.
- (e) Business Associate agrees to ensure that any agent, including a subcontractor, to whom it provides PHI received from or created or received by Business Associate on behalf of Covered Entity agrees to the same restrictions and conditions that apply through this Business Associate Agreement to Business Associate with respect to such PHI.
- (f) Business Associate agrees to provide access, at the request of Covered Entity, and in a reasonable time and manner, to PHI in a Designated Record Set, to Covered Entity or, as directed by Covered Entity, to an Individual in order to meet the requirements under 45 CFR § 164.524.
- (g) Business Associate agrees to make any amendment(s) to PHI in a Designated Record Set that the Covered Entity directs or agrees to pursuant to 45 CFR § 164.526 at the request of Covered Entity or an Individual, and in the time and manner reasonably specified to Business Associate by Covered Entity.
- (h) Business Associate agrees to make internal practices, books, and records, including policies and procedures and PHI, relating to the Use and Disclosure of PHI received from, or created or received by Business Associate on behalf of, Covered Entity available to the Covered Entity, or to the Secretary, in a time and manner reasonably specified by Covered Entity or designated by the Secretary, for purposes of the Secretary determining Covered Entity’s compliance with the Privacy Rule.
- (i) Business Associate agrees to document such Disclosures of PHI and information related to such Disclosures and to maintain such documentation as would be required for Covered Entity to respond to a request by an Individual for an accounting of Disclosures of PHI in accordance with 45 CFR § 164.528.
- (j) Business Associate agrees to provide Covered Entity or an Individual, in a time and manner reasonably specified by Covered Entity, documentation collected in accordance with Section 2(i) of this Business Associate Agreement, to respond to a request by an Individual for an accounting of Disclosures of PHI in accordance with 45 CFR § 164.528.

A-3

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### **(k) Data Security.**

- (1) Business Associate agrees to implement appropriate administrative, physical, technical service and technical security measures to protect the integrity, confidentiality and availability of any PHI that it may receive or maintain as a result of Business Associate’s relationship to Covered Entity.
- (2) Business Associate agrees that all such security measures will be consistent with 45 CFR 164 subpart C (the “HIPAA Security Rule”) and in compliance with the requirements of HIPAA Security Rule as of the effective date of the regulation.

## **Section 3. Permitted Uses and Disclosures by Business Associate.**

- (a) Except as otherwise limited in this Business Associate Agreement, Business Associate may Use or Disclose PHI to perform functions, activities, or services for or on behalf of Covered Entity, *provided* that such Use or Disclosure would not violate the Privacy Rule if done by Covered Entity or the minimum necessary policies and procedures of the Covered Entity.
- (b) Except as otherwise limited in this Business Associate Agreement, Business Associate may Use PHI for the proper management and administration of the Business Associate or to carry out the legal responsibilities of the Business Associate.

(c) Except as otherwise limited in this Business Associate Agreement, Business Associate may Disclose PHI for the proper management and administration of Business Associate, *provided* that Disclosures are Required By Law, or Business Associate obtains reasonable assurances from the person to whom the PHI is Disclosed that the PHI will remain confidential and Used or further Disclosed only as Required By Law or for the purpose for which it was Disclosed to the person, and the person notifies the Business Associate of any instances of which it is aware in which the confidentiality of the PHI has been breached.

(d) Except as otherwise limited in this Business Associate Agreement, Business Associate may Use PHI to provide Data Aggregation services to Covered Entity as permitted by 45 CFR § 164.504(e)(2)(i)(B).

(e) Business Associate may use PHI to report violations of law to appropriate Federal and State authorities, consistent with 45 CFR § 164.502(j)(1).

**Section 4. Obligations of Covered Entity and Provisions for Covered Entity to Inform Business Associate of Privacy Practices and Restrictions.**

(a) Covered Entity shall notify Business Associate of any limitations in its notice of privacy practices of Covered Entity in accordance with 45 CFR § 164.520, to the extent that such limitation may affect Business Associate's Use or Disclosure of PHI.

(b) Covered Entity shall notify Business Associate of any changes in, or revocation of, permission by an Individual to Use or Disclose PHI, to the extent that such changes may affect Business Associate's Use or Disclosure of PHI.

(c) Covered Entity shall notify Business Associate of any restriction to the Use or Disclosure of PHI that Covered Entity has agreed to in accordance with 45 CFR § 164.522, to the extent that such restriction may affect Business Associate's Use or Disclosure of PHI.

A-4

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(d) Covered Entity shall not request Business Associate to Use or Disclose PHI in any manner that would not be permissible under the Privacy Rule if done by Covered Entity.

**Section 5. Electronic Standard Transactions (If Applicable).**

(e) Standard Transactions. When Business Associate conducts all or part of a Standard Transaction on behalf of Covered Entity, Business Associate shall comply with all requirements of 45 CFR Part 162.

(f) Agent or Subcontractor of Business Associate. Business Associate shall require that all Standard Transactions conducted on behalf of Covered Entity by a subcontractor or agent of Business Associate will comply with all requirements of 45 CFR Part 162.

(g) Restrictions on Trading Partner Addendums. Neither Business Associate nor its subcontractors and agents may enter into a trading partner agreement relating to Standard Transactions on behalf of Covered Entity that would:

- (1) Change the definition, data condition, or use of a data element or segment in a standard;
- (2) Add any data elements or segments to the maximum defined data set;
- (3) Use any code or data elements that are either marked "not used" in the standard's implementation specification or are not in the standard's implementation specifications; or
- (4) Change the meaning and intent of the standard's implementation specification.

**Section 6. Termination.**

(h) Termination for Cause. Upon Covered Entity's knowledge of a material breach of this Business Associate Agreement by a Business Associate, Covered Entity shall either:

(1) Provide an opportunity for Business Associate to cure the breach or end the violation and terminate the Administrative Services Agreement if Business Associate does not cure the breach or end the violation within the time specified by Covered Entity, which shall be no less than thirty (30) days from the date Covered Entity notifies Business Associate in writing of the breach or violation; or

(2) Immediately terminate the Administrative Services Agreement if Business Associate has breached a material term of this Business Associate Agreement and cure is not possible; or

(3) If neither termination nor cure are feasible, Covered Entity shall report the violation to the Secretary.

(i) Effect of Termination.

(1) Except as provided in Section 6(b)(2) hereof, upon termination of the Administrative Services Agreement, for any reason, Business Associate shall return or destroy all PHI received from Covered Entity, or created or received by Business Associate on behalf of Covered Entity. This provision shall apply to PHI that is in the possession of

A-5

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subcontractors or agents of Business Associate. Business Associate shall retain no copies of the PHI.

(2) In the event that Business Associate determines that returning or destroying the PHI is infeasible, Business Associate shall provide to Covered Entity notification of the conditions that make return or destruction infeasible. Upon notification of Covered Entity that return or destruction of PHI is infeasible, Business Associate shall extend the protections of this Business Associate Agreement to such PHI and limit further uses and disclosures of such PHI to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such PHI.

**Section 7. Miscellaneous.**

(j) Regulatory References. A reference in this Business Associate Agreement to a section in the Code of Federal Regulations (“**CFR**”) means the section as currently in effect or as amended from time to time.

(k) Amendment. The parties agree to take such action as is necessary to amend this Business Associate Agreement from time to time as is necessary for Covered Entity to comply with the requirements of the Privacy Rule, the HIPAA Security Rule, and HIPAA.

(l) Survival. The respective rights and obligations of Business Associate under Section 6(b) of this Business Associate Agreement shall survive the termination of the Administrative Services Agreement.

(m) Interpretation. Any ambiguity in this Business Associate Agreement shall be resolved to permit Covered Entity to comply with the Privacy Rule.

(n) Indemnification. Business Associate agrees to indemnify Covered Entity for any claims or actions against, or costs, expenses, or damages incurred by Covered Entity arising from Business Associate’s failure to comply with the terms and conditions of this Business Associate Agreement.

(o) No Third Party Beneficiaries. Nothing express or implied in this Business Associate Agreement is intended to confer, nor will anything herein confer, upon any person other than Covered Entity, Business Associate and their respective successors or assigns, any rights, remedies, obligations or liabilities whatsoever.

(p) Effect on Agreement. Except as specifically required to implement the purposes of this Business Associate Agreement, or to the extent inconsistent with this Business Associate Agreement, all other terms of the Administrative Services Agreement will remain in force and effect.

*[Remainder of page left intentionally blank]*

**IN WITNESS WHEREOF**, this Business Associate Agreement has been duly executed by a duly authorized officer of each Party hereto as of the date first above written.

**AMERICAN HOME ASSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS CASUALTY COMPANY**

(f/k/a American International South Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS PROPERTY CASUALTY COMPANY**

(f/k/a AIG Casualty Company)

By: \_\_\_\_\_  
Name:  
Title:

**COMMERCE AND INDUSTRY INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**GRANITE STATE INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

A-7

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**ILLINOIS NATIONAL INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**

By: \_\_\_\_\_  
Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)

By: \_\_\_\_\_  
Name:  
Title:

A-8

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**CHARTIS SPECIALTY INSURANCE COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**LANDMARK INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**LEXINGTON INSURANCE COMPANY**

By: \_\_\_\_\_

Name:  
Title:

**AIU INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**

By: \_\_\_\_\_  
Name:  
Title:

A-9

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**AMERICAN HOME ASSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS OVERSEAS LIMITED**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL INDEMNITY COMPANY**

By: \_\_\_\_\_  
Name: Brian Snover  
Title: Vice President

A-10

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**TRUST AGREEMENT**

**by and among**

**EAGLESTONE REINSURANCE COMPANY**

**and**

**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.,**

**and**

**NATIONAL INDEMNITY COMPANY**

**and**

**WELLS FARGO BANK, NATIONAL ASSOCIATION**

**Dated as of [     ], 2011**

**Table of Contents**

	<u>Page</u>
<b>ARTICLE I</b>	
<b>DEFINED TERMS</b>	
Section 1.1	2
Section 1.2	6
<b>ARTICLE II</b>	
<b>MODIFICATION UPON A COLLATERAL TRIGGERING EVENT</b>	
Section 2.1	7
<b>ARTICLE III</b>	
<b>MODIFICATION UPON A RETROCESSION CREDIT EVENT</b>	
Section 3.1	8
<b>ARTICLE IV</b>	
<b>CREATION OF TRUST ACCOUNT</b>	
Section 4.1	8
Section 4.2	9
Section 4.3	9
Section 4.4	9
Section 4.5	10
<b>ARTICLE V</b>	
<b>MAINTENANCE OF THE TRUST</b>	
Section 5.1	10
Section 5.2	10
Section 5.3	10
<b>ARTICLE VI</b>	
<b>RELEASE AND ADJUSTMENT OF TRUST ACCOUNT ASSETS</b>	
Section 6.1	11
Section 6.2	11
Section 6.3	12
<b>ARTICLE VII</b>	
<b>DUTIES OF THE TRUSTEE</b>	
Section 7.1	13
Section 7.2	13



	<u>Page</u>	
Section 7.3	Obligations of the Trustee	13
Section 7.4	Responsibilities of the Trustee	13
Section 7.5	Books and Records	14
Section 7.6	Activity Reports	14
Section 7.7	Resignation or Removal of the Trustee; Appointment of Successor Trustee	14
Section 7.8	Release of Information	15
Section 7.9	Indemnification of the Trustee	15
Section 7.10	Charges of the Trustee	15
Section 7.11	Limitations of the Trustee	15
Section 7.12	Concerning the Trustee	16

ARTICLE VIII  
GRANT OF SECURITY INTEREST

Section 8.1	Establishment and Maintenance of the Trust Account	17
Section 8.2	Grant of Security Interest	17
Section 8.3	Limitation on Exercise of Remedies	17
Section 8.4	Other Matters	17

ARTICLE IX  
TERMINATION

Section 9.1	Termination	18
Section 9.2	Disposition of Assets Upon Termination	18

ARTICLE X  
GENERAL PROVISIONS

Section 10.1	Notices	18
Section 10.2	Entire Agreement	19
Section 10.3	Waiver and Amendment	19
Section 10.4	Successors and Assigns	19
Section 10.5	Headings	20
Section 10.6	Governing Law and Jurisdiction	20
Section 10.7	No Third Party Beneficiaries	20
Section 10.8	Counterparts	20
Section 10.9	Severability	20
Section 10.10	Incontestability	20
Section 10.11	Set-Off	20
Section 10.12	Currency	20

ARTICLE XI  
DISPUTE RESOLUTION; ARBITRATION

Section 11.1	Arbitration of Disputes Not Resolved by Negotiation	21
--------------	---	----

	<u>Page</u>	
Section 11.2	Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation	21
Section 11.3	Permitted Judicial Proceedings	21
Section 11.4	Disputes to Which the Trustee is a Required Party	21

ARTICLE XII  
BENEFICIARY; CUT-THROUGH

Section 12.1	Beneficiary	21
Section 12.2	Certifications	22

ARTICLE XIII  
EFFECTIVE DATE AND EXECUTION

Appendix A	Trust Provisions Following a Retrocession Credit Event	
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## TRUST AGREEMENT

**THIS TRUST AGREEMENT** (this “**Trust Agreement**”) is made and entered into as of [ ], 2011, by and among **Eaglestone Reinsurance Company**, a Pennsylvania property and casualty Affiliate of Reinsureds (“**Eaglestone**”), National Union Fire Insurance Company of Pittsburgh, Pa., for itself and as agent for Reinsureds (“**National Union**”), **National Indemnity Company**, a Nebraska property and casualty insurance company (the “**Grantor**”) and **Wells Fargo Bank, National Association**, a national banking association, as trustee (“**Trustee**”).

WHEREAS, pursuant to a Master Transaction Agreement (as amended, modified, and supplemented and in effect from time to time, the “**Master Transaction Agreement**”), dated as of , 2011 among the Reinsureds party thereto, Eaglestone, Grantor, and Chartis, Inc., Reinsureds and Eaglestone agreed to enter into a loss portfolio reinsurance transaction, pursuant to which Reinsureds will cede certain Subject Asbestos Liabilities and certain other liabilities to Eaglestone;

WHEREAS, pursuant to the Master Transaction Agreement, Eaglestone and the Grantor agreed to enter into a loss portfolio transfer retrocession agreement, pursuant to which, among other things, Eaglestone will retrocede to the Grantor 100% of the Subject Asbestos Liabilities ceded to Eaglestone by Reinsureds as and to the extent set forth in such agreement;

WHEREAS, the cession by Reinsureds to Eaglestone has been effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Reinsurance Agreement between Reinsureds and Eaglestone, dated as of the date hereof and referenced in the Master Transaction Agreement as the “**LPT Reinsurance Agreement**”;

WHEREAS, the retrocession by Eaglestone to the Grantor has been effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Retrocession Agreement between Eaglestone and Grantor, dated as of the date hereof and referenced in the Master Transaction Agreement as the “**LPT Retrocession Agreement**”;

WHEREAS, National Union, as agent for the Reinsureds and on its own behalf, has certain rights under the LPT Retrocession Agreement in the event of the insolvency of Eaglestone;

WHEREAS, the LPT Retrocession Agreement contemplates that the Grantor and Eaglestone and National Union enter into this Trust Agreement whereby the Grantor creates a trust to hold assets as security for the satisfaction of the obligations of the Grantor to Eaglestone and/or under the LPT Retrocession Agreement; and

WHEREAS, the parties intend that, in the event of a Retrocession Credit Event, certain provisions of this Trust Agreement shall cease to be effective, and other provisions shall be effective thereafter, as described in Article III.

**NOW THEREFORE**, the Grantor, Eaglestone, National Union and the Trustee (each individually, a “**Party**” and collectively, the “**Parties**”), in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and upon the terms and conditions hereinafter set forth, agree as follows:

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### ARTICLE I DEFINED TERMS

Section 1.1 Definitions. The following terms, when used in this Trust Agreement, shall have the meanings set forth in this Section 1.1. The terms defined below shall be deemed to refer to the singular or plural, as the context requires.

- (a) “**Actually Paid**” shall have the meaning provided in the LPT Retrocession Agreement.
- (b) “**Administrative Services Agreement**” shall have the meaning provided in the LPT Retrocession Agreement.
- (c) “**Affiliate**” shall have the meaning provided in the Master Transaction Agreement.
- (d) “**Allocated Loss Adjustment Expenses**” shall have the meaning provided in the LPT Retrocession Agreement.
- (e) “**Applicable Interest Rate**” shall have the meaning set forth in the Master Transaction Agreement.
- (f) “**Applicable Law**” shall have the meaning provided in the Master Transaction Agreement.
- (g) “**Assets**” means the assets held in the Trust Account, including, as applicable, Eligible Investments and Permitted Investments.
- (h) “**Beneficiary**” shall have the meaning set forth in Section 12.1.
- (i) “**Business Day**” means any day other than a Saturday, Sunday or a day on which commercial banks in New York are required or authorized by law to be closed.
- (j) “**Closing**” shall have the meaning set forth in the Master Transaction Agreement.
- (k) “**Closing Date**” shall have the meaning set forth in the Master Transaction Agreement.
- (l) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time.
- (m) “**Collateral**” has the meaning set forth in Section 8.2.

(n) **“Collateral Triggering Agreement”** means (1) the Trust Agreement, dated as of August 31, 2010, by and among Continental Casualty Company, The Continental Insurance Company, Continental Reinsurance Corporation International, Ltd., CNA Insurance Company Limited, National Indemnity Company and Wells Fargo Bank, National Association and the agreements entered into in connection therewith and (2) any agreement entered into by the Grantor at any time after the date hereof with any Person and with an effective date after the date hereof, that contains a provision requiring the Grantor to post collateral (whether by the procurement of a letter of credit, the establishment of a collateral trust or any other means) for the benefit of the counterparty to such agreement upon the occurrence of certain specified events, changes or conditions. For the avoidance of doubt, any agreement that requires the establishment of collateral at the time such agreement becomes effective absent any other triggering events shall not be considered a Collateral Triggering Agreement.

2

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(o) **“Collateral Reduction Event”** shall have the meaning set forth in Section 2.1(c).

(p) **“Collateral Triggering Event”** shall have the meaning set forth in Section 2.1(a).

(q) **“Cut-Through Event”** shall have the meaning set forth in Section 12.1.

(r) **“Designated Court”** shall have the meaning provided in Section 8.5 of the Master Transaction Agreement.

(s) **“Dispute”** shall have the meaning set forth in the Master Transaction Agreement.

(t) **“Eaglestone”** shall have the meaning set forth in the preamble hereof.

(u) **“Eligible Investments”** means, with respect to Assets conforming to the provisions of this Trust Agreement prior to the occurrence of a Retrocession Credit Event, cash and any investments of the types permitted under the laws and regulations of Grantor’s domiciliary state for property and casualty insurance companies; *provided, however*, that no Eligible Investments may be issued or guaranteed by an institution that is the parent, a Subsidiary or an Affiliate of Grantor; and *provided, further*, no single Eligible Investment (except cash) shall at any time constitute more than twenty-five percent (25%) of the fair market value of the Assets in the Trust Account. All Eligible Investments deposited in the Trust Account shall be free and clear of all liens, charges or encumbrances at all times.

(v) **“Extra-Contractual Obligations”** shall have the meaning provided in the LPT Retrocession Agreement.

(w) **“Final Order”** shall have the meaning set forth in the Master Transaction Agreement.

(x) **“Governmental Authority”** shall have the meaning set forth in the Master Transaction Agreement.

(y) **“Grantor”** shall have the meaning set forth in the preamble hereof.

(z) **“Inception”** shall have the meaning set forth in the LPT Retrocession Agreement.

(aa) **“Included Reinsurance Recoverables”** shall have the meaning set forth in the LPT Retrocession Agreement.

(bb) **“Initial Net Payments”** shall have the meaning set forth in the Master Transaction Agreement.

(cc) **“Initial Reconciliation Statement”** shall have the meaning set forth in the Master Transaction Agreement.

(dd) **“Initial Security Amount”** shall have the meaning set forth in Section 4.1.

(ee) **“Insurance Commissioner”** means the Governmental Authority responsible for the regulation of insurance companies in the jurisdiction in which the Beneficiary is domiciled.

(ff) **“Losses”** shall have the meaning provided in the LPT Retrocession Agreement.

(gg) **“LPT Reinsurance Agreement”** shall have the meaning set forth in the recitals hereof.

(hh) **“LPT Retrocession Agreement”** shall have the meaning set forth in the recitals hereof.

3

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(ii) **“Master Transaction Agreement”** shall have the meaning set forth in the recitals hereof.

(jj) **“National Union”** shall have the meaning set forth in the preamble hereof.

(kk) **“NICO Subject Business”** shall have the meaning set forth in the LPT Retrocession Agreement.

(ll) **“Order”** means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

(mm) **“Party”** shall have the meaning set forth in the recitals hereof.

(nn) **“Person”** shall have the meaning set forth in the Master Transaction Agreement.

(oo) **“Permitted Investments”** means, with respect to Assets conforming to the provisions of this Trust Agreement, upon the occurrence and during the pendency of a Retrocession Credit Event, cash and any investments of the types permitted under the laws and regulations of the Beneficiary’s domiciliary state or country for trusts providing full statutory financial statement credit for reinsurance ceded by property and casualty insurance companies, *provided, however*, that no Permitted Investments may be issued or guaranteed by an institution that is the parent, a Subsidiary or an Affiliate of Grantor. All Permitted Investments deposited in the Trust Account shall be free and clear of all liens, charges or encumbrances at all times.

(pp) **“Proceeds”** shall have the meaning set forth in the UCC.

(qq) **“Quarterly Certification”** shall have the meaning set forth in Section 5.3.

(rr) **“Reinsureds”** shall have the meaning set forth in the LPT Retrocession Agreement.

(ss) **“Reinsurer”** shall have the meaning provided in the LPT Retrocession Agreement.

(tt) **“Relevant Jurisdictions”** means the Commonwealth of Pennsylvania unless the preemption provisions of 15 U.S.C. § 8221 are repealed or substantially modified, in which event Relevant Jurisdictions includes any State in the United States in which the Reinsurer is subject to solvency requirements that include standards for credit for reinsurance.

(uu) **“Required Amount”** means, at any time, an amount equal to the lesser of (i) (x) the aggregate net Reserves of the Beneficiary, if no Cut-Through Event has occurred or is continuing or (y) the aggregate net Reserves of National Union, if a Cut-Through Event has occurred and is continuing, in each case including reserves for losses incurred but not reported and calculated at such time in accordance with SAP with respect to the Subject Asbestos Liabilities and increased by the bad debt reserve then held by the Grantor in respect of Included Reinsurance Recoverables, and (ii) the Retro Limit less the amount of Ultimate Net Loss that is Actually Paid by Grantor under the LPT Retrocession Agreement at such time.

(vv) **“Reserves”** means, as required by SAP or Applicable Law, reserves (including any gross, net, and ceded reserves, as applicable), funds or provisions for Losses, Allocated Loss Adjustment Expenses, and Extra-Contractual Obligations in respect of the Subject Asbestos Liabilities.

4

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(ww) **“Retro Limit”** shall have the meaning set forth in the LPT Retrocession Agreement.

(xx) **“Retrocession Credit Event”** shall have the meaning set forth in the LPT Retrocession Agreement.

(yy) **“Retrocession Credit Event Condition”** shall mean with respect to any particular Retrocession Credit Event Notice, the occurrence of one of the following events:

(i) five (5) Business Days shall have elapsed from the date on which the Trustee received the Retrocession Credit Event Notice and the Trustee shall not have received any letter or other instrument in writing from the Grantor evidencing the intent of the Grantor to dispute that a Retrocession Credit Event has occurred; or

(ii) the Grantor and the Beneficiary shall have mutually agreed in writing that a Retrocession Credit Event has occurred; or

(iii) ten (10) Business Days shall have elapsed from the date on which the Trustee received the Retrocession Credit Event Notice and the Trustee shall not have been served with a temporary restraining order or preliminary injunction from the Designated Court suspending the effectiveness of the Retrocession Credit Event Notice.

(zz) **“Retrocession Credit Event Notice”** shall have the meaning set forth in the LPT Retrocession Agreement.

(aaa) **“Retrocession Credit Event Termination Condition”** shall mean with respect to any particular Retrocession Credit Event Termination Notice, the occurrence of one of the following events:

(i) five (5) Business Days shall have elapsed between the date on which the Trustee received the Retrocession Credit Event Termination Notice and the Trustee shall not have received any letter or other instrument in writing from the Beneficiary evidencing the intent of the Beneficiary to dispute that a Retrocession Credit Termination Event has occurred; or

(ii) The Grantor and the Beneficiary shall have mutually agreed in writing that a Retrocession Credit Termination Event has occurred; or

(iii) The Trustee shall have received a certificate from the Grantor certifying that an order from an arbitration panel has been entered specifying that a Retrocession Credit Termination Event has occurred, with a copy of such order attached.

(bbb) **“Retrocession Credit Event Termination Notice”** means a notice that a Retrocession Credit Event has terminated.

(ccc) **“Retrocession Credit Termination Event”** means the termination of a Retrocession Credit Event.

(ddd) **“SAP”** means, as to any entity, the statutory accounting principles prescribed or permitted by the Governmental Authority responsible for the regulation of insurance companies in the jurisdiction in which such entity is domiciled.

(eee) **“Security Amount”** means, at any time, (i) prior to the occurrence of a Collateral Triggering Event, an amount at such time equal to the Initial Security Amount minus any Ultimate

5

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Net Loss Actually Paid by the Grantor under the LPT Retrocession Agreement; and (ii) on and after the occurrence of a Collateral Triggering Event, an amount equal to the lesser of (A) (x) the aggregate gross Reserves of the Beneficiary, if no Cut-Through Event has occurred or is continuing or (y) the aggregate gross Reserves of National Union, if a Cut-Through Event has occurred and is continuing, in each case including reserves for losses incurred but not reported and calculated at such time in accordance with SAP with respect to the Subject Asbestos Liabilities and (B) the Retro Limit less the amount of Ultimate Net Loss that is Actually Paid by Grantor under the LPT Retrocession Agreement at such time.

- (fff) “**Security Entitlement**” means “security entitlement” as defined in the UCC.
- (ggg) “**Subject Asbestos Liabilities**” shall have the meaning set forth in the LPT Retrocession Agreement.
- (hhh) “**Subsidiary**” or “**Subsidiaries**” shall have the meaning provided in the Master Transaction Agreement.
- (iii) “**Third Party Appraiser**” means an independent appraisal firm which is mutually acceptable to the Grantor and the Beneficiary, or, if Grantor and Beneficiary cannot agree on such an appraisal firm, then the amount or other matter to be determined by such an appraisal firm shall be treated as an amount or matter subject to dispute that shall be resolved in accordance with Section 11.1 of this Trust Agreement.
- (jjj) “**Transaction Documents**” shall have the meaning provided in the LPT Retrocession Agreement.
- (kkk) “**Trust**” means the trust formed hereunder, including such trust following a Retrocession Credit Event.
- (lll) “**Trust Account**” shall have the meaning set forth in Section 4.1(a).
- (mmm) “**Trust Agreement**” shall have the meaning set forth in the preamble hereof.
- (nnn) “**Trustee**” shall have the meaning set forth in the preamble hereof.
- (ooo) “**UCC**” means the Uniform Commercial Code as in effect from time to time in the Commonwealth of Pennsylvania.
- (ppp) “**Ultimate Net Loss**” shall have the meaning provided in the LPT Retrocession Agreement.

Section 1.2 Interpretation. When a reference is made in this Trust Agreement to a Section or Article, such reference shall be to a section or article of this Trust Agreement unless otherwise clearly indicated to the contrary. The Article and Section headings contained in this Trust Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not affect in any way the meaning or interpretation of this Trust Agreement. Whenever the words “include,” “includes” or “including” are used in this Trust Agreement, they shall be deemed to be followed by the words “without limitation.” The words “hereof,” “herein” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Trust Agreement as a whole and not to any particular provision of this Trust Agreement. The meaning assigned to each term used in this Trust Agreement shall be equally applicable to both the singular and the plural forms of such term and to both the masculine as well as the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred

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to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and then in effect and (in the case of statutes) by succession of comparable successor statutes. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning. References to a person are also to its successors and permitted assigns.

## ARTICLE II MODIFICATION UPON A COLLATERAL TRIGGERING EVENT

### Section 2.1 Collateral Triggering Event.

(a) If, at any time after the date hereof, the Grantor is required to post collateral pursuant to the terms of one or more Collateral Triggering Agreements as a result of the occurrence of one or more events, changes or conditions specified in any such Collateral Triggering Agreement, and the amount of collateral required to be posted by the Grantor pursuant to such Collateral Triggering Agreement(s) is reasonably expected by the Grantor to equal, either on an individual or aggregate basis together with all such amounts posted on or after the Closing Date, one billion dollars (\$1,000,000,000) or more (such event, the “**Collateral Triggering Event**”), then the Grantor shall promptly notify the Beneficiary of the Collateral Triggering Event and take the following additional actions as set forth in this Section 2.1.

(b) Upon the occurrence of a Collateral Triggering Event, all references in this Trust Agreement to “Security Amount” shall be modified in accordance with its definition to give effect to the Collateral Triggering Event. In addition, as soon as is practicable, but no later than contemporaneously with the first posting of the collateral under any Collateral Triggering Agreement whose required posting of collateral created the Collateral Triggering Event, the Grantor shall deposit additional assets into the Trust Account so that the aggregate fair market value of the Eligible Investments in the Trust Account equals the newly computed Security Amount.

(c) Until such time as (i) all events, changes or conditions that gave rise to the collateral requirement under any Collateral Triggering Agreements cease to exist or apply and (ii) the Grantor has withdrawn or reduced the aggregate amount of collateral posted under Collateral Triggering Agreements (i) and (ii) together, the “**Collateral Reduction Event**”), the Grantor shall ensure that the Trust Account shall hold Eligible Investments at all times with a fair market value of no less than 100% of the Security Amount computed per clause (ii) of the definition of “Security Amount”; *provided, however*, if a Collateral Reduction Event has occurred, the Security Amount shall be reduced by a percentage which is proportionate to each percentage reduction of all collateral posted under the Collateral Triggering Agreements; *provided, further, however*, in no event shall the Security Amount be reduced to an amount less than 100% of the Security Amount computed per clause (i) of the definition of “Security Amount”; and *provided, further*, in no event shall the Security Amount be reduced by reason of a the withdrawal or reduction of the aggregate amount of collateral posted under any Collateral Triggering Agreement(s) to the extent that the withdrawn collateral was applied to satisfy the obligations secured thereby.

**ARTICLE III  
MODIFICATION UPON A RETROCESSION CREDIT EVENT**

Section 3.1 Retrocession Credit Event.

(a) Notwithstanding anything in this Trust Agreement to the contrary and subject to the provisions of Article XII hereof and Section 6.2 of the LPT Retrocession Agreement regarding the effect of the insolvency of Eaglestone and implementation of the cut-through pursuant to the LPT Retrocession Agreement, in the event the Beneficiary provides a Retrocession Credit Event Notice to the Trustee pursuant to Section 7.7(c) of the LPT Retrocession Agreement, along with written evidence of delivery of a copy of such notice to the Grantor, certifying that a Retrocession Credit Event has occurred, upon the fulfillment of a Retrocession Credit Event Condition, the provisions set forth in Sections 4.1, 4.2, 5.1(a), 5.3, 6.1, 6.2, 6.3, 7.4, 7.5, 7.8, 7.11 and 10.2 hereof shall automatically be replaced by the provisions set forth in Appendix A hereof for the equivalent Sections and thereafter not be effective, and the provisions set forth in Appendix A shall automatically become effective without further action by any party. In addition, any other provisions required under Applicable Law and regulations governing trusts providing full statutory financial statement credit for reinsurance ceded by property and casualty insurance companies in the Relevant Jurisdictions shall be incorporated herein. Notwithstanding the foregoing, the Trust created hereunder shall continue in existence.

(b) Following a Retrocession Credit Event, the Grantor shall be required to replace the Assets held in the Trust Account that are not Permitted Investments with Assets that are Permitted Investments within five (5) Business Days following the fulfillment of a Retrocession Credit Event Condition. Simultaneously with such replacement of the Assets, the Grantor shall deposit into the Trust Account sufficient additional Assets so that the aggregate fair market value of the Permitted Investments in the Trust Account equals the Required Amount.

(c) The provisions set forth in Appendix A shall remain effective only for the time during which the event, change or condition giving rise to the Retrocession Credit Event continues to apply. In the event the Beneficiary provides a Retrocession Credit Event Termination Notice to the Trustee pursuant to Section 7.7(f) of the LPT Retrocession Agreement, along with written evidence of delivery of a copy of such notice to the Beneficiary, certifying that a Retrocession Credit Termination Event has occurred, then upon the subsequent fulfillment of a Retrocession Credit Event Termination Condition, (i) the provisions set forth in Sections 4.1, 4.2, 5.1(a), 5.3, 6.1, 6.2, 6.3, 7.4, 7.5, 7.8, 7.11 and 10.2 hereof shall automatically again be effective and replace the provisions set forth in Appendix A without further action by any party and (ii) Beneficiary shall promptly provide its approval for the return and/or substitution of assets to or by the Grantor so that the aggregate value of Eligible Investments in the Trust Account equals or exceeds the Security Amount.

**ARTICLE IV  
CREATION OF TRUST ACCOUNT**

Section 4.1 Obligations of the Beneficiary and the Grantor.

(a) Prior to the execution of this Trust Agreement, the Grantor shall have procured with the Trustee, in the name of the Trustee, to be held for the sole benefit of the Beneficiary, subject to the proviso in Section 4.2(a) hereof, pursuant to the provisions of this Trust Agreement,

a segregated trust account maintained by the Trustee with account number 85498700 (which shall be hereinafter referred to as the "Trust Account"). On the Closing Date, the Grantor shall transfer and assign to such Trust Account, or cause to be so transferred and assigned the amounts specified in Section 7.2 of the LPT Retrocession Agreement as required by such Section. The sum of the amounts referenced the foregoing sentence shall be referred to herein as the "Initial Security Amount."

(b) If the Beneficiary owes any amount to the Grantor resulting from the adjustment of the Initial Net Payments as reflected in the Initial Reconciliation Statement delivered pursuant to Section 2.3 of the Master Transaction Agreement, the Beneficiary shall cause to be transferred and assigned to the Trust Account, on behalf of the Grantor, assets consisting of cash in the amount owed. If the Grantor owes any amount to the Beneficiary resulting from the adjustment of the Initial Net Payments as reflected in the Initial Reconciliation Statement delivered pursuant to Section 2.3 of the Master Transaction Agreement, the Grantor shall instruct the Trustee to promptly withdraw from the Trust Account assets consisting of cash in the amount owed and transfer such amount to an account of the Beneficiary in accordance with written instructions provided by the Beneficiary at the time of such withdrawal. The Trustee shall promptly comply with such instruction.

(c) Except as set forth in Sections 2.1, 3.1, 4.1(b) and 6.1, the Grantor shall not be required to transfer and assign additional assets into the Trust Account after the date hereof.

Section 4.2 Purpose of the Trust.

(a) The Assets in the Trust Account shall be held by the Trustee for the sole purpose of satisfying any obligations of the Grantor to the Beneficiary with respect to the Subject Asbestos Liabilities; *provided* that the rights of the Beneficiary with respect to the Trust Account shall be subject to the provisions of Article XI hereof and Section 6.2 of the LPT Retrocession Agreement regarding the effect of the insolvency of Eaglestone and implementation of the cut-through pursuant to the LPT Retrocession Agreement.

(b) The Grantor grants to the Trustee all trust powers necessary and reasonable in the performance of its duties hereunder except as otherwise expressly provided herein.

Section 4.3 Grantor Trust for United States Federal Income Tax Purposes. The Trust Account shall be treated as a grantor trust (pursuant to sections 671 through 677 of the Code) for United States federal income tax purposes. The Grantor shall constitute the grantor (within the meaning of sections 671 and 677 of the Code) and, thus, any and all income derived from the Assets held in the Trust shall constitute income or gain of the Grantor as the owner of such Assets.

Section 4.4 Designation of Agents. Except as otherwise expressly provided in this Trust Agreement, any statement, certificate, notice, request, consent, approval, or other instrument to be delivered or furnished by the Grantor or the Beneficiary shall be sufficiently executed if executed in the name of the Grantor or the Beneficiary by such officer or officers of Grantor or Beneficiary or by such other agent or agents of the Grantor or the Beneficiary as may be designated in a resolution of the Board of Directors of the Grantor or the Beneficiary or Committee thereof or a letter of advice issued by the President, Secretary or Treasurer of the Grantor or the Beneficiary, as applicable. Written notice of such designation by the Grantor or the Beneficiary shall be filed with the Trustee. The Trustee shall be protected in acting upon any written statement

or other instrument made by such officers or agents of the Grantor or the Beneficiary with respect to the authority conferred on it.

Section 4.5 Title to Assets. Title to any Assets transferred by the Grantor to the Trustee for deposit to the Trust Account or otherwise held in the Trust Account shall be recorded in the name of the Trustee. The out-of-pocket costs of transfers of title between the Grantor and the Trustee shall be shared equally by the Grantor and the Beneficiary, and the Grantor shall use reasonable efforts to limit such costs.

## ARTICLE V MAINTENANCE OF THE TRUST

### Section 5.1 Substitution of Trust Account Assets.

(a) The Grantor may, from time to time, substitute or exchange Assets contained in the Trust Account, *provided, however*, (i) the Assets so substituted or exchanged must be Eligible Investments or, if then required, Permitted Investments, (ii) after giving effect to such substitution, the fair market value of the newly deposited Assets are at least equal to the fair market value of the substituted Assets and (iii) the replacement Assets to be deposited in the Trust Account in such substitution or exchange are deposited therein on the day of, and concurrently with, withdrawal of the substituted or exchanged Assets. Upon any substitution or exchange as provided for herein, the Grantor shall certify to the Trustee and Beneficiary that such substitution or exchange meets the requirements of this Section 5.1. The Trustee shall act on the instruction and certification of the Grantor and shall give the Beneficiary prompt written notice of any substitution made pursuant hereto.

(b) The Grantor shall, prior to depositing any Assets into the Trust Account, and from time to time as required, execute all assignments and endorsements in blank, or transfer legal title to the Trustee of all shares, obligations or any other assets requiring assignment in order that the Trustee, upon direction of the Beneficiary, may whenever necessary negotiate any such assets without consent or signature from the Grantor or any other entity.

Section 5.2 Valuation of Assets. The Grantor shall determine, in good faith and with due care and diligence, the fair market value of any Assets in the Trust Account. In making this determination, the Grantor shall use prices published by a nationally recognized pricing service for Assets for which such prices are then available, and for Assets for which such prices are not then available, the Grantor shall use methodologies consistent with those which it uses for determining the fair market value of similar assets held in its own general account (other than the Assets) in the ordinary course of business. The Beneficiary shall have the right to object to any determination of the fair market value of any Asset in the Trust Account, and any resulting dispute shall be resolved pursuant to the provisions of Section 5.3 hereof, including provisions for the Beneficiary to audit the Grantor's records, as if such determination of fair market value were contained in a Quarterly Certification.

Section 5.3 Quarterly Certification. Within fourteen (14) calendar days following the end of each calendar quarter, the Grantor shall provide the Beneficiary (with a copy to the Trustee) a written certification (the "Quarterly Certification") stating the Security Amount as of the calendar quarter end and the aggregate fair market value of the Eligible Investments, or Permitted Investments, as the case may be, held in the Trust Account as of the calendar quarter end

(both on an asset-by-asset basis and a cumulative basis). Such certification shall separately state the Asset withdrawals by the Grantor from the Trust Account effected during such calendar quarter. As soon as is practicable, but in no event more than ten (10) Business Days following its receipt of the Quarterly Certification, the Beneficiary shall either (i) countersign such certification and forward it to the Trustee or (ii) notify the Grantor that it objects to the Grantor's calculation of the Security Amount or the Grantor's valuation of any Asset. If the Grantor and Beneficiary are able to resolve such dispute within ten (10) Business Days of the Beneficiary's transmittal to the Grantor of its notice of objection, they shall promptly forward to the Trustee a jointly signed certification of the Security Amount. If the parties are unable to resolve such dispute within ten (10) Business Days of the Beneficiary's transmittal to the Grantor of its notice of objection, and the dispute relates to the valuation of an Asset, the value of such Asset shall be determined by a Third Party Appraiser and the Grantor and Beneficiary shall be bound by such valuation. All other disputes shall be resolved in accordance with Section 11.1. Upon resolution of such dispute, the parties shall forward to the Trustee a copy of the corrected Quarterly Certification setting forth the Security Amount as resolved through such Third Party Appraiser or arbitration. The Grantor shall, to the extent reasonably necessary or required in order to verify Grantor's certification, permit the Beneficiary to audit its records in order to determine its compliance with Section 5.2 and this Section 5.3. The Grantor shall cooperate fully with such audit. Access to the Grantor and its employees by the Beneficiary in connection with such audit shall be at reasonable times during regular business hours upon reasonable prior written notice (including by e-mail) in a manner which does not unreasonably interfere with the business or operations of the Grantor.

## ARTICLE VI RELEASE AND ADJUSTMENT OF TRUST ACCOUNT ASSETS

### Section 6.1 Adjustment of Trust Account Assets.

(a) The Security Amount as of the end of each calendar quarter shall be certified to the Trustee by the Grantor in the manner set forth in Section 5.3 hereof.

(b) Following the occurrence of a Collateral Triggering Event, if the aggregate fair market value of the Eligible Investments, or Permitted Investments if then required, maintained in the Trust Account as of any calendar quarter end is less than the Security Amount (computed taking into account the occurrence of the Collateral Triggering Event) as of such calendar quarter end, then within five (5) Business Days Grantor shall deposit into the Trust

Account such additional Assets with an aggregate fair market value as are necessary to ensure that the aggregate fair market value of the Eligible Investments, or Permitted Investments if then required, held in the Trust Account is no less than 100% of the Security Amount as of the immediately prior calendar quarter end.

(c) If, following a Collateral Triggering Event, the event, change or condition which gave rise to the collateralization requirement ceases to exist or apply, then the Security Amount shall thereafter (until the occurrence of a further Collateral Triggering Event) be computed without regard to such Collateral Triggering Event.

Section 6.2 Release of Trust Account Assets to the Beneficiary. By transmittal of contemporaneous prior written notice to the Trustee and the Grantor, together with a Final Order of an arbitration panel if required pursuant to Section 7.8 of the LPT Retrocession Agreement,

11

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the Beneficiary may withdraw Assets from the Trust Account pursuant to the provisions of Sections 7.8 and 7.9 of the LPT Retrocession Agreement; *provided* that notice of such withdrawal is received not less than five (5) Business Days in advance of the requested withdrawal. The Trustee shall promptly comply with such notice. The Security Amount shall be adjusted, if necessary, to reflect the application of the funds so withdrawn.

Section 6.3 Release of Trust Account Assets to the Grantor.

(a) All proceeds from the sale or substitution of the Assets in the Trust Account and the collection of interest, dividends and other income in respect to the Assets in the Trust Account shall be retained in the Trust Account and shall not be released to the Grantor, except in accordance with the provisions set forth in subparagraphs (b) and (c) in this Section 6.3.

(b) Following each calendar quarter end, by transmittal of written notice to the Trustee and contemporaneous notice to the Beneficiary stating a withdrawal date that shall not be less than five Business Days following the date of the notice, the Grantor may withdraw Assets from the Trust Account in an amount equal to the positive difference, if any, between (i) the aggregate amount of Ultimate Net Loss that has been Actually Paid by Grantor under the LPT Retrocession Agreement since Inception (excluding amounts withdrawn by the Beneficiary pursuant to Section 6.2) *minus* (ii) the aggregate amount previously withdrawn by Grantor under this Section 6.3(b); *provided, however*, that in connection with any such withdrawal, the Grantor shall provide a written certification to the Trustee stating the fair market value of each non-cash Asset withdrawn; and *provided, further*, following a Collateral Triggering Event, the Grantor shall be permitted to withdraw Assets from the Trust Account pursuant to this Section 6.3(b) only to the extent that the aggregate fair market value of the Eligible Investments remaining in the Trust Account after such withdrawal is not less than 100% of the Security Amount. The Trustee shall comply with such notice on the withdrawal date specified therein.

(c) Commencing at the fifth anniversary of the date hereof, at any calendar quarter end following the delivery of the Quarterly Certification as to which there is no dispute outstanding between the Grantor and the Beneficiary, in the event the aggregate fair market value of the Eligible Investments maintained in the Trust Account exceeds 150% of the sum of (i) net Reserves of the Beneficiary (including reserves for losses incurred but not reported) calculated in accordance with SAP with respect to the Subject Asbestos Liabilities as of such calendar quarter end and (ii) the amount of the bad debt reserves then held by the Grantor in respect of Included Reinsurance Recoverables, then by transmittal of fourteen (14) calendar days' prior written notice to the Trustee and the Beneficiary, the Grantor may direct the Trustee to withdraw from the Trust Account and transfer to the Grantor Assets having a fair market value equal to the amount of such excess; *provided, however*, that following a Collateral Triggering Event, the Grantor shall be permitted to withdraw Assets from the Trust Account pursuant to this Section 6.3(c) only to the extent that the aggregate fair market value of the Eligible Investments remaining in the Trust Account after such withdrawal is not less than 100% of the Security Amount. In either event, the Trustee shall promptly comply with such notice.

12

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## ARTICLE VII DUTIES OF THE TRUSTEE

Section 7.1 Acceptance of Assets by the Trustee.

(a) The Trustee shall not accept any Assets (other than cash) for deposit into the Trust Account unless the Trustee determines that it is or will be the registered owner of and holder of legal title to the Assets or that such Assets are in such form that the Trustee may, if applicable to such asset class, negotiate any such Assets, without consent or signature from the Grantor or any other person or entity. Any Assets received by the Trustee which, if applicable to such asset class, are not in such proper negotiable form or for which title has not been transferred to the Trustee shall not be accepted by the Trustee and shall be returned to the Grantor as unacceptable.

(b) The Trustee and its lawfully appointed successors is and are authorized and shall have the power to receive such Assets as the Grantor (or the Beneficiary on behalf of the Grantor) from time to time may transfer or remit to the Trust Account and to hold and dispose of the same for the uses and purposes and in the manner and according to the provisions herein set forth. All such Assets at all times shall be maintained as a trust account, separate and distinct from all other assets on the books and records of the Trustee, and shall be continuously kept in a safe place within the United States.

Section 7.2 Collection of Interest and Dividends; Voting Rights. The Trustee is hereby authorized, without prior notice to the Grantor or the Beneficiary, to demand payment of and collect all interest or dividends on the Assets comprising the Trust Account if any. All payments of interest, dividends and other income in respect to Assets in the Trust Account shall be deposited promptly upon receipt by the Trustee into the Trust Account. Subject to the other provisions of this Trust Agreement, the Grantor shall have the full and unqualified right to direct the Trustee to vote, and to execute consents, bond powers, stock powers, mortgage and title instruments and other instruments of transfer, pledge and release with respect to any Assets comprising the Trust Account.

Section 7.3 Obligations of the Trustee. The Trustee agrees to hold and disburse the various Assets of the Trust Account in accordance with the provisions expressed herein.

Section 7.4 Responsibilities of the Trustee.



(a) The Trustee, in the administration of the Trust Account, is to be bound solely by the express provisions herein, and such further written and signed directions as the appropriate party or parties may, under the conditions herein provided, deliver to the Trustee. The Trustee shall be under no obligation to enforce the Grantor's obligations under this Trust Agreement, except as otherwise expressly provided or directed pursuant hereto. The Trustee shall be restricted to holding title to, operating and collecting the Assets comprising the Trust Account and the payment and distribution thereof for the purposes set forth in this Trust Agreement and to the conservation and protection of such Assets and the administration thereof in accordance with the provisions of this Trust Agreement, and the Trustee shall be liable only for its own negligence, willful misconduct or lack of good faith and for the breach of the Trustee's obligations under this Trust Agreement; *provided, however*, that any actions taken in strict accordance with written instructions provided to the Trustee from the parties hereto will not constitute a breach of the Trustee's obligations under this Trust Agreement. Upon request of the Grantor or the Beneficiary,

13

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the Trustee further agrees promptly to forward to such party a statement of all Assets held in the Trust Account.

(b) Subject to the other provisions of this Trust Agreement, including the requirement that only Eligible Investments may be held in the Trust Account, and provisions relating to the substitution of Assets, (i) the Grantor or an asset manager appointed by Grantor shall have the irrevocable authority and sole power to direct the Trustee, in the Grantor's sole discretion, with respect to all aspects of the management or investment of the Assets contained in the Trust Account and (ii) the Trustee and the Beneficiary each acknowledges that it has no authority with respect to such management or investment activities, the Trustee agrees it will not exercise any discretion or take any action with respect to the matters in clause (i) above and the Trustee will take any actions related thereto as directed by the Grantor in writing in accordance therewith.

Section 7.5 Books and Records. The Trustee shall keep full and complete records of the administration of the Trust Account. The Grantor and the Beneficiary may examine such records, upon reasonable notice to the Trustee, at any time during business hours through any person or persons duly authorized in writing by Grantor or the Beneficiary, at the requesting party's expense.

Section 7.6 Activity Reports. The Trustee agrees to provide an activity report to the Beneficiary and the Grantor upon creation of the Trust Account and within five (5) Business Days following the end of each calendar quarter, which report shall, in reasonable detail, show (i) all deposits, withdrawals exchanges and substitutions during such quarter and (ii) a listing of securities and other assets held and cash balances in the Trust Account as of the last day of such quarter. The Trustee agrees to provide written notification to the Grantor and the Beneficiary within five (5) days of any deposits to or withdrawals from the Trust Account.

Section 7.7 Resignation or Removal of the Trustee; Appointment of Successor Trustee.

(a) The Trustee may at any time resign as Trustee and terminate its capacity hereunder by delivery of written notice of resignation, effective not less than ninety (90) days after receipt by both the Beneficiary and the Grantor. The Trustee may be removed by the Grantor by delivery to the Trustee and the Beneficiary of a written notice of removal, effective not less than ninety (90) days after receipt by the Trustee and the Beneficiary of the notice. Notwithstanding the foregoing, no such resignation by the Trustee or removal by the Grantor shall be effective until a successor to the Trustee shall have been duly appointed by the Grantor and approved by the Beneficiary, which approval shall not be unreasonably withheld, and all the securities and other Assets in the Trust Account have been duly transferred to such successor. The Grantor, upon receipt of such notice of resignation, shall undertake to obtain the agreement of a qualified, successor depository, agreeable to the Beneficiary, to act as a successor Trustee in accordance with all agreements of the Trustee herein and upon duly qualifying to act as such pursuant to Section 7.7(b). The Beneficiary agrees not to withhold unreasonably approval of such Trustee. Upon the Trustee's delivery of the Assets to the qualified, successor depository, along with a closing statement showing all activities from the last quarterly report, the Trustee shall be discharged of further responsibilities hereunder, subject to any remaining obligations under Sections 7.4 and 7.7(b). In the event that the Grantor and the Beneficiary fail to appoint a successor trustee within ninety (90) days following receipt of the Trustee's notice of resignation or a notice of removal, the Trustee may, in its sole discretion and at the expense of the Grantor, petition any

14

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court of competent jurisdiction for the appointment of a successor trustee or for other appropriate relief, and any such resulting appointment shall be binding upon all the parties.

(b) Any successor Trustee appointed hereunder shall execute an instrument accepting such appointment hereunder and shall deliver the same to the Grantor and to the then acting Trustee. Thereupon such successor Trustee shall, without any further act, become vested with all the estates, properties, rights, powers, trusts and duties of its predecessor in the Trust with like effect as if originally named herein; but the predecessor Trustee shall nevertheless, when requested in writing by the successor Trustee, execute an instrument or instruments conveying and transferring to the Trustee upon the Trust herein all the estates, properties, rights, powers and trusts of such predecessor Trustee, and shall duly assign, transfer and deliver to the Trustee all property and money held by such predecessor hereunder. The predecessor Trustee shall be entitled to reimbursement in accordance with Section 7.10 for all expenses it incurs in connection with the settlement of its accounts and the transfer and delivery of the Trust assets to its successor. The predecessor Trustee shall continue to be indemnified by reason of such entity being or having been a Trustee in accordance with Section 7.9.

Section 7.8 Release of Information. The Trustee shall promptly respond to any and all reasonable requests for information concerning the Trust Account or the Assets held therein by any of the parties to this Trust Agreement. Furthermore, the Trustee shall fully and completely respond to any direct inquiries of any applicable regulatory authority with jurisdiction over the Grantor or the Beneficiary concerning the Trust Account or the Assets held hereunder, including detailed inventories of securities or funds, and the Trustee shall permit such regulatory authority to examine and audit all securities or funds held hereunder. The Trustee shall promptly provide notice to the Beneficiary and the Grantor concerning all such inquiries, and shall provide seven (7) days' prior notice to the Beneficiary and the Grantor of all such examinations and audits.

Section 7.9 Indemnification of the Trustee. The Grantor shall indemnify, defend and hold the Trustee (and its directors, officers and employees) harmless from and against any loss, liability, damage, cost and expense of any nature arising out of or in connection with this Trust Agreement or with the performance of its duties hereunder, including, among other things, reasonable attorneys' fees and court costs, except to the extent such loss, liability, damage, cost and expense shall be caused by the Trustee's negligence, willful misconduct or lack of good faith. Whenever an action by the Trustee is

authorized by written signed direction pursuant to the provisions of this Trust Agreement and such action is taken strictly in accordance with such written and signed direction by the appropriate party or parties, the party or parties authorizing such action hereby agree to indemnify the Trustee against all losses, damages, costs and expenses, including reasonable attorneys' fee, resulting from any action so taken by the Trustee. The provisions of this paragraph shall survive the termination of this Trust Agreement and the resignation or removal of the Trustee for any reason.

Section 7.10 Charges of the Trustee. The Grantor agrees to pay all reasonable costs or fees charged by the Trustee for acting as the Trustee pursuant to this Trust Agreement, as agreed between the Grantor and the Trustee; *provided, however*, that no such costs, fees or expenses shall be paid out of the Assets held in or credited to the Trust Account.

Section 7.11 Limitations of the Trustee. The Trustee shall in no way be responsible for determining the amount of Assets required to be deposited, or monitoring whether or not the

15

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Assets held within the Trust Account are Eligible Investments. The Trustee shall be under no liability for any release of Assets made by it to the Grantor in accordance with Article VI.

Section 7.12 Concerning the Trustee.

(a) No provision in this Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(b) The Trustee shall be entitled to rely on advice of or on an opinion of counsel concerning all matters of trust and its duty hereunder and shall not be liable for any action taken or not taken by it in reliance on such advice or on such opinion of counsel.

(c) The Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution notice, request, consent, certificate, order, entitlement order, affidavit, letter, telegram, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or sent by the proper person or persons. The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, notice, consent, request, certificate, order, entitlement order, affidavit, letter, telegram, facsimile transmission, electronic mail or other paper or document.

(d) The permissive right of the Trustee to take action enumerated in this Trust Agreement shall not be construed as a duty and it shall not be answerable for other than its negligence, willful misconduct or lack of good faith. In no event shall the Trustee be liable for indirect, special, incidental, punitive or consequential losses or damages, including but not limited to lost profits, whether or not foreseeable, even if the Trustee has been advised of the possibility thereof.

(e) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the Assets.

(f) The Trustee shall not be accountable for the use or application by the Grantor or any Beneficiary or any other party of Assets which the Trustee has released in accordance with the terms of this Trust Agreement.

(g) The Trustee makes no representations as to the validity or sufficiency of the Assets and the Trust Account for any particular purpose and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations assigned to or imposed upon it as provided herein.

(h) The Trustee shall not be responsible for the perfection, priority or enforceability of any lien or security interest in any of the Assets or in the Trust Account.

(i) In accepting the trust hereby created, the Trustee acts solely as trustee and not in its individual capacity, and all persons having any claim against the Trustee arising from this Trust Agreement, shall look only to the Assets held by the Trustee hereunder for payment except as otherwise provided herein.

(j) The Trustee shall not be considered in breach of or in default in its obligations hereunder in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control (including, but not limited to, any act or provision of any present or future law or regulation or governmental authority, any act of God or war, civil unrest, local or national disturbance

16

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or disaster, any act of terrorism, or the unavailability of the Federal Reserve Bank wire or other wire or communication facility) or without its willful misconduct, negligence or lack of good faith.

## ARTICLE VIII GRANT OF SECURITY INTEREST

Section 8.1 Establishment and Maintenance of the Trust Account. The Trustee hereby confirms and agrees that:

(a) (i) it has established the Trust Account in the name of the Trustee and (ii) the Trust Account is a "securities account" (as defined in the UCC) in respect of which the Trustee is a "securities intermediary" (as defined in the UCC);

(b) it shall not change the entitlement holder or account number of the Trust Account without prior written consent of the Beneficiary;  
and

(c) each item of property (whether cash, a security, an instrument or any other property whatsoever) credited to the Trust Account shall be treated as a "financial asset" under Article 8 of the UCC.

Section 8.2 Grant of Security Interest. As security for the prompt and complete payment, reimbursement and performance when due in full of all the Grantor's obligations under the LPT Retrocession Agreement, the Grantor hereby grants to the Beneficiary a security interest in and continuing lien on all of the Grantor's right, title and interest in, to and under the following, in each case, whether now owned or existing or hereafter acquired or arising, and wherever located (all of which being hereinafter collectively called the "Collateral"):

(a) the Trust Account;

(b) all Security Entitlements carried in the Trust Account; and

(c) all Proceeds of any or all of the foregoing; *provided, however*, that the security interest granted hereunder shall terminate as to the Proceeds of a withdrawal by the Grantor that, at the time of such withdrawal, was rightful in amount.

Section 8.3 Limitation on Exercise of Remedies. The Beneficiary may exercise the remedies of a "secured party" (as defined in the UCC) only at such times as it would be entitled to withdraw assets from the Trust pursuant to Article VI hereof.

Section 8.4 Other Matters.

(a) The Grantor hereby authorizes each Beneficiary to file UCC-1 financing statements naming the Grantor as debtor and describing the Collateral pledged hereunder. The Grantor shall not change its name or jurisdiction of organization, unless it has given each Beneficiary a notice of such change within 30 days of such change and all filings have been made by the Grantor under the UCC or otherwise that are required in order for each Beneficiary to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral.

(b) The Trustee hereby subordinates to the Beneficiary's security interest in the Collateral any statutory or contractual right or claim of offset or lien resulting from any transaction

17

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which involves the Trust Account, other than with respect to fees and expenses related to the Trust Account.

## ARTICLE IX TERMINATION

Section 9.1 Termination. This Trust Agreement may be terminated by the Grantor and the Beneficiary by delivery of written notice of termination to the Trustee. The Beneficiary shall provide its consent to the termination of this Trust Agreement if (i) the Grantor seeks to terminate this Trust Agreement as a result of the exhaustion of the Retro Limit or (ii) the Remaining Paid Limit (as defined in the Administrative Services Agreement) is reduced to \$50,000,000 or lower.

Section 9.2 Disposition of Assets Upon Termination. Upon a termination pursuant to this Article IX, the Trustee shall distribute all Assets held and deposited under this Trust Agreement, to the Grantor and shall take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in such Assets and to deliver physical custody, if applicable, in such Assets to the Grantor or as otherwise directed by the Grantor.

## ARTICLE X GENERAL PROVISIONS

Section 10.1 Notices. Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any party under this Trust Agreement shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on written confirmation of receipt, or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following addresses:

If to the Trustee: Wells Fargo Bank, National Association  
5 Broadway, 14th floor  
New York, New York 10006  
Attention: Stephen Bruce  
Facsimile: (212) 509-1716

If to the Grantor: National Indemnity Company  
100 First Stamford Place  
Stamford, CT 06902  
Attention: General Counsel  
Fax: 203-363-5221

With a copy to: National Indemnity Company  
3024 Harney Street  
Omaha, NE 68131  
Attention: Treasurer  
Fax: 402-916-3030

18

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If to either Beneficiary: David Fields  
Chief Underwriting Officer and  
Chief Reinsurance Officer  
Chartis Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 551-7214

With a copy to: Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

- and to -

[Treasury or such other person who  
will oversee the Trust]

Each party to this Trust Agreement may change its notice provisions on fifteen (15) calendar days' advance notice in writing to the other parties to this Trust Agreement.

Section 10.2 Entire Agreement. This Trust Agreement, including Appendix A hereto and any other documents delivered pursuant hereto or thereto, constitute the entire agreement among the parties hereto with respect to the subject matter hereof insofar as such agreements affect the Trustee, and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the parties hereto with respect to the subject matter hereof and thereof.

Section 10.3 Waiver and Amendment. This Trust Agreement and the Trust created hereunder shall be irrevocable, subject solely to the termination provisions set forth herein. This Trust Agreement may be altered, amended or terminated at any time by written agreement executed by each party hereto. The failure of either party at any time to exercise any of the rights or powers conferred upon it herein shall constitute neither a waiver of its right to exercise, nor stop it from exercising, any rights at any subsequent time, nor shall such failure reduce in any degree any liability or obligation for which the other party is bound hereunder.

Section 10.4 Successors and Assigns. The rights and obligations of a party under this Trust Agreement shall not be subject to assignment without the prior written consent of the other parties hereto, and any attempted assignment without the prior written consent of the other parties hereto shall be invalid *ab initio*. The terms of this Trust Agreement shall be binding upon, inure to the benefit of and be enforceable by and against the successors and permitted assigns of the parties hereto. Notwithstanding the foregoing, any corporation or association into which the Trustee may be merged or converted, or with which it may be consolidated, or to which it may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Trustee without the execution or filing of any paper or further act.

19

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Section 10.5 Headings. The headings of this Trust Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

Section 10.6 Governing Law and Jurisdiction. This Trust Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's principles of conflict of laws that could compel the application of the laws of another jurisdiction.

Section 10.7 No Third Party Beneficiaries. Nothing in this Trust Agreement is intended or shall be construed to give any person, other than the parties hereto, any legal or equitable right, remedy or claim under or in respect of this Trust Agreement or any provision contained herein.

Section 10.8 Counterparts. This Trust Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the parties hereto notwithstanding the fact that all parties hereto are not signatory to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

Section 10.9 Severability. Any term or provision of this Trust Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Trust Agreement or affecting the validity or enforceability of any of the terms or provisions of this Trust Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party hereto. If any provision of this Trust Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Trust Agreement, the parties hereto shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the parties hereto as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

Section 10.10 Incontestability. Each Party hereby acknowledges that this Trust Agreement, and each and every provision hereof, is and shall be enforceable according to its terms. Each Party hereby irrevocably waives any right to contest in any respect the validity or enforceability hereof. This Trust Agreement shall not be subject to rescission, or to an award of damages, restitution, or reformation in lieu thereof, on any basis whatsoever, including intentional fraud.

Section 10.11 Set-Off. Notwithstanding Section 9.12 of the Master Transaction Agreement, there are no rights of set-off whatsoever, whether contractual, at common law, or otherwise, with respect to the Trust and the Trust Assets.

Section 10.12 Currency. All financial data required to be provided pursuant to the terms of this Trust Agreement shall be expressed in United States dollars. All payments and all settlements of account between the parties hereto shall be in United States currency unless otherwise expressly agreed by the Parties in writing.

20

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## ARTICLE XI DISPUTE RESOLUTION; ARBITRATION

Section 11.1 Arbitration of Disputes Not Resolved by Negotiation. Any Dispute arising under or in any way related to this Trust Agreement, specifically including without limitation disputes concerning alleged fraud in the inducement of any of the Transaction Documents or other wrongful pre-Closing conduct, but not including a Dispute as to which the Trustee would be a required party within the meaning of Rule 19(a)(1) of the Federal Rules of Civil Procedure, shall, to the extent not resolved by negotiation between the Parties, be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the dispute. Any Person that is a Party to any of the Transaction Documents shall have an absolute right to intervene in any such arbitration.

Section 11.2 Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation.

(a) The procedures for the arbitration and for the mandatory pre-arbitration negotiation are set forth in Article VIII of the Master Transaction Agreement, which is hereby incorporated herein. Arbitration hereunder shall be conducted in Philadelphia, Pennsylvania.

(b) In considering any relief to be awarded, the arbitrators (and the Designated Court, as appropriate) shall take into account the Parties' view that the nature and uniqueness of the relationships created under the Transaction Documents as a whole render specific performance the remedy of choice where it is possible to implement that remedy.

Section 11.3 Permitted Judicial Proceedings. Subject to Section 11.4 hereof, the only permitted judicial proceedings relating to any Dispute are those set forth in, and are subject to the exclusive jurisdiction provisions of, Section 8.5 of the Master Transaction Agreement. Each Party finally and irrevocably waives any right to trial by jury of any matter or issue in such a permitted judicial proceeding.

Section 11.4 Disputes to Which the Trustee is a Required Party. In the event of a Dispute to which the Trustee is a required party within the meaning of Rule 19(a)(1) of the Federal Rules of Civil Procedure, then:

(a) To the extent any portion of the Dispute can be resolved without the participation of the Trustee, it shall be resolved pursuant to Sections 11.1 to 11.3 above.

(b) The remainder of the Dispute shall be resolved by litigation in the Designated Court, which shall be the sole and exclusive forum for such litigation.

## ARTICLE XII BENEFICIARY; CUT-THROUGH

Section 12.1 Beneficiary.

(a) Subject to the provisions of subsection (b) below, each of Eaglestone and National Union is a Beneficiary under this Trust Agreement, and references in this Trust Agreement to the "Beneficiary" shall refer to either Eaglestone or National Union, as the case may be, in accordance with subsection (b) below.

(b) All rights of the Beneficiary under this Trust Agreement may be exercised by either of Eaglestone or National Union; *provided that*:

21

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(i) upon the insolvency of Eaglestone and the appointment of a conservator, liquidator, receiver, or statutory successor of Eaglestone (a "Cut-Through Event"), automatically and without any action on the part of Eaglestone or National Union, all rights of the Beneficiary under this Trust Agreement may only be exercised by National Union, and Eaglestone may not exercise any such rights during the continuance of a Cut-Through Event;

(ii) prior to the occurrence of a Cut-Through Event, only Eaglestone shall be entitled to exercise any rights of the Beneficiary hereunder; and

(iii) prior to the occurrence of a Cut-Through Event, National Union may not exercise any of the rights of the Beneficiary hereunder.

Section 12.2 Certifications.

(a) National Union and Grantor shall inform the Trustee that a Cut-Through Event has occurred promptly upon becoming aware of the occurrence or continuation of a Cut-Through Event.

(b) Any direction from Eaglestone to the Trustee to withdraw Assets from the Trust Account, including pursuant to Section 6.2 hereof, shall include a certification by Eaglestone that no Cut-Through Event has occurred or is continuing.

(c) Any direction from National Union to the Trustee to withdraw Assets from the Trust Account, including pursuant to Section 6.2 hereof, shall include a certification by National Union that a Cut-Through Event has occurred or is continuing.

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**ARTICLE XIII  
EFFECTIVE DATE AND EXECUTION**

IN WITNESS OF THE ABOVE, this Trust Agreement is executed in triplicate by the parties' duly authorized officers on the dates indicated below with an effective date of: [     ], 2011.

EAGLESTONE REINSURANCE COMPANY  
as Beneficiary

By: \_\_\_\_\_  
Title:  
Date:

Attest: \_\_\_\_\_  
Title:  
Date:

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.  
as Beneficiary

By: \_\_\_\_\_  
Title:  
Date:

Attest: \_\_\_\_\_  
Title:  
Date:

[Signature Page to the Trust Agreement]

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NATIONAL INDEMNITY COMPANY,  
as Grantor

By: \_\_\_\_\_  
Title:  
Date:

Attest: \_\_\_\_\_  
Title:  
Date:

[WELLS FARGO BANK, NATIONAL  
ASSOCIATION], as Trustee

By: \_\_\_\_\_  
Title:  
Date:

Attest: \_\_\_\_\_  
Title:  
Date:

[Signature Page to the Trust Agreement]

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Section 4.1 Continuing Obligation of the Grantor.

(a) The segregated trust account maintained by the Trustee with account number 85498700 (which shall be hereinafter referred to, including all successor accounts thereto, as the “**Trust Account**”) shall continue in existence upon the occurrence of a Retrocession Credit Event and the substitution of Assets as required under Section 3.1 of this Trust Agreement.

(b) The Grantor shall ensure that the Trust Account shall hold Permitted Investments at all times with a fair market value of no less than 100% of the Required Amount, as determined in accordance with Section 7.6 of this Trust Agreement.

Section 4.2 Purpose of the Trust. The Assets in the Trust Account shall be held by the Trustee for the sole benefit of the Beneficiary, subject to the provisions of Article XI hereof and Section 6.2 of the LPT Retrocession Agreement regarding the effect of the insolvency of Eaglestone and implementation of the cut-through pursuant to the LPT Retrocession Agreement. The Grantor grants to the Trustee all trust powers necessary and reasonable in the performance of its duties hereunder except as otherwise expressly provided herein.

Section 5.1 (a) Substitution of Trust Account Assets. Upon receipt of the prior written consent of the Beneficiary, the Grantor may, from time to time, substitute or exchange Assets contained in the Trust Account, *provided, however*, (i) the Assets so substituted or exchanged must be Permitted Investments, (ii) after giving effect to such substitution, the fair market value of the newly deposited Assets are at least equal to the fair market value of the substituted Assets and (iii) the replacement Assets to be deposited in the Trust Account in such substitution or exchange are deposited therein on the day of withdrawal of the substituted or exchanged Assets. Upon any substitution or exchange as provided for herein, the Grantor shall certify to the Trustee and Beneficiary that such substitution or exchange meets the requirements of this Section 5.1. The Trustee shall act on the instruction and certification of the Grantor and shall give the Beneficiary prompt written notice of any substitution made pursuant hereto.

Section 5.3 Quarterly Certification. Within fourteen (14) calendar days following the end of each calendar quarter, the Grantor shall provide the Beneficiary (with a copy to the Trustee) a written certification (the “**Quarterly Certification**”) stating the Required Amount as of the calendar quarter end and the aggregate fair market value of the Permitted Investments, as determined by a nationally recognized valuation service retained by the Trustee at the Grantor’s expense, held in the Trust Account as of the calendar quarter end (both on an asset-by-asset basis and a cumulative basis). Such certification shall separately state the effect on the fair market value of the Assets of withdrawals by the Grantor from the Trust Account effected during such calendar quarter. As soon as is practicable, but in no event more than ten (10) Business Days following its receipt of the Quarterly Certification, the Beneficiary shall either (i) countersign such certification and forward it to the Trustee or (ii) notify the Grantor that it objects to the Grantor’s calculation of the Required Amount or the Grantor’s valuation of any Asset. If the parties are able to resolve such dispute within ten (10) Business Days of the Beneficiary’s transmittal to the Grantor of its notice of objection, they shall promptly forward to the Trustee a jointly signed certification of the Required Amount. If the parties are unable to resolve such dispute within ten (10) Business Days of the Beneficiary’s transmittal to the Grantor of its notice of objection,

A-1

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and the dispute relates to the valuation of an Asset, the value of such Asset shall be determined by a Third Party Appraiser and the parties shall be bound by such valuation. All other disputes shall be resolved in accordance with Section 11.1 of this Trust Agreement. Upon resolution of such dispute, the parties shall forward to the Trustee a copy of the corrected Quarterly Certification setting forth the Required Amount as resolved through such Third Party Appraiser or arbitration. The Grantor shall, to the extent reasonably necessary or required in order to verify Grantor’s certification, permit the Beneficiary to audit its records in order to determine its compliance with this Section 5.3. The Grantor shall cooperate fully with such audit. Access to the Grantor and its employees by the Beneficiary in connection with such audit shall be at reasonable times during regular business hours upon reasonable prior written notice (including by e-mail) in a manner which does not unreasonably interfere with the business or operations of the Grantor.

Section 6.1 Adjustment of Trust Account Assets.

(a) The Required Amount as of the end of each calendar quarter shall be certified to the Trustee by the Grantor in the manner set forth in Section 5.3 hereof.

(b) If the aggregate fair market value of the Permitted Investments maintained in the Trust Account as of any calendar quarter end is less than the Required Amount as of such calendar quarter end, then within five (5) Business Days of its receipt of the certification set forth in Section 5.3, the Grantor shall deposit into the Trust Account such additional Assets with an aggregate fair market value as are necessary to ensure that the aggregate fair market value of the Permitted Investments held in the Trust Account is no less than 100% of the Required Amount as of the immediately prior calendar quarter end.

Section 6.2 Release of Trust Account Assets to the Beneficiary.

(a) Notwithstanding anything in this Trust Agreement to the contrary, the Beneficiary shall have the right to withdraw Assets from the Trust Account at any time, without notice to the Grantor, subject only to written notice to the Trustee from the Beneficiary given in accordance with Section 10.1 of this Trust Agreement. Other than such notice, no other statement or document need be presented by the Beneficiary to withdraw such Assets except that the Beneficiary shall acknowledge to the Trustee receipt of such withdrawn Assets. Upon such written notice of demand of the Beneficiary, the Trustee shall immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the Assets to the Beneficiary and, to the extent applicable, deliver physical custody of such Assets to the Beneficiary. Upon such transfer, Trustee shall promptly forward a copy of such notice to the Grantor. The Trustee shall not be subject to any liability for any payment made by it to the Beneficiary pursuant to such written demand by the Beneficiary.

Section 6.3 Release of Trust Account Assets to the Grantor. Subject to receipt of the Beneficiary’s prior written consent, which shall not be unreasonably withheld, delayed or conditioned, the Grantor shall have the right to withdraw Assets from the Trust Account with an aggregate fair market value equal to the excess over 102% of the Required Amount as of the prior calendar quarter end. In connection with any such release of Assets, the Trustee shall take any and all necessary steps to transfer absolutely and unequivocally all right, title and interest in such released Assets to the Grantor or its designee. The Trustee shall not be subject to any liability

A-2

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for any payment made by it to the Grantor pursuant to such written instructions received by it from the Beneficiary.

Section 7.4 Responsibilities of the Trustee.

(a) The Trustee, in the administration of the Trust Account, is to be bound solely by the express provisions herein, and such further written and signed directions as the appropriate party or parties may, under the conditions herein provided, deliver to the Trustee. The Trustee shall be under no obligation to enforce the Grantor's obligations under this Trust Agreement, except as otherwise expressly provided or directed pursuant hereto. The Trustee shall be restricted to holding title to, operating and collecting the Assets comprising the Trust Account and the payment and distribution thereof for the purposes set forth in this Trust Agreement and to the conservation and protection of such Assets and the administration thereof in accordance with the provisions of this Trust Agreement, and the Trustee shall be liable only for its own negligence, willful misconduct or lack of good faith. The Trustee further agrees to forward upon request of the Beneficiary, the Grantor or any Insurance Commissioner a statement and valuation of all Assets held under this Trust Agreement.

(b) Subject to the other provisions of this Trust Agreement, including the requirements that only Permitted Investments may be held in the Trust Account and provisions relating to the substitution of Assets, (i) the Grantor or an asset manager appointed by the Grantor shall have the irrevocable authority and sole power to direct the Trustee, in the Grantor's sole discretion, with respect to all aspects of the management or investment of the Assets contained in the Trust Account and (ii) the Trustee and the Beneficiary each acknowledges that it has no authority with respect to such management or investment activities, the Trustee agrees it will not exercise any discretion or take any action with respect to the matters in clause (i) above and will take any actions related thereto as directed by the Grantor in accordance therewith.

Section 7.5 Books and Records. The Trustee shall keep full and complete records of the administration of the Trust Account. The Grantor, the Beneficiary and/or the Insurance Commissioner may examine such records, upon reasonable notice to the Trustee, at any time during business hours through any person or persons duly authorized in writing by Grantor, the Beneficiary and/or the Insurance Commissioner, at the requesting party's expense.

Section 7.8 Release of Information. The Trustee shall promptly respond to any and all reasonable requests for information concerning the Trust Account or the Assets held therein by any of the parties to this Trust Agreement. Furthermore, the Trustee shall fully and completely respond to any direct inquiries of the Insurance Commissioner, or any of its representatives, concerning the Trust Account or the Assets held hereunder, including, detailed inventories of securities or funds, and the Trustee shall permit the Insurance Commissioner, or its representatives, to examine and audit all securities or funds held hereunder. The Trustee shall promptly provide notice to the Beneficiary and the Grantor concerning all such inquiries, and shall provide seven (7) days prior notice to the Beneficiary and the Grantor of all such examinations and audits.

Section 7.11 Limitations of the Trustee. The Trustee shall in no way be responsible for determining the amount of Assets required to be deposited, or monitoring whether or not the Assets held within the Trust Account are Permitted Investments. The Trustee shall be under no liability for any release of Assets made by it to the Grantor in accordance with Article VI.

A-3

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Section 10.2 Construction and Effect. This Trust Agreement and the enforceability hereof shall not be subject to the satisfaction of any conditions or qualifications not expressly included herein.

A-4

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**Exhibit C to the  
Master Transaction Agreement**

**AMENDED AND RESTATED  
LOSS PORTFOLIO TRANSFER REINSURANCE AGREEMENT**

**by and between**

**AMERICAN HOME ASSURANCE COMPANY  
CHARTIS CASUALTY COMPANY**  
(f/k/a American International South Insurance Company)  
**CHARTIS PROPERTY CASUALTY COMPANY**  
(f/k/a AIG Casualty Company)  
**COMMERCE AND INDUSTRY INSURANCE COMPANY  
GRANITE STATE INSURANCE COMPANY  
ILLINOIS NATIONAL INSURANCE CO.  
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.  
NEW HAMPSHIRE INSURANCE COMPANY  
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA  
CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)  
**CHARTIS SPECIALTY INSURANCE COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)  
**LANDMARK INSURANCE COMPANY  
LEXINGTON INSURANCE COMPANY  
AIU INSURANCE COMPANY  
AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**  
*and*  
**AMERICAN HOME ASSURANCE COMPANY  
NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.  
NEW HAMPSHIRE INSURANCE COMPANY**



**CHARTIS OVERSEAS LIMITED**  
*acting as members of the Chartis Overseas  
Association as respects business written or  
assumed by or from affiliated companies of  
Chartis Inc.*  
(collectively, "**Reinsureds**," as further defined herein)

and

**EAGLESTONE REINSURANCE COMPANY**  
(**"Reinsurer"**)

Dated as of [            ], 2011

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**TABLE OF CONTENTS**

ARTICLE I  
DEFINITIONS

1.1	Definitions	1
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ARTICLE II  
REINSURANCE CEDED

2.1	Reinsurance Coverage	9
2.2	Reinsurance Limits	9
2.3	Retentions	10
2.4	Commencement of Reinsurer's Liability; Follow Fortunes/Settlements	10
2.5	Ultimate Net Loss and Coverage B UNL	11
2.6	Extra-Contractual Obligations	12
2.7	Third Party Reinsurance	13
2.8	Exclusions	13
2.9	Territory	14
2.10	Redomestication	14

ARTICLE III  
REINSURANCE PREMIUM

3.1	Reinsurance Premium	14
3.2	Cash Settlement at Closing	15
3.3	Ceding Commission on Account of Unallocated Loss Adjustment Expenses	15
3.4	Coverage A Payments, Funding, and Accounts	15
3.5	Coverage B Payments and Accounts	17
3.6	Grant of Security Interest in Included Reinsurance Recoverables and Other Recoverables	18
3.7	Third Party Offsets with Respect to Included Reinsurance Recoverables	18

ARTICLE IV  
RESERVING REQUIREMENTS AND ACCOUNTING TREATMENT

4.1	Reinsurer's Reserves	19
4.2	Reinsureds' Reserves	19
4.3	Risk Transfer	19

ARTICLE V  
DURATION AND TERMINATION

5.1	Duration and Termination	20
-----	--------------------------	----

i

---

ARTICLE VI  
INSOLVENCY

6.1	Insolvency of Reinsured	20
-----	-------------------------	----

ARTICLE VII  
DISPUTE RESOLUTION AND ARBITRATION

7.1	Arbitration of Disputes Not Resolved by Negotiation	21
7.2	Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation	21
7.3	Permitted Judicial Proceedings	21

ARTICLE VIII  
ACCESS TO RECORDS AND CONFIDENTIALITY

8.1	Access to Records	21
8.2	Right to Associate	21
8.3	Confidentiality	21

ARTICLE IX  
ERRORS AND OMISSIONS

9.1	Errors and Omissions	23
9.2	Cessions Determined Not to Be Retrocedable	23

ARTICLE X  
MISCELLANEOUS PROVISIONS

10.1	Notices	23
10.2	Entire Agreement	24
10.3	Waiver and Amendment	24
10.4	Successors and Assigns	25
10.5	Headings	25
10.6	Construction; Interpretation	25
10.7	Governing Law	25
10.8	No Third Party Beneficiaries	25
10.9	Counterparts	25
10.10	Severability	26
10.11	Incontestability	26
10.12	Separate Parties; Set-Off	26
10.13	Currency	27
10.14	Appointment of National Union as Agent for Cut-Through	27
10.15	Regulatory Approval	27

ii

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LIST OF SCHEDULES

Schedule 1.1(a)	Certain Accounts
Schedule 2.8(b)(ii)	“Non-Jersey City” Materials supplied by Reinsureds to NICO, as modified and updated.

iii

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**THIS AMENDED AND RESTATED LOSS PORTFOLIO TRANSFER REINSURANCE AGREEMENT**, dated as of \_\_\_\_\_, 2011 (this “**Reinsurance Agreement**”), is made and entered into by and between the **Reinsureds**, as defined herein, and **Eaglestone Reinsurance Company**, a Pennsylvania property and casualty insurance company (hereinafter referred to as the “**Reinsurer**”).

**WHEREAS**, Reinsureds and Reinsurer (individually, a “**Party**” and collectively, the “**Parties**”) previously entered into a certain Loss Portfolio Transfer Reinsurance Agreement (the “**Original LPT**”) dated as of March 31, 2011 and effective as of 12:01 Eastern Standard Time on January 1, 2011 (“**Inception**”);

**WHEREAS**, Reinsureds and Reinsurer are amending and restating the Original LPT into this Reinsurance Agreement pursuant to that certain Master Transaction Agreement, dated as of \_\_\_\_\_, 2011 (as amended, modified, and supplemented and in effect from time to time, the “**Master Transaction Agreement**”), by and among the Parties and National Indemnity Co. (with its successors and permitted assigns, “**NICO**”);

**WHEREAS**, in accordance with the Master Transaction Agreement, Reinsurer shall retrocede to NICO a portion of the liabilities assumed by Reinsurer hereunder, all as specified in and subject to the terms and conditions of a Loss Portfolio Transfer Retrocession Agreement (the “**LPT Retrocession Agreement**”) between Reinsurer and NICO of even date herewith; and

**WHEREAS**, in accordance with the Master Transaction Agreement and an Administrative Services Agreement of even date herewith (the “**Administrative Services Agreement**”), NICO will provide certain administrative services to Reinsureds in connection with a portion of the liabilities ceded to Reinsurer under this Reinsurance Agreement;

**NOW, THEREFORE**, in consideration of the mutual and several promises and undertakings herein contained, and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Reinsureds and Reinsurer hereby amend and restate the Original LPT and agree as follows:

**ARTICLE I**  
**DEFINITIONS**

**1.1 Definitions.**

The following terms have the respective meanings set forth below throughout this Reinsurance Agreement (definitions are applicable to both the singular and the plural forms of each term defined in this Article I):

“**Actually Paid**” with respect to an item at a given time, means that liability on the item has been discharged as of such time, whether by payment, by offset, or otherwise. For the avoidance of doubt, the amount of the liability that is Actually Paid is measured by the amount of the consideration given for discharging the liability, not by the carrying value of the liability prior to discharge.

“**Actually Received**” with respect to an item at a given time, means that liability on the item has been discharged as of such time by the actual receipt of payment by NICO or by offset against amounts due from NICO. For the avoidance of doubt, the amount of the liability that is Actually Received is measured by the amount of the consideration given for discharging the liability, not by the carrying value of the liability prior to discharge.

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“**Administrative Services Agreement**” shall have the meaning set forth in the Recitals.

“**Affiliate**” shall have the meaning provided in the Master Transaction Agreement.

“**Allocated Loss Adjustment Expenses**” means

- (i) all obligations of Reinsureds for external defense costs and similar expenses arising from:
  - a. the terms and conditions of the Subject Business, or
  - b. interinsurer obligations arising from equitable contribution or similar claims,and
- (ii) external costs incurred in connection with or in any way relating to the adjustment, appraisal, defense, resistance, investigation, audit, negotiation, settlement, payment or appeal of, or the pursuit or collection of any reinsurance on, or the pursuit or enforcement of any right of salvage or subrogation with respect to, the Subject Business and/or coverage disputes and/or bad faith claims related thereto, including without limitation court costs, arbitration, mediation, or other dispute resolution costs, attorneys’ fees, expenses, and pre- and post-judgment interest, it being understood that
  - a. fees of staff counsel expressly charged with performing functions generally performed by outside counsel are Allocated Loss Adjustment Expenses, but that
  - b. personnel costs, overhead, or similar internal costs that are attributable to the handling of a claim file or the pursuit of reinsurance arising from the Subject Business, including without limitation such overhead or internal costs incurred by Chartis Claims, Inc., by Resolute, or by other Affiliates or Subcontractors of the Parties, are not Allocated Loss Adjustment Expenses.

For the purposes of this Reinsurance Agreement, this definition of “Allocated Loss Adjustment Expenses” shall apply regardless of how Reinsureds reserve for Allocated Loss Adjustment Expenses on their respective annual and quarterly statutory financial statements filed with Governmental Authorities.

“**Applicable Interest Rate**” means 4.25% per annum.

“**Applicable Law**” has the meaning provided in the Master Transaction Agreement.

“**Asbestos Claim**” means a claim arising out of, or relating to, the presence of or exposure to asbestos that (a) is presented for payment or adjudication within the 50 States of the United States of America and/or the District of Columbia, (b) is not a Mixed Claim, and (c) falls within either or both of the following categories:

- (i) any claim that was open at Inception and was at that time being handled by the Jersey City Asbestos Unit of Chartis Claims, Inc.; and
- (ii) any claim involving allegations, in whole or in part, of Property Damage, Bodily Injury, personal injury, mental anguish, medical monitoring, nuisance, or trespass,

including claims for equitable relief, arising out of, or relating to, the presence of or exposure to asbestos.

“**Asbestos Liabilities**” means the Subject Asbestos Liabilities and the Other Asbestos Liabilities.

“**Bodily Injury**” means anything covered as bodily injury under the coverage provisions of an Underlying Policy and/or, without limitation, actual or threatened bodily injury, sickness or disease sustained by a person, including death, humiliation, shock, mental anguish or mental injury by that person at any time which results as a consequence of the bodily injury, sickness or disease.

“**Books and Records**” shall have the meaning provided in the Administrative Services Agreement.

“**Business Day**” shall have the meaning provided in the Master Transaction Agreement.

“**Chartis**” means Chartis, Inc. and its predecessors and the Affiliates of any of them.

“**Closing Date**” shall have the meaning provided in the Master Transaction Agreement.

“**Collateral Trust Account**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Confidential Information**” shall have the meaning set forth in Section 8.3(c).

“**Contract Aggregate Limit**” shall have the meaning set forth in Section 2.2(a).

“**Coverage A Retention**” shall have the meaning set forth in Section 2.3(a).

“**Coverage B Net ALAE**” means that portion of Allocated Loss Adjustment Expenses with respect to Other Asbestos Liabilities that allocates to the Reinsureds’ Net Retained Line. For the avoidance of doubt, expenses related to reinsurance recovery efforts do not allocate to the Reinsureds’ Net Retained Line regardless of whether such expenses would otherwise be Allocated Loss Adjustment Expenses.

“**Coverage B Net ECO**” means that portion of Extra-Contractual Obligations with respect to Other Asbestos Liabilities that allocates to the Reinsureds’ Net Retained Line.

“**Coverage B Net Losses**” means that portion of Losses with respect to Other Asbestos Liabilities that allocates to the Reinsureds’ Net Retained Line.

“**Coverage B Other Recoverables**” means that portion of Other Recoverables with respect to Other Asbestos Liabilities that allocates to the Reinsureds’ Net Retained Line.

“**Coverage B Other Recoveries**” means that portion of Other Recoveries with respect to Other Asbestos Liabilities that allocates to the Reinsureds’ Net Retained Line.

“**Coverage B Retention**” shall have the meaning set forth in Section 2.3(b).

“**Coverage B Sublimit**” shall have the meaning set forth in Section 2.2(b).

“**Coverage B UNL**” shall have the meaning set forth in Section 2.5(b).

“**Defined Liability Set**” means the Subject Asbestos Liabilities or the Group I Asbestos Liabilities or the Other Asbestos Liabilities.

3

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“**Designated Court**” shall have the meaning provided in Section 8.5 of the Master Transaction Agreement.

“**Disclosing Party**” shall have the meaning set forth in Section 8.3(a).

“**Dispute**” has the meaning provided in Section 8.1 of the Master Transaction Agreement.

“**Dollars**” or “**\$**” refers to United States dollars.

“**ES Collateral**” has the meaning set forth in Section 3.6(a).

“**Extra-Contractual Obligations**” means all liability of a Reinsured (whether for compensatory, consequential, punitive, or exemplary damages, or otherwise) to insureds, claimants, or other third parties, together with any associated legal costs and expenses, that arises out of a Defined Liability Set and is not liability for Losses or Allocated Loss Adjustment Expenses. Subject to Section 2.6(b), Extra-Contractual Obligations include, without limitation, any actual or potential liability arising from an assertion by any person that Reinsureds or anyone acting on their behalf acted negligently, fraudulently, in bad faith, or otherwise improperly in the handling of any claim.

Where conduct of NICO or NICO’s Affiliates or Subcontractors is the basis of an award against Reinsureds (or a settlement of a claim for such an award) that would be within the definition of Extra-Contractual Obligations, the entire award or settlement is included within Extra-Contractual Obligations notwithstanding that the award may be against Reinsureds and NICO jointly or jointly and severally. Where, however, the award is (or would have been but for a settlement) against NICO alone, the award or settlement is not included within Extra-Contractual Obligations and is at NICO’s Own Expense.

For the avoidance of doubt, Extra-Contractual Obligations do not include regulatory fines or penalties for failure to comply with Medicare Set Aside requirements or other Medicare reporting requirements, all of which are addressed in the Administrative Services Agreement.

“**Final Order**” shall have the meaning provided in the Master Transaction Agreement.

“**Governmental Authority**” shall have the meaning provided in the Master Transaction Agreement.

“**Group I Asbestos Liabilities**” means liabilities or obligations of any Reinsured that (i) arise out of Asbestos Claims on the Subject Business (including without limitation obligations arising from direct actions by claimants against a Reinsured) or (ii) are incurred by any Reinsured in settlement of or in protection against the making of future Asbestos Claims on the Subject Business and, in either case, arise from an account set forth on Schedule 1.1(a) hereto. With respect to actual or potential Mixed Claims on the Subject Business, Group I Asbestos Liabilities includes the portion (but only the portion) of a Reinsured’s liabilities or obligations that relates to alleged exposure to or presence of asbestos and arises from an account set forth on Schedule 1.1(a) hereto.

Notwithstanding the foregoing, liabilities or obligations arising from policies underwritten by Chartis Aerospace are not Group I Asbestos Liabilities.

For purposes of this definition, an “account” refers to the entity that tenders the claim under a policy under which such tendering entity alleges coverage. A claim arising from or related to an account listed on Schedule 1.1(a) is within the Group I Asbestos Liabilities if it satisfies

one of criteria (i) and (ii) above, even if the name of the account subsequently changes, but a tender of a claim under a policy issued to an account listed on Schedule 1.1(a) does not give rise to a Group I Asbestos Liability if the tender is made by an entity separate and distinct from one of those listed on Schedule 1.1(a).

The accounts listed in Schedule 1.1(a) are defined as they exist at Inception. If after Inception an account so listed acquires another entity for which coverage under Coverage A hereof would exist, that coverage continues notwithstanding the acquisition.

“**Inception**” shall have the meaning set forth in the Recitals.

“**Included Reinsurance Recoverables**” means Third Party Reinsurance Recoverables on the Subject Asbestos Liabilities in respect of, but only in respect of, Losses, Allocated Loss Adjustment Expenses, and Extra-Contractual Obligations that are Actually Paid on or after Inception. The calculation of the amount Actually Paid on account of Included Reinsurance Recoverables for purposes of determining the amount of Ultimate Net Loss that has been Actually Paid includes interest on judgments or awards as well as awards of attorneys’ fees and is subject to adjustment under, and in the circumstances described in, Section 9.2(d) of the Administrative Services Agreement.

“**Initial Cash Payment**” shall have the meaning set forth in Section 3.2(a).

“**Initial Reconciliation Statement**” means the estimated reconciliation statement as of the month ending prior to the Closing Date provided by Reinsureds to Reinsurer five (5) Business Days prior to the Closing Date pursuant to Schedule 2.3 of the Master Transaction Agreement.

“**Loss**” or “**Losses**” means all obligations of Reinsureds, other than obligations for Allocated Loss Adjustment Expenses, to make payments to or for the benefit of their respective insureds or reinsureds under the coverage provisions of the Underlying Policies, including without limitation obligations arising from direct actions by claimants and interinsurer obligations arising from equitable contribution or similar claims.

“**LPT Retrocession Agreement**” shall have the meaning set forth in the Recitals.

“**Master Transaction Agreement**” shall have the meaning set forth in the Recitals.

“**Medicare Set Aside**” shall have the meaning provided in the Administrative Services Agreement.

“**Mixed Claim**” means a claim that is presented for payment or adjudication within the 50 States of the United States of America and/or the District of Columbia and that meets one or more of the criteria set forth in clause (c) of the definition of Asbestos Claim but also includes allegations of exposure to or presence of another toxin or condition (e.g., “mixed dust” claims) and/or allegations of injury not caused by exposure to or presence of a toxin.

“**NICO**” shall have the meaning set forth in the Recitals.

“**NICO Subject Business**” means all policies, binders, contracts, or other evidences of insurance or reinsurance issued by a Reinsured before January 1, 2000. NICO Subject Business includes those pre-2000 obligations of divested insurers for which any listed Reinsured remains responsible through reinsurance, indemnity, or otherwise.

“**Non-Asbestos Claim**” means a claim that is not an Asbestos Claim or a Mixed Claim.

“**Non-Included Recoverables**” means any Third Party Reinsurance Recoverables that are not Included Reinsurance Recoverables.

“**Order**” shall have the meaning provided in the Master Transaction Agreement.

“**Original LPT**” shall have the meaning set forth in the Recitals.

“**Other Asbestos Liabilities**” means (a) Group I Asbestos Liabilities and (b) liabilities or obligations of any Reinsured that arise out of Asbestos Claims on the Subject Business (including without limitation obligations arising from direct actions by claimants against a Reinsured and interinsurer obligations arising from claims for equitable contribution or similar claims) or are incurred by any Reinsured in settlement of or in protection against the making of future Asbestos Claims on the Subject Business but, in either event, are not Subject Asbestos Liabilities or are otherwise excluded from coverage under Coverage A.

“**Other Recoverables**” means salvage, subrogation, contribution, and any and all other rights to receipts, collections, and recoveries relating to a Defined Liability Set, including without limitation Retrospective Premiums, but Other Recoverables does not include Third Party Reinsurance Recoverables.

“**Other Recoveries**” means Other Recoverables that are Actually Paid.

“**Own Expense**” shall have the meaning set forth in Section 2.5.

“**Party**” or “**Parties**” shall have the meaning set forth in the Recitals.

“**Person**” shall have the meaning provided in the Master Transaction Agreement.

“**Prior Reinsurance Recoverables**” shall have the meaning provided in the Administrative Services Agreement.

“**Property Damage**” means anything covered as “property damage” under the coverage provisions of an Underlying Policy and/or, without limitation, actual or threatened or potential: (i) physical injury to tangible property, including all resulting loss of use of that property; or (ii) loss of use of tangible property that is not physically injured. For the avoidance of doubt, electronic data shall not be considered to be tangible property except and to the extent that damage to such data is covered as “property damage” under the coverage provisions of an Underlying Policy.

“**Receiving Party**” shall have the meaning set forth in Section 8.3(a).

“**Reinsurance Agreement**” shall have the meaning set forth in the Preamble.

“**Reinsurance Premium**” shall have the meaning set forth in Section 3.1.

“**Reinsured**” and “**Reinsureds**” mean:

(i) American Home Assurance Company; Chartis Casualty Company (f/k/a American International South Insurance Company); Chartis Property Casualty Company (f/k/a AIG Casualty Company); Commerce and Industry Insurance Company; Granite State Insurance Company; Illinois National Insurance Co.; National Union Fire Insurance Company of Pittsburgh, Pa.; New Hampshire Insurance Company; The Insurance Company of the State of Pennsylvania; Chartis Select Insurance Company (f/k/a AIG Excess Liability Insurance Company Ltd.); Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company); Landmark Insurance Company;

6

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Lexington Insurance Company; AIU Insurance Company; American International Reinsurance Company Ltd.; and *American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company, and Chartis Overseas Limited, acting as members of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.;*

(ii) Chartis Europe, S.A., Chartis Insurance U.K. Limited, Chartis Excess Limited, Chartis Insurance Company of Canada and Chartis Insurance Company of Puerto Rico, but in each case only at such time, following receipt of regulatory approval therefor, that such entity executes an addendum to this Reinsurance Agreement making it a party hereto;

(iii) any non-U.S. entity (A) that was continuously from Inception through the date of request to become a Reinsured hereunder, an Affiliate of Chartis Inc., and (B) in respect of its asbestos liabilities that are otherwise within the definition of Subject Asbestos Liabilities, that as of Inception, has no known claims in respect of Subject Asbestos Liabilities, and only upon (X) the agreement of NICO, in its sole discretion, such agreement to be based upon NICO’s being satisfied that such entity’s liabilities were within the agreed scope of Coverage A, and (Y) an addendum adding such entity as a party to the LPT Reinsurance Agreement and an addendum signed by such entity and NICO to the Master Transaction Agreement and the Administrative Services Agreement, and otherwise affirming all undertakings and representations of Reinsureds thereunder and hereunder;

(iv) any entity that was not at Inception, but had been previously, an Affiliate of Chartis and for which (but only to the extent that) any of the entities listed or described in clauses (i) and/or (ii) above is responsible, through indemnification obligations or otherwise, for the insurance obligations of such entity for the time it was such an Affiliate; and

(v) any predecessor or successor of any of the foregoing, including by reason of merger, consolidation, or otherwise, *provided, however,* that a successor of an entity described in clause (iii) is a “Reinsured” only to the extent that a Chartis Affiliate remains liable as described in such clause.

“**Reinsureds’ Net Retained Line**” means the portion of the Reinsureds’ liabilities on, under, or in respect of the Subject Business that is net of Third Party Reinsurance Recoverables. For purposes of determining Reinsureds’ Net Retained Line, Third Party Reinsurance Agreements that, as of Inception, Reinsureds had determined were insolvent or commuted shall be wholly ignored, both as to amounts recovered prior to Inception and as to amounts nominally recoverable at and after Inception. For the avoidance of doubt, Reinsureds’ Net Retained Line is relevant only to Coverage B.

“**Reinsurer**” shall have the meaning set forth in the Preamble. The term “Reinsurer” as used herein shall include any predecessor or successor of such company, including by reason of merger, consolidation or otherwise.

“**Representatives**” means, with respect to any Person, such Person’s officers, directors, employees, managing directors, agents, advisors and other representatives.

7

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“**Reserves**” means, as required by SAP or Applicable Law, reserves (including any gross, net and ceded reserves, as applicable), funds or provisions for Losses, Allocated Loss Adjustment Expenses and Extra-Contractual Obligations in respect of a Defined Liability Set.

“**Resolute**” shall have the meaning provided in the Administrative Services Agreement.

“**Retrospective Premiums**” means any amounts due from a policyholder or insured or reinsured under an Underlying Policy as a result of any increase in premiums charged thereunder or additional premium payable thereunder based upon the claims or loss experience pursuant to the terms and conditions of such Underlying Policy.

“**SAP**” means, as to any Person, the statutory accounting principles prescribed or permitted by the Governmental Authority responsible for the regulation of insurance companies in the jurisdiction in which such Person is domiciled.

“**Security Amount**” shall have the meaning provided in the Collateral Trust Agreement.

“**Subcontractor**” shall have the meaning provided in the Administrative Services Agreement.

“**Subject Asbestos Liabilities**” means any liabilities or obligations of Reinsureds, other than Group I Asbestos Liabilities, that (i) arise out of Asbestos Claims on the NICO Subject Business (including without limitation obligations arising from direct actions by claimants against a Reinsured) or (ii) are incurred by Reinsureds in settlement of or in protection against the making of future Asbestos Claims on the NICO Subject Business. With respect to actual or potential Mixed Claims on the NICO Subject Business, Subject Asbestos Liabilities includes the portion (but only the portion) of a Reinsured’s liabilities or obligations that relates to alleged exposure to or presence of asbestos and is not within Group I Asbestos Liabilities.

“**Subject Business**” means all policies, binders, contracts, or other evidences of insurance or reinsurance issued before January 1, 2011. Subject Business includes those pre-2011 obligations of divested insurers for which any listed Reinsured remains responsible through reinsurance, indemnity, or otherwise.

“**Subsidiary**” or “**Subsidiaries**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax Authority**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax Return**” shall have the meaning provided in the Master Transaction Agreement.

“**Termination Date**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Third Party Reinsurance Agreements**” means reinsurance agreements, other than this Reinsurance Agreement and reinsurance agreements solely between or among Reinsureds and their Affiliates, whereby any Reinsured has ceded any of the liabilities in the Defined Liability Sets, and which agreements had not been voided or commuted at or prior to Inception. For purposes of this definition, the liability of one Reinsured or Affiliate to another on a reinsurance agreement is “solely between Reinsureds and their Affiliates” even if non-Affiliates also participate in the reinsurance agreement, so long as the liability of all participants on the agreement is

several only. In such circumstances, each participation by a non-Affiliate that was not voided or commuted at or prior to Inception is a Third Party Reinsurance Agreement.

“**Third Party Reinsurance Recoverables**” means amounts recoverable under Third Party Reinsurance Agreements, including without limitation interest and fees awarded in proceedings for the collection of such amounts.

“**Third Party Reinsurance Recoveries**” means Third Party Reinsurance Recoverables that have been Actually Paid.

“**Transaction Documents**” means the Master Transaction Agreement and the Ancillary Agreements (as such term is defined in the Master Transaction Agreement).

“**Ultimate Net Loss**” shall have the meaning set forth in [Section 2.5\(a\)](#).

“**Unallocated Loss Adjustment Expenses**” means claims department and reinsurance collections department salaries, benefits, and overhead, as well as and any other loss adjustment expenses or reinsurance collection expenses that are not Allocated Loss Adjustment Expenses. For purposes of this Reinsurance Agreement, this definition of “Unallocated Loss Adjustment Expenses” will apply regardless of how any Reinsured reserves for Unallocated Loss Adjustment Expenses on its annual and quarterly statutory financial statements filed with Governmental Authorities.

“**Underlying Policy**” has the meaning provided in the Administrative Services Agreement.

## **ARTICLE II** **REINSURANCE CEDED**

### **2.1 Reinsurance Coverage.**

(a) **Coverage A.** Effective as of Inception, Reinsureds hereby cede to Reinsurer, and Reinsurer accepts as reinsurance, 100% of Reinsureds’ Ultimate Net Loss on the Subject Asbestos Liabilities in excess of the Coverage A Retention.

(b) **Coverage B.** Effective as of Inception, Reinsureds hereby cede to Reinsurer, and Reinsurer accepts as reinsurance, 100% of Reinsureds’ Coverage B UNL in excess of the Coverage B Retention.

### **2.2 Reinsurance Limits**

(a) **Overall Aggregate Limit:** Notwithstanding any other provision in this Reinsurance Agreement or the other Transaction Documents to the contrary, in no event and under no circumstances, however arising, shall Reinsurer be liable for an amount of Ultimate Net Loss and Coverage B UNL combined in excess of Five Billion Dollars (\$5,000,000,000) (the “**Contract Aggregate Limit**”) by reason of entering into this Reinsurance Agreement. The Contract Aggregate Limit is a single aggregate limit applicable to the Reinsureds as a group. There are neither sublimits nor setasides for individual Reinsureds.

(b) **Coverage B Sublimit:** Notwithstanding any other provision in this Reinsurance Agreement or the other Transaction Documents to the contrary, in no event and under no circumstances, however arising, shall Reinsurer be liable for an amount of Coverage B UNL in excess of One Billion, Five Hundred Million Dollars (\$1,500,000,000) (the “**Coverage B Sublimit**”)

by reason of entering into this Reinsurance Agreement. The Coverage B Sublimit is part of, and not in addition to, the Contract Aggregate Limit. It is a single aggregate sublimit applicable to the Reinsureds as a group. There are neither sublimits nor set-asides for individual Reinsureds.

### 2.3 **Retentions.**

(a) **Coverage A.** Reinsureds shall retain an amount of Ultimate Net Loss on the Subject Asbestos Liabilities equal to the amount of such Ultimate Net Loss that was Actually Paid at Inception (the "**Coverage A Retention**"), and Reinsurer shall have no liability whatsoever for any amounts, including but not limited Loss or Third Party Reinsurance Recoverables, with respect to the Coverage A Retention. The Coverage A Retention is a single aggregate retention applicable to the group of companies ceding hereunder.

(b) **Coverage B.** Reinsureds shall retain an amount of Coverage B UNL equal to the amount of such Coverage B UNL that was Actually Paid at Inception (the "**Coverage B Retention**"), and Reinsurer shall have no liability whatsoever for any Coverage B UNL that is within the Coverage B Retention. The Coverage B Retention is a single aggregate retention applicable to the group of companies ceding hereunder.

### 2.4 **Commencement of Reinsurer's Liability; Follow Fortunes/Settlements.**

(a) Reinsurer's liability under this Reinsurance Agreement shall attach simultaneously with that of Reinsureds, and all reinsurance with respect to which Reinsurer shall be liable by virtue of this Reinsurance Agreement shall be subject in all respects to the same risks, terms, rates, conditions, interpretations, assessments, and waivers, and to the same modifications, alterations, and cancellations, as are the Underlying Policies and the Asbestos Liabilities to which liability under this Reinsurance Agreement attaches, the true intent of this Reinsurance Agreement being that Reinsurer shall, in every case to which liability under this Reinsurance Agreement attaches, follow the fortunes and the settlements of Reinsureds, and Reinsurer shall be bound, without limitation, by all payments and settlements entered into by or on behalf of Reinsureds, subject to the terms, conditions, and provisions of this Reinsurance Agreement and the Contract Aggregate Limit and the Coverage B Sublimit set forth herein.

(b) Reinsurer is absolutely bound, with no exceptions on any basis whatsoever, to follow Reinsureds' fortunes and settlements (including without limitation *ex gratia* settlements) within the Coverage A Retention or Coverage B Retention, as the case may be.

(c) Reinsurer is absolutely bound, with no exceptions on any basis whatsoever, to follow Reinsureds' fortunes and settlements (including without limitation *ex gratia* settlements) effected after the Closing Date by NICO or its designees.

(d) Reinsurer is only obligated to follow the fortunes and the good faith settlements (including good faith *ex gratia* settlements) of Reinsureds in the following circumstances:

- (i) to the extent NICO is not acting on behalf of Reinsureds under the Administrative Services Agreement, it being understood that the allocation principles set forth in the Administrative Services Agreement continue to apply to Reinsureds in such circumstances, and Reinsureds' good faith settlements include their good faith implementation of such principles;
- (ii) for the period between Inception and the Closing Date; and

10

- (iii) at all times with respect to Coverage B hereof.

In all such circumstances, the burden is on Reinsurer to establish that a given settlement was not in good faith.

(e) Allocation issues, including (by way of example only) determining whether certain claim payments fall within the Group I Asbestos Liabilities, the Other Asbestos Liabilities, or the Subject Asbestos Liabilities, shall be resolved pursuant to the Administrative Services Agreement, and Reinsurer shall be bound by such resolution.

(f) Nothing in this Section 2.4 shall be construed to limit Reinsurer's rights under Section 8.2 hereof or Reinsurer's absolute right provided in Article VIII of the Master Transaction Agreement to participate and/or intervene in dispute resolution procedures between Reinsureds and NICO.

### 2.5 **Ultimate Net Loss and Coverage B UNL**

- (a) "**Ultimate Net Loss**" is defined with respect to the Subject Asbestos Liabilities and means:

Losses with respect to Subject Asbestos Liabilities, plus

Allocated Loss Adjustment Expenses with respect to Subject Asbestos Liabilities, plus

Extra-Contractual Obligations with respect to Subject Asbestos Liabilities, less

Included Reinsurance Recoverables, but only to the extent Actually Paid, less

Other Recoverables recoverable by Reinsureds with respect to Subject Asbestos Liabilities, but only to the extent Actually Paid.

- (b) "**Coverage B UNL**" is defined with respect to the Other Asbestos Liabilities and means:

Coverage B Net Losses, plus

Coverage B Net ALAE, plus



Coverage B Net ECO, less

Coverage B Other Recoverables.

(c) Nothing in the foregoing definitions shall be construed as implying that amounts are not recoverable hereunder by Reinsureds until a final determination of Ultimate Net Loss or Coverage B UNL.

(d) Where (i) an item of Losses, Allocated Loss Adjustment Expenses, Extra-Contractual Obligations, Third Party Reinsurance Recoverables, or Other Recoveries relates both to the Subject Asbestos Liabilities and to liabilities of Reinsureds that are not within the Subject Asbestos Liabilities, or (ii) an item of Third Party Reinsurance Recoverables relates both to Included Reinsurance Recoverables and Non-Included Recoverables, only the portion of such item determined pursuant to the allocation procedures of the Administrative Services Agreement to relate to the Subject Asbestos Liabilities or to Included Reinsurance Recoverables, as the case may be, shall be included within Ultimate Net Loss.

11

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- (e) For the avoidance of doubt:
- (i) Unallocated Loss Adjustment Expenses are not a component of Ultimate Net Loss or Coverage B UNL.
- (ii) Retrospective Premiums allocate to a Defined Liability Set in proportion to the amount of Losses, Allocated Loss Adjustment Expenses and/or Extra-Contractual Obligations giving rise to such Retrospective Premiums that allocate to such Defined Liability Set.
- (iii) Where this Reinsurance Agreement or one of the other Transaction Documents refers to an act or obligation as being “at the expense of” a Person or at a Person’s “own expense” (“**Own Expense**”), the cost of performing such act or discharging such obligation is not included within Ultimate Net Loss or Coverage B UNL notwithstanding that such cost might otherwise be so includable.
- (f) Ultimate Net Loss is subject to adjustment in certain circumstances as set forth in Article IX of the Administrative Services Agreement.

## **2.6 Extra-Contractual Obligations.**

(a) To the maximum extent permitted by the law of Pennsylvania or, only if more permissive, the law of the most permissive jurisdiction that could reasonably be held to apply under Pennsylvania choice of law rules, but in all events subject to Section 2.6(b) below, this Reinsurance Agreement covers Extra-Contractual Obligations as part of Ultimate Net Loss, including without limitation liability based on alleged conduct of Reinsureds or their agents prior to the Closing Date.

- (b) Notwithstanding anything to the contrary in this Reinsurance Agreement:
  - (i) Any liability of Reinsureds for the intentional and malicious acts or omissions after the Closing Date of their own employees, officers, or directors (as so determined by final adjudication after all appeals and the expiration of the time to appeal by any Order, writ, injunction, directive, judgment, or decree of a court of competent jurisdiction) is not within Extra-Contractual Obligations and shall be paid by Reinsureds at their Own Expense.
  - (ii) Any liability of Reinsurer for the intentional and malicious acts or omissions of its employees, officers, or directors (as so determined by final adjudication after all appeals and the expiration of the time to appeal by any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction) is not within Extra-Contractual Obligations and shall be paid by Reinsurer at its Own Expense.
  - (iii) Any liability of NICO or its Affiliates for the intentional and malicious acts or omissions of their employees, officers, or directors (as so determined by final adjudication after all appeals and the expiration of the time to appeal by any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction) is not within Extra-Contractual Obligations

12

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and shall be paid by NICO and/or the relevant Affiliate at NICO’s Own Expense.

## **2.7 Third Party Reinsurance.**

Any Third Party Reinsurance Recoveries will be allocated in accordance with the terms and conditions of the Administrative Services Agreement.

## **2.8 Exclusions.**

(a) Notwithstanding any provision of this Reinsurance Agreement to the contrary, Ultimate Net Loss and Coverage B UNL do not include, and Reinsurer shall not be liable for, any of the following:

- (i) any liability with respect to any Tax or assessment, whether paid directly by any Reinsured or billed to any Reinsured by or through a cedent or insured, regardless of whether the Tax is denominated as an income tax, excise tax, premium tax, surplus lines tax or any other Tax or assessment;
- (ii) any liability of Reinsureds for Extra-Contractual Obligations to the extent that such liability arises solely from the conduct after the Closing Date of Reinsureds’ own employees or Reinsureds’ agents not affiliated with or under the direction of NICO; or

- (iii) business written or assumed by American General Property & Casualty Insurance Company and/or American Fuji Fire & Marine Insurance Company.
- (b) Ultimate Net Loss does not include, and Reinsurer shall not be liable under Coverage A hereof, with respect to any of the following:
  - (i) any liability of Reinsureds in respect of reinsurance assumed, except intercompany reinsurance and business fronted for a Reinsured, if any;
  - (ii) any liability of Reinsureds in respect of existing claimants identified in the “non-Jersey City” materials supplied to NICO on or about March 9, 2011, as thereafter supplemented and as and further identified on Schedule 2.8(b)(i) hereof, *provided, however*, that neither of the following is excluded by this Exclusion (b)(ii):
    - (A) claims arising under Chartis Marine or Chartis Aerospace policies, and
    - (B) claims by claimants not reported to Reinsureds prior to Inception;
  - (iii) any liability on policies written at Chartis Environmental (liability on general liability policies handled by the Environmental Claims Unit of Chartis Claims, Inc., if otherwise covered, is not excluded by this Exclusion (b)(iii));
  - (iv) any liability under policies or contracts expressly written to cover asbestos liability(ies);
  - (v) any liability under workers compensation or employers liability policies;

13

- (vi) any liability under first party property policies;
- (vii) any liability for Medicare reporting;
- (viii) in implementation and not in duplication of Article IX of the Administrative Services Agreement, amounts declared in Section 9.2(b) of such Agreement to be excluded from the calculation of Ultimate Net Loss;
- (ix) any liability of Reinsureds in connection with an Asbestos Claim that was closed at Inception but was thereafter reopened solely with respect to allegations of the type set forth in paragraph (iii) of the definition of Asbestos Claim, with no associated indemnity component to the reopened claim; or
- (x) any liability of Reinsureds for the intentional and malicious acts or omissions prior to the Closing Date of their employees, officers, directors or agents (as so determined by final adjudication after all appeals and the expiration of time to appeal by any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction), if but only if the claimant has made no allegations or other assertions of wrongful conduct by NICO as Administrator on or after the Closing Date.

## 2.9 Territory.

The reinsurance provided under this Reinsurance Agreement applies only in respect of liabilities of the underlying insureds that are presented for payment or adjudication within the 50 States of the United States of America and/or the District of Columbia.

## 2.10 Redomestication.

Reinsurer’s consent shall be obtained prior to any action by a Reinsured that results in redomestication of that entity outside the United States.

## ARTICLE III REINSURANCE PREMIUM

### 3.1 Reinsurance Premium.

(a) The premium for the coverage provided by this Reinsurance Agreement is Two Billion, Six Hundred Seventy-Nine Million Dollars (\$2,679,000,000) (the “Reinsurance Premium”). Payment of the Reinsurance Premium is deemed to have been due at Inception.

(b) To the extent Reinsureds determine, no later than September 30, 2011, that the Reserves held at December 31, 2010 in respect of the Asbestos Liabilities ceded under this Reinsurance Agreement differed from the Reinsurance Premium, then:

- (i) if such Reserves were greater than the Reinsurance Premium, Reinsureds shall pay an additional premium to Reinsurer in the amount of the excess, and
- (ii) if such Reserves were less than the Reinsurance Premium, Reinsurer shall pay a return premium to Reinsureds in the amount of the deficit,

in either case, with interest at the Applicable Interest Rate from Inception to the date of payment.

14

(c) Reinsureds’ determination of the Reserves held at December 31, 2010 shall be final for all purposes unless no later than October 31, 2011 Reinsurer notifies Reinsureds in writing that it disputes such determination, in which event such dispute shall, if not amicably resolved, be referred to arbitration pursuant to Article VII hereof.

### 3.2 Cash Settlement at Closing.

- (a) On the Closing Date, Reinsureds shall pay Reinsurer, in immediately available funds, an amount (the “**Initial Cash Payment**”) equal to
  - (i) the Reinsurance Premium, *plus*
  - (ii) simple interest on the Reinsurance Premium at the Applicable Interest Rate from and including Inception to but excluding the Closing Date, *less*
  - (iii) estimated Ultimate Net Loss with respect to Coverage A that was Actually Paid in the period between Inception and the Closing Date, *less*
  - (iv) estimated Coverage B UNL that was Actually Paid in the period between Inception and the Closing Date, *less*
  - (v) the ceding commission provided in Section 3.3 below, *less*
  - (vi) the amount paid to Reinsurer pursuant to Section 3.2 of the Original LPT, *less*
  - (vii) interest on the principal amount in item (vi) above (*i.e.*, such amount net of any interest component) from and including the date of payment under the Original LPT to but excluding the Closing Date.

(b) The procedure for estimating the amount of Ultimate Net Loss and Coverage B UNL included (as negative amounts) in the Initial Cash Payment is set forth in Section 2.3 of the Master Transaction Agreement. The Parties shall make final adjustments to the Initial Cash Payment at the time and in accordance with the procedures set forth in Section 2.3 of the Master Transaction Agreement.

### 3.3 Ceding Commission on Account of Unallocated Loss Adjustment Expenses.

On the Closing Date, Reinsurer shall pay Reinsureds a ceding commission of \$2,352,157 plus \$26,135 per day from April 1, 2011 to but excluding the Closing Date, to reimburse Reinsureds for Unallocated Loss Adjustment Expenses incurred by Reinsureds in connection with the Subject Asbestos Liabilities from and including Inception to but excluding the Closing Date. Such payment shall be made by offset against Reinsureds’ payment of premium as set forth in Section 3.2 and, for the avoidance of doubt, is not Ultimate Net Loss and does not erode the Contract Aggregate Limit or the Coverage B Sublimit.

### 3.4 Coverage A Payments, Funding, and Accounts.

(a) With respect to Coverage A, it is anticipated that, with the exception of the Initial Cash Payment and any adjustments thereto, substantially all payments by Reinsurer to or on behalf of Reinsureds, and substantially all payments by Reinsureds to Reinsurer, will be handled by the mechanism set forth in Section 13.1 of the Administrative Services Agreement, which shall be accounted for as follows:

15

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- (i) The payment by NICO (as Administrator) on behalf of Reinsureds of Losses, Allocated Loss Adjustment Expenses, or Extra-Contractual Obligations
    - (A) is charged as an increase to Reinsureds’ Ultimate Net Loss on the Subject Asbestos Liabilities;
    - (B) is treated as payment by Reinsurer to Reinsureds on account of the cession of such Ultimate Net Loss; and
    - (C) is treated as payment by NICO (as Retrocessionaire) to Reinsurer on account of the retrocession of such cession.
  - (ii) The receipt by NICO (as Administrator) on behalf of Reinsureds of Third Party Reinsurance Recoveries or Other Recoveries
    - (A) is credited as a reduction of Reinsureds’ Ultimate Net Loss on the Subject Asbestos Liabilities;
    - (B) is treated as payment by Reinsureds to Reinsurer on account of the cession of such credit; and
    - (C) is treated as payment by Reinsurer to NICO (as Retrocessionaire) on account of the retrocession of such cession.

The Parties consent to the use of the foregoing payment mechanisms and accounting treatment.

(b) To the extent a Reinsured, Reinsurer, or NICO makes or receives a payment accountable to Ultimate Net Loss on the Subject Asbestos Liabilities other than through the foregoing mechanism, it shall be accounted for in a manner consistent with the foregoing and reimbursed, if necessary, by or to the entity ultimately responsible therefor. In furtherance and not in limitation of such reimbursement obligation, the Parties acknowledge that:

- (i) At all times prior to the Termination Date, Reinsureds have a present obligation to account for, and to pay to Reinsurer, the positive difference, if any, between (x) the amount of Ultimate Net Loss on the Subject Asbestos Liabilities that Reinsurer has Actually Paid to or on behalf of Reinsureds as of such time and (y) the amount of Reinsureds’ Ultimate Net Loss on the Subject Asbestos Liabilities in excess of the Coverage A Retention that has been Actually Paid as of such time.
- (ii) At all times prior to the Termination Date, but subject to the Contract Aggregate Limit, Reinsurer has a present obligation to account for, and to pay to Reinsureds, the positive difference, if any, between (x) the amount of Reinsureds’ Ultimate Net Loss on the Subject Asbestos Liabilities in excess of the Coverage A Retention that has been Actually Paid as of such time and (y) the amount of Ultimate Net Loss on the Subject Asbestos Liabilities that Reinsurer has Actually Paid to or on behalf of Reinsureds as of such time.
- (c) For the avoidance of doubt:

- (i) It is understood that any specification in this Reinsurance Agreement, or elsewhere in the Transaction Documents, as to the time or manner of

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payment of amounts on account of Ultimate Net Loss does not negate the ongoing existence of the reimbursement obligations set forth in this Section 3.4(b), which reimbursement obligations shall continue until they are Actually Paid.

- (ii) It is the express mutual intent of the Parties that, through the retrocession, NICO receive the full economic benefit of the Included Reinsurance Recoverables and, to the extent related to the Subject Asbestos Liabilities, the Other Recoverables, in both cases when and to the extent paid.

(d) All payments between the Parties not made pursuant to Section 3.2(a) or 3.4(a) shall be made either (i) by wire transfer of Dollars in cash to such bank account or accounts as designated by the recipient or (ii) by direct deposit or direct debit through the Automated Clearing House (ACH) system.

(e) Reinsurer (under the LPT Retrocession Agreement) and Reinsureds (under the Administrative Services Agreement) shall procure from NICO that, no later than 30 days after the end of each calendar quarter, NICO provide to Reinsureds and Reinsurer a summary account of activity under the LPT Reinsurance Agreement (Coverage A only) and the LPT Retrocession Agreement for the quarter, the calendar year to date, and from Inception, including at least the following:

- (i) Losses Actually Paid by NICO on behalf of Reinsureds
- (ii) Allocated Loss Adjustment Expenses Actually Paid by NICO on behalf of Reinsureds
- (iii) Extra-Contractual Obligations Actually Paid by NICO on behalf of Reinsureds
- (iv) Third Party Reinsurance Recoveries that have become Actually Received
- (v) Other Recoveries that have become Actually Received

Reinsureds shall at the same time account to Reinsurer with respect to any transactions of which they are aware identified in the introductory clause to Section 3.4(b) hereof.

### **3.5 Coverage B Payments and Accounts.**

(a) With respect to Coverage B, Reinsureds shall provide quarterly summary accounts to Reinsurer no later than 30 days after the end of the quarter. The accounts shall set forth activity with respect to the Other Asbestos Liabilities for the quarter, the calendar year to date, and from Inception, including at least the following:

- (i) Losses Paid and Coverage B Net Losses Paid
- (ii) Allocated Loss Adjustment Expenses Paid and Coverage B Net ALAE Paid
- (iii) Extra-Contractual Obligations Paid and Coverage B Net ECO Paid
- (iv) Coverage B Other Recoveries Received

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(b) The quarterly account shall show paid Coverage B UNL since Inception and shall compute change in Coverage B UNL for the quarter, and the net balance on each quarterly account shall be settled within 30 days of the delivery of the account.

### **3.6 Grant of Security Interest in Included Reinsurance Recoverables and Other Recoverables.**

(a) As security for the prompt and complete payment when due of Reinsureds' reimbursement obligation in Section 3.4(b)(i) hereof, Reinsureds hereby collaterally assign to the Reinsurer and hereby grant to Reinsurer a security interest in and continuing lien on, and all of Reinsureds' right, title, and interest in (i) the Included Reinsurance Recoverables, (ii) the Other Recoverables in respect of the Subject Asbestos Liabilities, whether now owned or existing or hereafter acquired or arising, and wherever located, (iii) all accounts, general intangibles, payment intangibles, instruments and investment property representing or arising out of the Included Reinsurance Receivables or the Other Receivables, and (iv) all proceeds of any of the foregoing (collectively, the "ES Collateral").

(b) In addition to its rights as a secured party under Article 9 of the Uniform Commercial Code and otherwise under Applicable Law, Reinsurer shall have the right to associate with Reinsureds in any proceedings commenced under Section 3.7(a)(ii) in order to obtain recovery of the Included Reinsurance Recoverable that was the subject of the offset there described.

(c) Reinsureds acknowledge and consent to Reinsurer's assignment to NICO pursuant to the terms of the LPT Retrocession Agreement of the rights of the Reinsurer to receive payment from the Reinsureds as set forth in Section 3.4(b)(i) hereof and the rights of the Reinsureds with respect to the ES Collateral set forth in Section 3.6(a) above and acknowledge NICO's rights

- (i) to collect the Included Reinsurance Recoverable, and the Other Recoverables in respect of the Subject Asbestos Liabilities, as and to the extent set forth in the Administrative Services Agreement,

(ii) to apply the amounts so collected as set forth in Section 3.4(a)(ii) hereof, and

(iii) to exercise Reinsurer's right to associate provided in Section 3.6(b) above.

### **3.7 Third Party Offsets with Respect to Included Reinsurance Recoverables**

(a) In the event a reinsurer under a Third Party Reinsurance Agreement pays an Included Reinsurance Recoverable by taking an offset against an amount it asserts Reinsureds owe it, then:

(i) If and to the extent that Reinsureds (on their own behalf and not by NICO as Administrator under the Administrative Services Agreement) do not dispute the validity of their asserted debt to the third party reinsurer, then the offset shall to that extent be treated as a payment of the Included Reinsurance Recoverable to Reinsureds that did not affect the amount of Ultimate Net Loss that had been Actually Paid by Reinsurer, and Reinsureds shall reimburse Reinsurer therefor pursuant to Section 3.4(b) hereof.

18

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(ii) If and to the extent that the Reinsureds do dispute the validity of their asserted debt to the third party reinsurer, then Reinsureds shall promptly commence and diligently pursue a claim against the third party reinsurer to recover the allegedly improperly taken offset and may defer reimbursing Reinsurer for the period reasonably required to obtain a determination as to the validity of the asserted debt.

(iii) To the extent the asserted debt is determined to be valid, Reinsureds shall pay to Reinsurer the amount determined to be valid (but not in excess of the Included Reinsurance Recoverable against which the offset was taken), with interest at the Applicable Interest Rate from 60 days after the date the offset was taken. The payment of the interest to Reinsurer shall be at Reinsureds' Own Expense.

(b) The provisions of Section 3.7(a) shall apply only to the extent the third party reinsurer actually takes the offset and does not merely refuse to pay NICO as Administrator on the ground that Reinsureds are allegedly in debt to such reinsurer.

(c) The provisions of Section 3.7(a) shall not apply to any offset to the extent that the item against which the third party reinsurer takes the offset relates to an item previously paid by such third-party reinsurer (for example, a claimed right to a refund of an overpayment of an Included Reinsurance Recoverable), but in that event the provisions of Section 3.4(a) shall apply.

## **ARTICLE IV RESERVING REQUIREMENTS AND ACCOUNTING TREATMENT**

### **4.1 Reinsurer's Reserves.**

On and after the Closing Date, Reinsurer shall establish and at all times maintain liability reserves on Reinsurer's statutory financial statements with respect to the liability assumed from Reinsureds hereunder. Such reserve shall be determined by Reinsurer in accordance with SAP, including applicable actuarial principles.

### **4.2 Reinsureds' Reserves.**

Reinsureds shall determine their reserves in respect of the liabilities ceded to Reinsurer hereunder in accordance with SAP, including applicable actuarial principles.

### **4.3 Risk Transfer.**

Each Party to this Reinsurance Agreement has conducted prior to execution of this Reinsurance Agreement such risk transfer testing analysis as that Party deems appropriate in its independent judgment in order to report properly the transaction for SAP and federal income tax purposes. Based on such analysis each Party has independently determined that the transaction provided for in this Reinsurance Agreement is properly accounted for as reinsurance for SAP and federal income tax purposes.

19

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## **ARTICLE V DURATION AND TERMINATION**

### **5.1 Duration and Termination.**

(a) Without limiting any provision of the Master Transaction Agreement, the Parties' rights and obligations under this Reinsurance Agreement shall commence on the Closing Date but shall be as of Inception, as set forth herein.

(b) On the Closing Date but effective as of Inception, the Original LPT is hereby amended and restated and wholly replaced by this Reinsurance Agreement.

(c) Unless earlier terminated by mutual written consent of the Parties, this Reinsurance Agreement, and the Parties' rights and obligations hereunder, shall continue in force until the natural expiry of the Asbestos Liabilities.

## **ARTICLE VI INSOLVENCY**

## **6.1 Insolvency of Reinsured.**

(a) In the event of the insolvency of any Reinsured and the appointment of a conservator, liquidator, receiver or statutory successor of a Reinsured, all amounts due such Reinsured under this Reinsurance Agreement shall be payable by Reinsurer to any conservator, liquidator, receiver or statutory successor of such Reinsured on the basis of the claims allowed against such Reinsured by any court of competent jurisdiction or by any conservator, liquidator, receiver or statutory successor of such Reinsured having authority to allow such claims, without diminution because of that insolvency, or because the conservator, liquidator, receiver or statutory successor has failed to pay all or a portion of any claims. Payments by Reinsurer as set forth in this Section shall be made directly to such Reinsured or to its conservator, liquidator, receiver, or statutory successor. Under no circumstances shall Reinsurer's liability hereunder be accelerated or enlarged by the insolvency of any Reinsured.

(b) In the event of the insolvency of any Reinsured the liquidator, receiver or statutory successor of such Reinsured shall give written notice of the pendency of any Asbestos Claim against such Reinsured within a reasonable period of time after such claim is filed in the insolvency proceedings. During the pendency of such claim Reinsurer may investigate such claim and interpose, at its Own Expense, in the proceeding where such claim is to be adjudicated, any defense or defenses which it may deem available to such Reinsured or its liquidator, receiver or statutory successor. The expense thus incurred by Reinsurer shall be chargeable, subject to court approval, against such Reinsured as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to such Reinsured solely as a result of the defense undertaken by Reinsurer.

(c) For the avoidance of doubt, the insolvency of one or more Reinsureds shall not affect the rights and obligations of any other Reinsured.

20

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## **ARTICLE VII DISPUTE RESOLUTION AND ARBITRATION**

### **7.1 Arbitration of Disputes Not Resolved by Negotiation.**

All Disputes arising under or in any way related to this Reinsurance Agreement, specifically including without limitation disputes concerning alleged fraud in the inducement of any of the Transaction Documents or other wrongful pre-Closing conduct shall, to the extent not resolved by negotiation between the Parties, be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the dispute. Any Person that is a Party to any of the foregoing agreements shall have an absolute right to intervene in any such arbitration.

### **7.2 Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation.**

(a) The procedures for the arbitration and for the mandatory pre-arbitration negotiation are set forth in Article VIII of the Master Transaction Agreement, which is hereby incorporated herein. Arbitration hereunder shall be conducted in Philadelphia, Pennsylvania.

(b) In considering any relief to be awarded, the arbitrators (and the Designated Court, as appropriate) shall take into account the Parties' view that the nature and uniqueness of the relationships created under the Transaction Documents as a whole render specific performance the remedy of choice where it is possible to implement that remedy.

### **7.3 Permitted Judicial Proceedings.**

The only permitted judicial proceedings relating to any Dispute are those set forth in, and are subject to the exclusive jurisdiction provisions of, Section 8.5 of the Master Transaction Agreement. Each Party finally and irrevocably waives any right to trial by jury of any matter or issue in such a permitted judicial proceeding.

## **ARTICLE VIII ACCESS TO RECORDS AND CONFIDENTIALITY**

### **8.1 Access to Records.**

Reinsurer shall have the right to review, at reasonable times and places and at Reinsurer's Own Expense, Reinsureds' Books and Records, including without limitation Books and Records maintained by NICO as Administrator under the Administrative Services Agreement.

### **8.2 Right to Associate.**

Reinsurer shall have the right to associate with Reinsureds, at Reinsurer's Own Expense, in:

- (a) any and all consultations with NICO provided for under the Administrative Services Agreement, and
- (b) any and all audits or reviews of NICO as Administrator conducted by Reinsureds.

### **8.3 Confidentiality.**

(a) The Parties (each, the "**Receiving Party**") hereby covenant and agree, each on behalf of itself and on behalf of its Affiliates, that from and after the date hereof, the Receiving Party and its Affiliates will not disclose, give, sell, use or otherwise divulge any Confidential Information (defined below) of the other Party (the "**Disclosing Party**") or permit their respective

21

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Representatives to do the same, except that each Receiving Party may disclose such Confidential Information or portions thereof (i) if legally compelled to do so or as required in connection with an examination by an insurance regulatory authority, (ii) to the extent necessary for the performance of such Receiving

Party's obligations under the Transaction Documents, (iii) the enforcement of the rights of such Receiving Party and its Affiliates under this Reinsurance Agreement or the Transaction Documents, (iv) to those of such Receiving Party's Affiliates, and to their respective Representatives in each case who need to know such information for the foregoing purposes, (v) as required under any Applicable Law, (vi) as required to a Tax Authority to support a position taken on any Tax Return or (vii) as required by the rules of any stock exchange on which the stock of a Receiving Party's Affiliate is traded. If the Receiving Party or its Affiliates, or any of their respective Representatives become legally compelled to disclose any Confidential Information (other than as required in connection with an examination by an insurance regulatory authority or as required to a Tax Authority to support a position taken on any Tax Return), the Receiving Party shall provide Disclosing Party with prompt written notice of such requirement so that the Disclosing Party may seek a protective order or other remedy or waive compliance with this Section 8.3. In the event that such protective order or other remedy is not obtained, or the Disclosing Party waives compliance with this Section 8.3, the Receiving Party or its Affiliates, as applicable, shall furnish only that portion of Confidential Information which is legally required to be provided and exercise its commercially reasonable efforts to obtain assurances that appropriate confidential treatment will be accorded to the Confidential Information.

(b) The Receiving Party, on behalf of itself and on behalf of its Affiliates and their respective Representatives acknowledges that a breach of its obligations under this Section 8.3 may result in irreparable injury to the Disclosing Party. In the event of the breach by Receiving Party or any of its Affiliates or their respective Representatives of any of the terms and conditions of this Section 8.3 to be performed, the Disclosing Party shall presumptively be entitled to specific performance from the arbitrators and/or temporary injunctive relief in aid thereof pursuant to Article VII hereof.

(c) For the purposes of this Reinsurance Agreement, "Confidential Information" means all confidential information (irrespective of the form of such information) of any kind, including any analyses, compilations, data, studies, notes, translations, memoranda or other documents, concerning the Disclosing Party or any of its Affiliates obtained directly or indirectly from the Disclosing Party or any of its Affiliates, or Representatives in connection with the transactions contemplated by the Transaction Documents, including any information regarding the Subject Business, except information (i) which at the time of the disclosure or thereafter is ascertainable or available to the public (other than as a result of a disclosure directly or indirectly by the Receiving Party or any of its Affiliates, or Representatives), (ii) is or becomes available to the Receiving Party on a non-confidential basis from a source other than the Disclosing Party or any of its Affiliates, or Representatives, *provided* that, to the knowledge of such Receiving Party, such source was not prohibited from disclosing such information to the Receiving Party by a legal, contractual or fiduciary obligation owed to another Person, (iii) the Receiving Party can establish is already in its possession or the possession of any of its Affiliates, or Representatives (other than information furnished by or on behalf of the Disclosing Party) or (iv) which is independently developed by the Receiving Party or its Affiliates without the use or benefit of any information that would otherwise be Confidential Information.

22

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## **ARTICLE IX**

### **ERRORS AND OMISSIONS**

#### **9.1 Errors and Omissions.**

Inadvertent delays, errors, or omissions made in connection with this Reinsurance Agreement or any transaction hereunder shall not relieve either Party from any liability that would have attached had such delay, error, or omission not occurred, *provided* that such error or omission is rectified promptly after discovery, and *provided, further*, that the Party making such error or omission or responsible for such delay shall be responsible for any additional liability that attaches as a result. If (i) the failure of either Party to comply with any provision of this Reinsurance Agreement is unintentional or the result of a misunderstanding or oversight and (ii) such failure to comply is promptly rectified, both Parties shall be restored as closely as possible to the positions they would have occupied if no error or oversight had occurred.

#### **9.2 Cessions Determined Not to Be Retrocedable.**

In the event it is determined that an amount of putative Ultimate Net Loss on the Subject Asbestos Liabilities ceded to Reinsurer hereunder and retroceded by Reinsurer to NICO was not appropriately retroceded under the LPT Retrocession Agreement, then:

(a) If the basis for such determination is that the amount was covered under Coverage B hereof and not under Coverage A, then the cession to Reinsurer shall remain in effect but shall be accounted for under Coverage B.

(b) If the determination is made on any other basis, then the cession to Reinsurer shall be reversed *pro tanto*.

## **ARTICLE X**

### **MISCELLANEOUS PROVISIONS**

#### **10.1 Notices.**

Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any Party hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on the date received (*provided* that any notice received after 5:00 p.m. (addressee's local time) shall be deemed given at 9:00 a.m. (addressee's local time) on the next Business Day), or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following address:

To Reinsurer:           David Fields  
                                  President  
                                  Eaglestone Reinsurance Company  
                                  180 Maiden Lane  
                                  New York, NY 10038  
                                  Fax: (877) 551-7214

23

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With a copy to: Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To Reinsureds: Sean Leonard  
Senior Vice President &  
Chief Financial Officer  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 484-1961

With a copy to: Christopher Blum  
Senior Vice President &  
General Counsel  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 326-0079

Any Party may change its notice provisions on fifteen (15) calendar days' advance notice in writing to the other Parties.

**10.2 Entire Agreement.**

This Reinsurance Agreement (including the exhibits and schedules hereto), the other Transaction Documents and any other documents delivered pursuant hereto or thereto, constitute the entire agreement among the Parties and their respective Affiliates with respect to the subject matter hereof and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the Parties with respect to the subject matter hereof and thereof.

**10.3 Waiver and Amendment.**

This Reinsurance Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by an instrument in writing signed by the Parties hereto, or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. No waiver of any breach of this Reinsurance Agreement shall be held to constitute a waiver of any other or subsequent breach. Any amendment requiring the approval of a state insurance department shall not become effective until such approval is obtained.

24

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**10.4 Successors and Assigns.**

The rights and obligations of the Parties under this Reinsurance Agreement shall not be subject to assignment without the prior written consent of the other Parties, and any attempted assignment without the prior written consent of the other Parties shall be invalid *ab initio*. The terms of this Reinsurance Agreement shall be binding upon, inure to the benefit of and be enforceable by and against the successors and permitted assigns of the Parties.

**10.5 Headings.**

The headings of this Reinsurance Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

**10.6 Construction; Interpretation.**

Reinsureds and Reinsurer have participated jointly in the negotiation and drafting of this Reinsurance Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Reinsurance Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Reinsurance Agreement. When a reference is made to an Article, Section, Schedule or Exhibit, such reference shall be to an Article, Section, Schedule or Exhibit of or to this Reinsurance Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Reinsurance Agreement, they shall be deemed to be followed by the words "without limitation." The term "Reinsurance Agreement" means this Reinsurance Agreement as amended or supplemented, together with all Exhibits and Schedules attached hereto or incorporated by reference, and the words "hereof," "herein," "hereto," "hereunder" and other words of similar import shall refer to this Reinsurance Agreement in its entirety and not to any particular Article, Section or provision of this Reinsurance Agreement. Reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted and then in effect, and all rules and regulations promulgated thereunder. References to a Person are also to its successors and permitted assigns.

**10.7 Governing Law.**

This Reinsurance Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's principles of conflict of laws that could compel the application of the laws of another jurisdiction.



**10.8 No Third Party Beneficiaries.**

Nothing in this Reinsurance Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Reinsurance Agreement or any provision contained herein.

**10.9 Counterparts.**

This Reinsurance Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the Parties notwithstanding the fact that all Parties are not signatory to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all

25

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of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

**10.10 Severability.**

Any term or provision of this Reinsurance Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Reinsurance Agreement or affecting the validity or enforceability of any of the terms or provisions of this Reinsurance Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. If any provision of this Reinsurance Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Reinsurance Agreement, the Parties shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the Parties as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

**10.11 Incontestability.**

Each Party hereby acknowledges that this Reinsurance Agreement, and each and every provision hereof, is and shall be enforceable according to its terms. Each Party hereby irrevocably waives any right to contest in any respect the validity or enforceability hereof. This Reinsurance Agreement shall not be subject to rescission, or to an award of damages, restitution, or reformation in lieu thereof, on any basis whatsoever, including intentional fraud. Nothing herein shall be construed to prevent a claim for damages for intentional fraud in the inducement of this Reinsurance Agreement or any of the Transaction Documents, or any of the transactions contemplated hereby or thereby, by either (a) NICO against Eaglestone and/or Reinsureds or by (b) Reinsureds and/or Eaglestone against NICO, *provided, however*, that (i) no such claim shall be brought against any individual but only against the entity or entities on whose behalf such individual acted, (ii) any such claim shall be brought in an arbitration pursuant to Article VII hereof, and (iii) the measure of damages with respect to any such claim is the difference between the value as represented of the matter allegedly misrepresented and the value under the actual facts.

**10.12 Separate Parties; Set-Off.**

(a) Subject to Sections 2.2 and 2.3 hereof, each party to this Reinsurance Agreement agrees to honor the terms set forth herein as if it were a separate agreement between the Reinsurer and each individually-named Reinsured. Balances payable or recoverable by Reinsurer or by any individually-named Reinsured shall not serve to offset any balances payable or recoverable to or from any other reinsured party to this Agreement.

(b) There are no common law or other non-contractual rights of set-off available to the Parties with respect to transactions under or relating to this Reinsurance Agreement. The sole and exclusive rights of set-off are those set forth in Section 9.12 of the Master Transaction Agreement. Upon implementation of the cut-through provided for in Article VI of the LPT Retrocession Agreement, Reinsurer shall have no rights of set-off with respect to any liabilities arising under or in connection with Coverage A.

26

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(c) Notwithstanding any other provision hereof or of any of the other Transaction Documents, at no time prior to the Termination Date may Reinsurer or any Reinsured set off any amount due under or in respect of Coverage A hereunder against any amount due under or in respect of Coverage B hereunder.

**10.13 Currency.**

All financial data required to be provided pursuant to the terms of this Reinsurance Agreement shall be expressed in Dollars. All payments and all settlements of account between the Parties shall likewise be in Dollars unless otherwise expressly agreed by the Parties in writing. Where a transaction is originally recorded in a currency other than Dollars, it shall be converted to Dollars at the time and at the conversion rate used on the books of the Reinsureds in the ordinary course of business.

**10.14 Appointment of National Union as Agent for Cut-Through.**

The Reinsureds hereby appoint National Union Fire Insurance Company of Pittsburgh, Pennsylvania as their agent for all purposes with respect to the cut-through provided in the LPT Retrocession Agreement and the provisions relating to such cut-through in the other Transaction Documents.

**10.15 Regulatory Approval.**

This Reinsurance Agreement shall not be cancelled or rescinded without the prior written consent of the insurance commissioner of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the Parties hereby execute this Reinsurance Agreement as of the day and year first set forth above.

**AMERICAN HOME ASSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS CASUALTY COMPANY**  
(f/k/a American International South Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS PROPERTY CASUALTY COMPANY**  
(f/k/a AIG Casualty Company)

By: \_\_\_\_\_  
Name:  
Title:

**COMMERCE AND INDUSTRY INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**GRANITE STATE INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Loss Portfolio Transfer Reinsurance Agreement]

S-1

**ILLINOIS NATIONAL INSURANCE CO.**

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE COMPANY OF  
PITTSBURGH, PA.**  
(as Reinsured and as Agent for Reinsureds pursuant to Section 10.14)

By: \_\_\_\_\_  
Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Loss Portfolio Transfer Reinsurance Agreement]

S-2

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**CHARTIS SPECIALTY INSURANCE COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**LANDMARK INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**LEXINGTON INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AIU INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AMERICAN INTERNATIONAL REINSURANCE COMPANY LTD.**

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Loss Portfolio Transfer Reinsurance Agreement]

S-3

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**AMERICAN HOME ASSURANCE COMPANY**  
(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**  
(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS OVERSEAS LIMITED**  
(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Loss Portfolio Transfer Reinsurance Agreement]

S-4

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**EAGLESTONE REINSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Loss Portfolio Transfer Reinsurance Agreement]

S-5

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**Exhibit D to the  
Master Transaction Agreement**

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**LOSS PORTFOLIO TRANSFER RETROCESSION AGREEMENT**

**by and between**

**EAGLESTONE REINSURANCE COMPANY**

**and**

**NATIONAL INDEMNITY COMPANY**

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**TABLE OF CONTENTS**

	<u>Page</u>
<b>ARTICLE I DEFINITIONS</b>	
1.1 Definitions	1
<b>ARTICLE II RETROCESSIONAL COVERAGE</b>	
2.1 Retrocessional Coverage and Limit	9
2.2 Commencement of NICO's Liability; Follow Fortunes/Settlements	9
2.3 Ultimate Net Loss	10
2.4 Exclusions	11
2.5 Amendment of LPT Reinsurance Agreement	13
2.6 Redomestication	13
<b>ARTICLE III RETROCESSION PREMIUM</b>	
3.1 Retrocession Premium	13
3.2 Ceding Commission on Account of Unallocated Loss Adjustment Expenses	13
3.3 Cash Settlement at Closing	13
3.4 Payments and Accounts	14
3.5 Assignment of Security Interest and Related Rights	14
<b>ARTICLE IV RESERVING REQUIREMENTS AND ACCOUNTING TREATMENT</b>	
4.1 NICO's Reserves	15
4.2 Reinsurer's Reserves	15
4.3 Risk Transfer	15
<b>ARTICLE V DURATION AND TERMINATION</b>	
5.1 Duration and Termination	15
<b>ARTICLE VI CUT-THROUGH ON INSOLVENCY</b>	
6.1 Insolvency of Reinsurer	16
6.2 Effect of Cut-Through on Other Provisions	16
<b>ARTICLE VII COLLATERAL TRUST ACCOUNT</b>	
7.1 Establishment of Collateral Trust Account	17
7.2 Initial Funding of the Collateral Trust Account	17
7.3 Ongoing Funding of Collateral Trust Account	17
7.4 Collateral Trust Assets	17
7.5 Settlements	17
7.6 Modification Upon Occurrence of Collateral Triggering Event	17
7.7 Modification Upon Occurrence of a Retrocession Credit Event	18
7.8 Withdrawal of Collateral Trust Assets by Reinsurer Other than During the Pendency of a Retrocession Credit Event	19
7.9 Withdrawal of Collateral Trust Assets by Reinsurer During the Pendency of a Retrocession Credit Event	20
7.10 Reinsurance Credit	21
<b>ARTICLE VIII DISPUTE RESOLUTION AND ARBITRATION</b>	
8.1 Arbitration of Disputes Not Resolved by Negotiation	22

---

8.2	Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation	22
8.3	Permitted Judicial Proceedings	22

ARTICLE IX  
EXTRA CONTRACTUAL OBLIGATIONS

9.1	Extra Contractual Obligations	22
9.2	Specific Matters Not Covered	23

ARTICLE X  
REGULATORY MATTERS

10.1	Regulatory Matters	23
------	--------------------	----

ARTICLE XI  
CONFIDENTIALITY

11.1	Confidentiality	24
------	-----------------	----

ARTICLE XII  
ERRORS AND OMISSIONS

12.1	Errors and Omissions	25
------	----------------------	----

ARTICLE XIII  
MISCELLANEOUS PROVISIONS

	<u>Page</u>	
13.1	Notices	25
13.2	Entire Agreement	26
13.3	Waiver and Amendment	26
13.4	Successors and Assigns	27
13.5	Headings	27
13.6	Construction; Interpretation	27
13.7	Governing Law	27
13.8	No Third Party Beneficiaries	27
13.9	Counterparts	27
13.10	Severability	28
13.11	Incontestability	28
13.12	Set-Off	28
13.13	Currency	28

LIST OF EXHIBITS

Exhibit A	Collateral Trust Agreement
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LIST OF SCHEDULES

Schedule 1.1(a)	Certain Accounts
Schedule 2.4(f)	“Non-Jersey City” Materials supplied by Reinsureds to NICO

This **LOSS PORTFOLIO TRANSFER RETROCESSION AGREEMENT**, dated as of \_\_\_\_\_, 2011 (this “**Retrocession Agreement**”), is made and entered into by and between **Eaglestone Reinsurance Company (“Reinsurer”)**, a Pennsylvania property and casualty insurance company, and **National Indemnity Co. (“NICO”)**, a Nebraska property and casualty insurance company.

**WHEREAS**, pursuant to that certain Master Transaction Agreement, dated as of \_\_\_\_\_, 2011 (as amended, modified, and supplemented and in effect from time to time, the “**Master Transaction Agreement**”), by and among Reinsurer, NICO, and Reinsureds, Reinsureds and Reinsurer are entering into an Amended and Restated Loss Portfolio Transfer Reinsurance Agreement (as amended, modified, and supplemented from time to time in accordance with the terms thereof and hereof, the “**LPT Reinsurance Agreement**”) dated as of the date hereof, whereby Reinsurer is assuming certain asbestos risks of Reinsureds;

**WHEREAS**, pursuant to the Master Transaction Agreement, Reinsurer and NICO (individually, a “**Party**” and collectively, the “**Parties**”) have agreed that Reinsurer will retrocede to NICO a portion of the risks assumed by Reinsurer from Reinsureds and are entering into this Retrocession Agreement to effect such retrocession;

**WHEREAS**, pursuant to the Master Transaction Agreement, Reinsureds and NICO are entering into the Administrative Services Agreement whereby NICO will manage the Subject Asbestos Liabilities on behalf of Reinsureds;

NOW, THEREFORE, in consideration of the mutual and several promises and undertakings herein contained, and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Reinsurer and NICO hereby agree as follows:

**ARTICLE I**  
**DEFINITIONS**

**1.1 Definitions.**

The following terms have the respective meanings set forth below throughout this Retrocession Agreement (definitions are applicable to both the singular and the plural forms of each term defined in this Article I):

“**Actually Paid**,” with respect to an item at a given time, means that liability on the item has been discharged as of such time, whether by payment, by offset, or otherwise. For the avoidance of doubt, the amount of the liability that is Actually Paid is measured by the amount of the consideration given for discharging the liability, not by the carrying value of the liability prior to discharge.

“**Actually Received**,” with respect to an item at a given time, means that liability on the item has been discharged as of such time by the actual receipt of payment by NICO or by offset against amounts due from NICO. For the avoidance of doubt, the amount of the liability that is Actually Received is measured by the amount of the consideration given for discharging the liability, not by the carrying value of the liability prior to discharge.

“**Administrative Services Agreement**” means the Administrative Services Agreement by and between Reinsureds and NICO, substantially in the form of Exhibit A to the Master

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Transaction Agreement, as amended, modified, and supplemented from time to time in accordance with the terms thereof and then in effect.

“**Affiliate**” shall have the meaning provided in the Master Transaction Agreement.

“**Allocated Loss Adjustment Expenses**” means

- (i) all obligations of Reinsureds for external defense costs and similar expenses arising from
  - a. the terms and conditions of the Subject Business, or
  - b. interinsurer obligations arising from equitable contribution or similar claims,and
- (ii) external costs incurred in connection with or in any way relating to the adjustment, appraisal, defense, resistance, investigation, audit, negotiation, settlement, payment or appeal of, or the pursuit or collection of any reinsurance on, or the pursuit or enforcement of any right of salvage or subrogation with respect to, the Subject Business and/or coverage disputes and/or bad faith claims related thereto, including without limitation court costs, arbitration, mediation, or other dispute resolution costs, attorneys’ fees, expenses, and pre- and post-judgment interest, it being understood that
  - a. fees of staff counsel expressly charged with performing functions generally performed by outside counsel are Allocated Loss Adjustment Expenses, but that
  - b. personnel costs, overhead, or similar internal costs that are attributable to the handling of a claim file or the pursuit of reinsurance arising from the Subject Business, including without limitation such overhead or internal costs incurred by Chartis Claims, Inc., by Resolute, or by other Affiliates or Subcontractors of the Parties, are not Allocated Loss Adjustment Expenses.

For the purposes of this Retrocession Agreement, such definition of “Allocated Loss Adjustment Expenses” shall apply regardless of how Reinsureds or Reinsurer reserve for Allocated Loss Adjustment Expenses on their annual and quarterly statutory financial statements filed with Governmental Authorities.

“**Applicable Interest Rate**” means 4.25% per annum.

“**Applicable Law**” shall have the meaning provided in the Master Transaction Agreement.

“**Asbestos Claim**” means a claim that (a) is presented for payment or adjudication within the 50 States of the United States of America and/or the District of Columbia, (b) is not a Mixed Claim, and (c) falls within either or both of the following categories:

- 
- (i) any claim arising out of, or relating to, the presence of or exposure to asbestos that was open at Inception and was at that time being handled by the Jersey City Asbestos Unit of Chartis Claims, Inc.; or
  - (ii) any claim arising out of, or relating to, the presence of or exposure to asbestos involving allegations, in whole or in part, of Property Damage, Bodily Injury, personal injury, mental anguish, medical monitoring, nuisance, or trespass, including claims for equitable relief, arising out of, or relating to, the presence of or exposure to asbestos.

“**Bodily Injury**” means anything covered as bodily injury under the coverage provisions of an Underlying Policy and/or, without limitation, actual or threatened bodily injury, sickness or disease sustained by a person, including death, humiliation, shock, mental anguish or mental injury by that person at any time which results as a consequence of the bodily injury, sickness or disease.

“**Business Day**” shall have the meaning provided in the Master Transaction Agreement.

“**Closing Date**” shall have the meaning provided in the Master Transaction Agreement.

“**Collateral Reduction Event**” shall have the meaning set forth in Section 7.6.

“**Collateral Triggering Agreement**” shall have the meaning provided in the Collateral Trust Agreement.

“**Collateral Triggering Event**” shall have the meaning provided in the Collateral Trust Agreement.

“**Collateral Trust Account**” shall have the meaning provided in the Collateral Trust Agreement.

“**Collateral Trust Agreement**” means the trust agreement by and among Reinsured, Reinsurer and Trustee, substantially in the form of Exhibit A attached hereto.

“**Collateral Trust Assets**” means the assets held in the Collateral Trust Account, including, as applicable, Eligible Investments and Permitted Investments.

“**Confidential Information**” shall have the meaning set forth in Section 11.1(c).

“**Coverage A**” shall refer to the coverage provided under Section 2.1(a) of the LPT Reinsurance Agreement.

“**Coverage B**” shall refer to the coverage provided under Section 2.1(b) of the LPT Reinsurance Agreement.

“**Cure Period**” shall have the meaning set forth in Section 7.7(e).

“**Designated Court**” shall have the meaning provided in Section 8.5 of the Master Transaction Agreement

“**Disclosing Party**” shall have the meaning set forth in Section 11.1(a).

“**Dispute**” shall have the meaning provided in the Master Transaction Agreement.

“**Divested Reinsured**” shall have the meaning set forth in Section 2.4(p).

“**Dollars**” or “**\$**” means refers to United States dollars.

“**Eligible Investments**” shall have the meaning provided in the Collateral Trust Agreement.

“**ES Collateral**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Extra-Contractual Obligations**” means all liability of a Reinsured (whether for compensatory, consequential, punitive, or exemplary damages, or otherwise) to insureds, claimants, or other third parties, together with any associated legal costs and expenses, that arises out of the Subject Asbestos Liabilities and is not liability for Losses or Allocated Loss Adjustment Expenses. Subject to Section 9.2, Extra-Contractual Obligations include, without limitation, any actual or potential liability arising from an assertion by any person that Reinsureds or anyone acting on their behalf acted negligently, fraudulently, in bad faith, or otherwise improperly in the handling of any claim.

Where conduct of NICO or NICO’s Affiliates or Subcontractors is the basis of an award against Reinsureds (or a settlement of a claim for such an award) that would be within the definition of Extra-Contractual Obligations, the entire award or settlement is included within Extra-Contractual Obligations notwithstanding that the award may be against Reinsureds and NICO jointly or jointly and severally. Where, however, the award is (or would have been but for a settlement) against NICO alone, the award or settlement is not included within Extra-Contractual Obligations and is at NICO’s Own Expense.

For the avoidance of doubt, Extra-Contractual Obligations do not include regulatory fines or penalties for failure to comply with Medicare Set Aside requirements or other Medicare reporting requirements, all of which are addressed in the Administrative Services Agreement.

“**Final Order**” shall have the meaning provided in the Master Transaction Agreement.

“**Governmental Authority**” shall have the meaning provided in the Master Transaction Agreement.

“**Group I Asbestos Liabilities**” means liabilities or obligations of any Reinsured that (i) arise out of Asbestos Claims on the Subject Business (including without limitation obligations arising from direct actions by claimants against a Reinsured) or (ii) are incurred by any Reinsured in settlement of or in protection against the making of future Asbestos Claims on the Subject Business and, in either case, (x) arise from an account set forth on Schedule 1.1(a) hereto and (y) do not arise under a policy issued by Chartis Aerospace. With respect to actual or potential Mixed Claims on the Subject Business, Group I Asbestos Liabilities includes the portion (but only the portion) of a Reinsured’s liabilities or obligations that relates to alleged exposure to or presence of asbestos and arises from an account set forth on Schedule 1.1(a) hereto but not under a policy underwritten by Chartis Aerospace.

For purposes of this definition, an “account” refers to the entity that tenders the claim. A claim arising from or related to an account listed on Schedule 1.1(a) is within the Group I Asbestos Liabilities if it satisfies one of criteria (i) and (ii) above, even if the name of the account subsequently changes,



separate and distinct from one of those listed on Schedule 1.1(a) that asserts is is an insured under such policy.

The accounts listed in Schedule 1.1(a) are defined as they exist at Inception. If after Inception an account so listed acquires another entity for which coverage under Coverage A hereof would exist, that coverage continues notwithstanding the acquisition.

“**Inception**” means 12:01 A.M. Eastern Standard Time on January 1, 2011.

“**Included Reinsurance Recoverables**” means Third Party Reinsurance Recoverables on the Subject Asbestos Liabilities in respect of, but only in respect of, Losses, Allocated Loss Adjustment Expenses, and Extra-Contractual Obligations that are Actually Paid on or after Inception. The calculation of the amount Actually Paid on account of Included Reinsurance Recoverables for purposes of determining the amount of Ultimate Net Loss that has been Actually Paid includes interest on judgments or awards as well as awards of attorneys’ fees and is subject to adjustment under, and in the circumstances described in, Section 9.2(d) of the Administrative Services Agreement.

“**Loss**” or “**Losses**” means all obligations of Reinsureds, other than obligations for Allocated Loss Adjustment Expenses, to make payments to or for the benefit of their respective insureds or reinsureds under the coverage provisions of the Underlying Policies, including without limitation obligations arising from direct actions by claimants and interinsurer obligations arising from equitable contribution or similar claims.

“**LPT Reinsurance Agreement**” has the meaning set forth in the Recitals.

“**Master Transaction Agreement**” shall have the meaning set forth in the Recitals.

“**Medicare Set Aside**” shall have the meaning provided in the Administrative Services Agreement.

“**Mixed Claim**” means a claim that is presented for payment or adjudication within the 50 States of the United States of America and/or the District of Columbia and that meets one or more of the criteria set forth in clause (c) of the definition of Asbestos Claim but also includes allegations of exposure to or presence of another toxin or condition (e.g., “mixed dust” claims) and/or allegations of injury not caused by exposure to or presence of a toxin.

“**National Union**” means National Union Fire Insurance Company of Pittsburgh, Pa.

“**NICO**” shall have the meaning set forth in the Preamble.

“**NICO Initial Cash Payment**” shall have the meaning set forth in Section 3.3(a).

“**NICO Subject Business**” means all policies, binders, contracts, or other evidences of insurance or reinsurance issued by a Reinsured before January 1, 2000. NICO Subject Business includes those pre-2000 obligations of divested insurers for which any listed Reinsured remains responsible through reinsurance, indemnity, or otherwise.

“**Order**” shall have the meaning provided in the Master Transaction Agreement.

“**Other Asbestos Liabilities**” shall have the meaning provided in the LPT Reinsurance Agreement.

“**Other Recoverables**” means salvage, subrogation, contribution, and any and all other rights to receipts, collections, and recoveries relating to the Subject Asbestos Liabilities, including without limitation Retrospective Premiums, but Other Recoverables does not include Third Party Reinsurance Recoverables.

“**Own Expense**” shall have the meaning set forth in Section 2.3(d)(iii).

“**Party**” or “**Parties**” shall have the meaning set forth in the Recitals.

“**Person**” shall have the meaning provided in the Master Transaction Agreement.

“**Permitted Investments**” shall have the meaning provided in the Collateral Trust Agreement.

“**Property Damage**” means anything covered as “property damage” under the coverage provisions of an Underlying Policy and/or, without limitation, actual or threatened or potential: (i) physical injury to tangible property, including all resulting loss of use of that property; or (ii) loss of use of tangible property that is not physically injured. For the avoidance of doubt, electronic data shall not be considered to be tangible property except and to the extent that damage to such data is covered as “property damage” under the coverage provisions of an Underlying Policy.

“**Receiving Party**” shall have the meaning provided in the Master Transaction Agreement.

“**Reinsured**” and “**Reinsureds**” means:

- (i) American Home Assurance Company; Chartis Casualty Company (f/k/a American International South Insurance Company); Chartis Property Casualty Company (f/k/a AIG Casualty Company); Commerce and Industry Insurance Company; Granite State Insurance Company; Illinois National Insurance Co.; National Union Fire Insurance Company of Pittsburgh, Pa.; New Hampshire Insurance Company; The Insurance

Company of the State of Pennsylvania; Chartis Select Insurance Company (f/k/a AIG Excess Liability Insurance Company Ltd.); Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company); Landmark Insurance Company; Lexington Insurance Company; AIU Insurance Company; American International Reinsurance Company Ltd.; and *American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., New Hampshire Insurance Company, and Chartis Overseas Limited, acting as members of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.*;

- (ii) Chartis Europe, S.A., Chartis Insurance U.K. Limited, Chartis Excess Limited, Chartis Insurance Company of Canada and Chartis Insurance Company of Puerto Rico, but in each case only at such time, following receipt of regulatory approval therefor, that such entity executes an addendum to the LPT Reinsurance Agreement making it a party thereto;
- (iii) any non-U.S. entity (A) that was continuously from Inception through the date of request to become a Reinsured hereunder, an Affiliate of Chartis Inc., and (B) in respect of its asbestos liabilities that are otherwise within the definition of Subject

6

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Asbestos Liabilities, that as of Inception, has no known claims in respect of Subject Asbestos Liabilities, and only upon (X) the agreement of NICO, in its sole discretion, such agreement to be based upon NICO's being satisfied that such entity's liabilities were within the agreed scope of Coverage A, and (Y) an addendum adding such entity as a party to the LPT Reinsurance Agreement and an addendum signed by such entity and NICO to the Master Transaction Agreement and the Administrative Services Agreement, and otherwise affirming all undertakings and representations of Reinsureds thereunder and hereunder;

- (iv) any entity that was not at Inception, but had been previously, an Affiliate of Chartis Inc. and for which (but only to the extent that) any of the entities listed or described in clauses (i) and/or (ii) above is responsible, through indemnification obligations or otherwise, for the insurance obligations of such entity for the time it was such an Affiliate; and
- (v) any predecessor or successor of any of the foregoing, including by reason of merger, consolidation, or otherwise, *provided, however*, that a successor of an entity described in clause (iii) is a "Reinsured" only to the extent that a Chartis Affiliate remains liable as described in such clause.

**"Reinsurer"** has the meaning set forth in the Preamble. The term "Reinsurer" as used herein shall include any predecessor or successor of such company, including by reason of merger, consolidation, or otherwise.

**"Relevant Jurisdictions"** means the Commonwealth of Pennsylvania unless the preemption provisions of 15 U.S.C. § 8221 are repealed or substantially modified, in which event Relevant Jurisdictions includes any State in the United States in which the Reinsurer is subject to solvency requirements that include standards for credit for reinsurance.

**"Representatives"** means, with respect to any Person, such Person's officers, directors, employees, managing directors, agents, advisors and other representatives.

**"Required Amount"** shall have the meaning provided in the Collateral Trust Agreement.

**"Retrocession Agreement"** shall have the meaning set forth in the Preamble.

**"Retrocession Credit Event"** shall have the meaning forth in Section 7.7(a).

**"Retrocession Credit Event I"** shall have the meaning set forth in Section 7.7(b).

**"Retrocession Credit Event II"** shall have the meaning set forth in Section 7.7(b).

**"Retrocession Credit Event Notice"** shall have the meaning set forth in Section 7.7(c).

**"Retrocession Credit Event Termination Notice"** shall have the meaning provided in the Collateral Trust Agreement.

**"Retrocession Premium"** shall have the meaning set forth in Section 3.1.

**"Retro Limit"** is the limit of liability set forth in Section 2.1(a)(ii).

**"Retrospective Premiums"** means any amounts due from a policyholder or insured or reinsured under an Underlying Policy as a result of any increase in premiums charged thereunder

7

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or additional premium payable thereunder based upon the claims or loss experience pursuant to the terms and conditions of such Underlying Policy.

**"SAP"** means, as to any Person, the statutory accounting principles prescribed or permitted by the Governmental Authority responsible for the regulation of insurance companies in the jurisdiction in which such Person is domiciled.

**"Security Amount"** shall have the meaning provided in the Collateral Trust Agreement.

**"Subcontractor"** shall have the meaning provided in the Administrative Services Agreement.

“**Subject Asbestos Liabilities**” means any liabilities or obligations of Reinsureds, other than Group I Asbestos Liabilities, that (i) arise out of Asbestos Claims on the NICO Subject Business (including without limitation obligations arising from direct actions by claimants against a Reinsured) or (ii) are incurred by Reinsureds in settlement of or in protection against the making of future Asbestos Claims on the NICO Subject Business. With respect to actual or potential Mixed Claims on the NICO Subject Business, Subject Asbestos Liabilities includes the portion (but only the portion) of a Reinsured’s liabilities or obligations that relates to alleged exposure to or presence of asbestos and is not within Group I Asbestos Liabilities.

“**Subject Business**” means all policies, binders, contracts, or other evidences of insurance or reinsurance issued before January 1, 2011. Subject Business includes those pre-2011 obligations of divested insurers for which any listed Reinsured remains responsible through reinsurance, indemnity, or otherwise.

“**Subsidiary**” or “**Subsidiaries**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax Authority**” shall have the meaning provided in the Master Transaction Agreement.

“**Tax Return**” shall have the meaning provided in the Master Transaction Agreement.

“**Termination Date**” shall have the meaning set forth in Section 5.1.

“**Third Party Reinsurance Agreements**” means reinsurance agreements, other than this Reinsurance Agreement and reinsurance agreements solely between or among Reinsureds and their Affiliates, whereby any Reinsured has ceded any of the liabilities in the Subject Asbestos Liabilities, and which agreements had not been voided or commuted at or prior to Inception. For purposes of this definition, the liability of one Reinsured or Affiliate to another on a reinsurance agreement is “solely between Reinsureds and their Affiliates” even if non-Affiliates also participate in the reinsurance agreement, so long as the liability of all participants on the agreement is several only. In such circumstances, each participation by a non-Affiliate that was not voided or commuted at or prior to Inception is a Third Party Reinsurance Agreement.

“**Third Party Reinsurance Recoverables**” means amounts recoverable under Third Party Reinsurance Agreements, including without limitation interest and fees awarded in proceedings for the collection of such amounts.

“**Transaction Documents**” means the Master Transaction Agreement and the Ancillary Agreements (as such term is defined in the Master Transaction Agreement).

8

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“**Trustee**” means the trustee named in the Collateral Trust Agreement and any successor trustee appointed and then serving as such pursuant to the terms of such Collateral Trust Agreement.

“**Ultimate Net Loss**” shall have the meaning set forth in Section 2.3.

“**Unallocated Loss Adjustment Expenses**” means claims department overhead and any other loss adjustment expenses that are not Allocated Loss Adjustment Expenses. For purposes of this Retrocession Agreement, this definition of “Unallocated Loss Adjustment Expenses” will apply regardless of how Reinsureds and/or Reinsurer reserve for Unallocated Loss Adjustment Expenses on their annual and quarterly statutory financial statements filed with Governmental Authorities.

“**Underlying Policies**” has the meaning provided in the Administrative Services Agreement.

## **ARTICLE II** **RETROCESSIONAL COVERAGE**

### **2.1 Retrocessional Coverage and Limit.**

(a) **Retrocession of Coverage A**

- (i) *Cession*: Effective as of Inception, Reinsurer hereby cedes to NICO, and NICO accepts as retrocessional reinsurance, 100% of Reinsurer’s liability with respect to Ultimate Net Loss pursuant to Coverage A of the LPT Reinsurance Agreement.
  - (ii) *Limit of Liability*: Notwithstanding any other provision in this Retrocession Agreement or any other Transaction Document to the contrary, in no event and under no circumstances, however arising, shall NICO be liable for an amount of Ultimate Net Loss greater than Three Billion, Five Hundred Million Dollars (\$3,500,000,000) (the “**Retro Limit**”) by reason of entering into this Retrocession Agreement.
- (b) There is no retrocessional coverage hereunder in respect of Coverage B of the LPT Reinsurance Agreement.

### **2.2 Commencement of NICO’s Liability; Follow Fortunes/Settlements.**

(a) Subject to the terms, conditions, limitations, and provisions of this Retrocession Agreement, NICO’s liability under this Retrocession Agreement shall attach simultaneously with that of Reinsureds on the NICO Subject Business and the attachment of Reinsurer’s liability thereto, and all reinsurance with respect to which NICO shall be liable by virtue of this Retrocession Agreement shall be subject in all respects to the same risks, terms, rates, conditions, interpretations, assessments, and waivers, and to the same modifications, alterations, and cancellations, as are the Underlying Policies and the Subject Asbestos Liabilities to which liability under this Retrocession Agreement attaches by way of retrocession from Reinsurer, the true intent of this Retrocession Agreement being that NICO shall, as and to the extent set forth in Section 2.2(b) below, follow the fortunes and the settlements of Reinsureds.

9

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(b) NICO has no obligation to follow Reinsurer's fortunes or settlements independent of those of the Reinsureds. With respect to Reinsureds' fortunes and settlements, NICO's obligations are as follows:

- (i) NICO as retrocessionaire shall be absolutely bound by the actions of NICO as Administrator under the Administrative Services Agreement.
- (ii) To the extent Reinsureds (by themselves or their own agents and not by NICO) act within their authority under the Administrative Services Agreement, and in all events prior to the Closing Date and following termination of the Administrative Services Agreement, NICO shall follow the fortunes and good faith settlements (including good faith *ex gratia* settlements) of Reinsureds, it being understood that the allocation principles set forth in the Administrative Services Agreement continue to apply to Reinsureds in such circumstances, and Reinsureds' good faith settlements include their good faith implementation of such principles.
- (iii) To the extent that Reinsureds act outside their authority under the Administrative Services Agreement, follow the fortunes/settlements does not apply, and the amount of Ultimate Net Loss for which NICO is responsible shall be adjusted as and to the extent determined under Articles IX and XIX of the Administrative Services Agreement.

### 2.3 **Ultimate Net Loss.**

- (a) "**Ultimate Net Loss**" shall mean, to the extent assumed by Reinsurer under the LPT Reinsurance Agreement, the following:

Losses with respect to Subject Asbestos Liabilities, plus

Allocated Loss Adjustment Expenses with respect to Subject Asbestos Liabilities, plus

Extra-Contractual Obligations with respect to Subject Asbestos Liabilities, less

Included Reinsurance Recoverables, but only to the extent Actually Received, less

Other Recoverables recoverable by Reinsureds with respect to Subject Asbestos Liabilities, but only to the extent Actually Received.

(b) Nothing in the foregoing definition shall be construed as implying that amounts are not recoverable hereunder by Reinsureds until a final determination of Ultimate Net Loss.

(c) Where (i) an item of Losses, Allocated Loss Adjustment Expenses, Extra-Contractual Obligations, Third Party Reinsurance Recoverables, or Other Recoveries relates both to the Subject Asbestos Liabilities and to liabilities of Reinsureds that are not within the Subject Asbestos Liabilities, or (ii) an item of Third Party Reinsurance Recoverables relates both to Included Reinsurance Recoverables and Non-Included Recoverables, only the portion of such item determined pursuant to the allocation procedures of the Administrative Services Agreement to relate to the Subject Asbestos Liabilities or to Included Reinsurance Recoverables, as the case may be, shall be included within Ultimate Net Loss.

(d) For the avoidance of doubt:

(i) Unallocated Loss Adjustment Expenses are not a component of Ultimate Net Loss.

(ii) Retrospective Premiums allocate to Subject Asbestos Liabilities in proportion to the amount of Losses, Allocated Loss Adjustment Expenses and/or Extra-Contractual Obligations giving rise to such Retrospective Premiums that allocate to Subject Asbestos Liabilities.

(iii) Where this Retrocession Agreement refers to an act or obligation as being "at the expense of" a Person or at a Person's "own expense" ("**Own Expense**"), the cost of performing such act or discharging such obligation is not included within Ultimate Net Loss, notwithstanding that such cost might otherwise be so includable.

(e) Ultimate Net Loss is subject to adjustment in certain circumstances as set forth in Article IX of the Administrative Services Agreement.

### 2.4 **Exclusions.**

Notwithstanding any provision of this Retrocession Agreement to the contrary, Ultimate Net Loss does not include, and NICO shall not be liable to Reinsurer for, any of the following:

(a) any liability of Reinsurer with respect to any Tax or assessment, whether paid directly by Reinsurer or billed to Reinsurer by or through a cedent or insured, regardless of whether the Tax is denominated as an income tax, excise tax, premium tax, surplus lines tax or any other Tax or assessment;

(b) any liability of any Reinsured with respect to any Tax or assessment, whether paid directly by such Reinsured or billed to such Reinsured by or through a cedent or insured, regardless of whether the Tax is denominated as an income tax, excise tax, premium tax, surplus lines tax or any other Tax or assessment;

(c) any liability of Reinsureds for Extra-Contractual Obligations to the extent that such liability arises from the conduct after the Closing Date of Reinsureds' own employees or Reinsureds' agents not affiliated with or under the direction of NICO;

(d) business written or assumed by American General Property & Casualty Insurance Company and/or American Fuji Fire & Marine Insurance Company;

(e) any liability of Reinsureds in respect of reinsurance assumed, except intercompany reinsurance and business fronted for a Reinsured, if any;

(f) any liability of Reinsureds in respect of existing claimants identified in the “non-Jersey City” materials supplied to NICO identified on Schedule 2.4(f) hereof, *provided, however*, that neither of the following is excluded by this Exclusion (f):

- (i) claims arising under Chartis Marine or Chartis Aerospace policies, and
- (ii) claims by claimants not reported to Reinsureds prior to Inception;

(g) any liability arising from claims alleging exposure to asbestos solely outside the United States of America, it being understood that Allocated Loss Adjustment

11

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Expenses and Extra-Contractual Obligations accruing prior to a determination that the allegations of exposure relate solely to exposure outside the United States of America are not excluded hereby;

(h) any liability on policies written at Chartis Environmental (liability on general liability policies handled by the Environmental Claims Unit of Chartis Claims, Inc., if otherwise covered, is not excluded by this Exclusion (h));

(i) any liability under policies or contracts expressly written to cover asbestos liability(ies);

(j) any liability under workers compensation or employers liability policies;

(k) any liability under first party property policies;

(l) any liability for Medicare reporting; *provided, however*, that this Exclusion (k) shall not relieve NICO of its responsibilities to Reinsureds under the Administrative Services Agreement with respect to Medicare reporting;

(m) in implementation and not in duplication of Article IX of the Administrative Services Agreement, amounts declared in Section 9.2(b)(1) of such Agreement to be excluded from the calculation of Ultimate Net Loss;

(n) Extra-Contractual Obligations of Reinsureds in connection with an Asbestos Claim that was closed at Inception but was thereafter reopened solely with respect to allegations of the type that would constitute Extra-Contractual Obligations, with no associated indemnity component to the reopened claim;

(o) Extra-Contractual Obligations of Reinsureds for the intentional and malicious acts or omissions prior to the Closing Date of their employees, officers, directors or agents, but only to the extent so determined by final adjudication after all appeals and the expiration of time to appeal by any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction;

(p) any liability of any Reinsured that is no longer under the control of American International Group, Inc. (a “**Divested Reinsured**”), from and after the first date the Divested Reinsured is no longer under such control, except to the extent that Reinsureds that remain under such control both (i) retain responsibility for (whether, by reinsurance, by indemnification, or otherwise) the Subject Asbestos Liabilities and the obligations under the Administrative Services Agreement of the Divested Reinsured and (ii) have the right to recover the Included Reinsurance Recoverables of the Divested Reinsured for the ultimate benefit of NICO hereunder; or

(q) any acceleration of liability of Reinsurer arising from the redomestication outside the United States of any Reinsured that, at Inception, was domesticated within the United States, it being understood that the liability of Reinsurer shall be deemed to continue as though such acceleration had not taken place and that such deemed continued liability is not excluded hereby.

12

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## 2.5 **Amendment of LPT Reinsurance Agreement.**

No amendment of the LPT Reinsurance Agreement may be made except on 30 days’ prior written notice to NICO nor without the consent of NICO, which consent shall not be unreasonably withheld or delayed, *provided, however*, that if Reinsurer and Reinsured believe in good faith that a proposed amendment to the LPT Reinsurance Agreement does not relate in any way to Coverage A thereunder, they may following the expiration of the 30-day notice period effect the amendment without NICO’s consent, but any amendment made without NICO’s consent shall be wholly ignored for purposes of this Retrocession Agreement and any determination of NICO’s liability hereunder.

## 2.6 **Redomestication.**

NICO’s consent shall be obtained prior to any action by Reinsurer that results in Reinsurer’s redomestication outside of the United States.

# **ARTICLE III RETROCESSION PREMIUM**

## 3.1 **Retrocession Premium.**

The premium for this Retrocession Agreement is One Billion, Six Hundred Forty-Seven Million Dollars (\$1,647,000,000) (the “**Retrocession Premium**”). Payment of the Retrocession Premium is deemed to have been due at Inception.

### 3.2 Ceding Commission on Account of Unallocated Loss Adjustment Expenses.

NICO shall pay Reinsurer on the Closing Date a ceding commission of \$784,052 per month or *pro rata* portion thereof for the period from and including Inception to but excluding the Closing Date, to be paid on by Reinsurer as ceding commission to Reinsureds on account of the Unallocated Loss Adjustment Expenses incurred by Reinsureds in connection with the Subject Asbestos Liabilities during such period. For the avoidance of doubt, this ceding commission is not Ultimate Net Loss and does not erode the Retro Limit.

### 3.3 Cash Settlement at Closing.

- (a) On the Closing Date, Reinsurer shall pay NICO an amount (the “**NICO Initial Cash Payment**”) equal to
  - (i) the Retrocession Premium, *plus*
  - (ii) simple interest on the Retrocession Premium at the Applicable Interest Rate from and including Inception to but excluding the Closing Date, *less*
  - (iii) estimated Ultimate Net Loss that was Actually Paid in the period between Inception and the Closing Date, *less*
  - (iv) the ceding commission provided in Section 3.2 above.
- (b) Reinsurer shall effect payment to NICO by depositing the foregoing amount into the Collateral Trust Account. Reinsurer’s effectuation of such deposit is a condition precedent to NICO’s liability hereunder.

13

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(c) The procedure for estimating the amount of Ultimate Net Loss included (as a negative amount) in the NICO Initial Cash Payment is set forth in Section 2.3 of the Master Transaction Agreement. The Parties shall make final adjustments to the NICO Initial Cash Payment at the time and in accordance with the procedures set forth in Section 2.3 of the Master Transaction Agreement.

### 3.4 Payments and Accounts.

- (a) The Parties accept and adopt the payment and accounting mechanism set forth in Section 3.4(a) of the LPT Reinsurance Agreement.
- (b) In the event that Reinsurer receives (i) any Included Reinsurance Recoverables or Other Recoverables, whether from Reinsureds or any other Person or (ii) any amounts from Reinsureds pursuant to Section 3.7 of the LPT Reinsurance Agreement regarding third party offsets to Included Reinsurance Recoverables, Reinsurer shall promptly account for and pay to NICO all such amounts so received.
- (c) In the event that NICO owes Reinsurer any amounts for Losses, Allocated Loss Adjustment Expenses or Extra-Contractual Obligations, in each case with respect to the Subject Asbestos Liabilities, that is not paid under the terms of the Administrative Services Agreement and accounted for as provided in Section 3.4(a) of the LPT Reinsurance Agreement, or to the extent that NICO receives any recoveries that are not on account of Included Reinsurance Recoverables or Other Recoverables, NICO shall promptly account for and pay to Reinsurer all such amounts due.
- (d) It is the express mutual intent of the Parties that NICO receive the full economic benefit of the Included Reinsurance Recoverables and Other Recoverables when and to the extent paid, including the right of set-off with respect thereto to the extent contemplated in Section 9.12 of the Master Transaction Agreement.
- (e) All payments between the Parties not made pursuant to Section 3.3 hereof or Section 3.4(a) of the LPT Reinsurance Agreement shall be made either (i) by wire transfer of Dollars in cash to such bank account or accounts as designated by the recipient or (ii) by direct deposit or direct debit through the Automated Clearing House (ACH) system Dollars in immediately available funds.
- (f) NICO shall provide to Reinsurer and Reinsureds the accounts described in Section 3.4(d) of the LPT Reinsurance Agreement.

### 3.5 Assignment of Security Interest and Related Rights.

- (a) As security for the prompt and complete payment when due of Reinsurer’s reimbursement obligation in Section 3.4(b)(i) hereof, Reinsurer hereby assigns to NICO
  - (i) all of the Reinsurer’s right, title, and interest in Reinsurer’s right to receive payment from Reinsureds under Section 3.4(b) of the LPT Reinsurance Agreement, whether now owned or existing or hereafter acquired or arising, and wherever located, and
  - (ii) Reinsurer’s rights, title and interest in the ES Collateral to the extent granted to the Reinsurer pursuant to Section 3.6 of the LPT Reinsurance Agreement, including without limitation

14

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- (A) Reinsurer’s rights as a secured party pursuant to Article 9 of the Uniform Commercial Code and otherwise under Applicable Law, and
- (B) Reinsurer’s right to associate pursuant to Section 3.6(b) of the LPT Reinsurance Agreement, which right NICO may exercise to the exclusion of Reinsurer.

(b) Reinsurer covenants to NICO to file UCC-1s or similar instruments with respect to the security interest granted in the LPT Reinsurance Agreement and assigned hereunder, and NICO may at its option file such UCC-1s or similar instruments in the name and on behalf of Reinsurer.

#### **ARTICLE IV** **RESERVING REQUIREMENTS AND ACCOUNTING TREATMENT**

##### **4.1 NICO's Reserves.**

On and after the Closing Date, NICO shall establish and at all times maintain liability reserves on NICO's statutory financial statements with respect to the liability assumed from Reinsurer hereunder. Such reserves shall be determined by NICO in accordance with SAP, including applicable actuarial principles.

##### **4.2 Reinsurer's Reserves.**

Reinsurer shall determine its reserves in respect of the liabilities ceded to NICO hereunder in accordance with SAP, including applicable actuarial principles.

##### **4.3 Risk Transfer.**

Each Party to the transaction provided for in this Retrocession Agreement has conducted prior to execution of this Retrocession Agreement such risk transfer testing analysis as that Party deems appropriate in its independent judgment in order to report properly the transaction on its financial reports for SAP and federal income tax purposes. Based on such analysis each Party has independently determined that the transaction provided for in this Retrocession Agreement is properly accounted for on its financial reports as reinsurance for SAP and federal income tax purposes. For the avoidance of doubt, neither Party is making any representation or warranty as to the proper accounting for the transaction provided for in this Retrocession Agreement by the other Party hereto.

#### **ARTICLE V** **DURATION AND TERMINATION**

##### **5.1 Duration and Termination.**

Without limiting any provision of the Master Transaction Agreement, the Parties' rights and obligations under this Retrocession Agreement shall commence on the Closing Date (or, if later, the date the Reinsurer actually makes the deposit specified in Section 3.3(b)) but shall be effective as of Inception, as set forth herein. Unless earlier terminated by mutual written consent of the Parties, this Retrocession Agreement, and the Parties' rights and obligations hereunder, shall continue in force until the earlier of (i) the natural expiry of the Subject Asbestos Liabilities or (ii) the exhaustion of the Retro Limit (the "**Termination Date**").

15

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#### **ARTICLE VI** **CUT-THROUGH ON INSOLVENCY**

##### **6.1 Insolvency of Reinsurer.**

(a) Automatically upon the insolvency of Reinsurer and the appointment of a conservator, liquidator, receiver, or statutory successor of Reinsurer, and without the requirement of any act by any Person:

- (i) all amounts due Reinsurer under this Retrocession Agreement shall be payable by NICO solely to National Union as a Reinsured under the LPT Reinsurance Agreement and as agent for the other companies comprised by the term "Reinsureds," and not to any conservator, liquidator, receiver or statutory successor of Reinsurer, and
- (ii) all amounts for which Reinsurer would be entitled to a credit against Reinsureds with respect to Ultimate Net Loss on the Subject Asbestos Liabilities shall be treated as credits directly to NICO in respect of its obligations on this cut-through.

(b) Payment in the event the foregoing cut-through is triggered shall be made, to the extent feasible, via the payment mechanism described in Section 13.1 of the Administrative Services Agreement, except that

- (i) payments by NICO as Administrator shall be treated as discharge of NICO's direct obligations to Reinsureds under this cut-through, and not as discharge of obligations with respect to cessions to Reinsurer and retrocessions to NICO, and
- (ii) receipt of funds by NICO, to the extent allocable to Ultimate Net Loss on the Subject Asbestos Liabilities, shall be treated as in discharge of Reinsureds' obligations to NICO under Section 6.1(a)(ii) above and not as (negative) cessions to Reinsurer and (negative) retrocessions to NICO.

(c) It is the intent of the Parties to take advantage, to the fullest extent possible, of the permission for cut-throughs granted by 40 P.S. § 221.34, as interpreted by the Supreme Court of Pennsylvania in *Koken v. Villanova Insurance Co.*, 878 A.2d 51 (2005), *aff'g and adopting Koken v. Legion Insurance Co.*, 831 A.2d 1196 (Pa. Commw. 2002).

##### **6.2 Effect of Cut-Through on Other Provisions.**

Upon the insolvency of the Reinsurer as described in Section 6.1, and in implementation of the cut-through therein provided:

- (a) all rights of Reinsurer to and in the Collateral Trust Account, under the Collateral Trust Agreement, and pursuant to Article VII hereof shall cease, as provided in Section 11.1(b)(i) of the Collateral Trust Agreement;

(b) notices and other communications required to be addressed to Reinsurer shall be addressed to National Union with a copy to Reinsurer or its conservator, liquidator, receiver, or statutory successor.

**ARTICLE VII**  
**COLLATERAL TRUST ACCOUNT**

**7.1 Establishment of Collateral Trust Account.**

In accordance with the Collateral Trust Agreement to be entered into between the Parties and the Trustee as of the Closing Date, NICO shall have procured, on or prior to the date hereof, with and in the name of the Trustee, the Collateral Trust Account, to be held for the benefit of Reinsurer pursuant to the provisions of the Collateral Trust Agreement.

**7.2 Initial Funding of the Collateral Trust Account**

On the Closing Date, the NICO Initial Cash Payment shall be deposited directly into the Collateral Trust Account pursuant to Article II of the Master Transaction Agreement. The amount of such deposit is subject to adjustment as provided in Section 2.3 of the Master Transaction Agreement.

**7.3 Ongoing Funding of Collateral Trust Account.**

In accordance with the requirements of the Collateral Trust Agreement, unless there is a Collateral Triggering Event or a Retrocession Credit Event, NICO shall not be required to deposit additional assets into the Collateral Trust Account after the Closing Date. All transfers to and withdrawals from the Collateral Trust Account shall be in accordance with the terms set forth herein and subject to the requirements set forth in the Collateral Trust Agreement.

**7.4 Collateral Trust Assets.**

(a) Prior to the occurrence of a Retrocession Credit Event, the assets that may be held in the Collateral Trust Account shall consist solely of Eligible Investments. Upon and after the occurrence of a Retrocession Credit Event, however, in accordance with the requirements of the Collateral Trust Agreement and Section 7.7, hereof, the assets in the Collateral Trust Account shall consist solely of Permitted Investments.

(b) NICO shall, prior to depositing any Eligible Investments or Permitted Investments, as applicable, into the Collateral Trust Account, and from time to time as required, execute all assignments and endorsements in blank, or transfer legal title to the Trustee of all shares, obligations or any other assets requiring assignment in order that the Trustee, upon direction of Reinsurer, may whenever necessary negotiate any such assets without consent or signature from NICO or any other entity.

**7.5 Settlements.**

All withdrawals from or deposits into the Collateral Trust Account under the Collateral Trust Agreement shall be made in Dollars in cash or its equivalent.

**7.6 Modification Upon Occurrence of Collateral Triggering Event.**

Subject to Section 7.7, which controls when it applies, upon the occurrence of a Collateral Triggering Event, all references to "Security Amount" in the Collateral Trust Agreement shall be deemed modified in accordance with its definition to give effect to the Collateral Triggering Event. In addition, as soon as is practicable, but no later than contemporaneously with the posting of the collateral under any Collateral Triggering Agreement that results in NICO posting one billion dollars or more of collateral either on an individual or aggregate basis, NICO shall deposit

such additional assets into the Collateral Trust Account so that the aggregate fair market value of the Eligible Investments in the Collateral Trust Account equals the newly computed Security Amount. Until such time as (i) the events, changes or conditions that gave rise to the collateral requirement under one or more of the Collateral Triggering Agreements cease to exist or apply and (ii) NICO has withdrawn or reduced the aggregate amount of collateral posted under Collateral Triggering Agreements ((i) and (ii) together, the "**Collateral Reduction Event**"), NICO shall ensure that the Collateral Trust Account shall hold Eligible Investments at all times with a fair market value of no less than 100% of the Security Amount (as defined in clause (ii) of Section 1.1(aaa) of the Collateral Trust Agreement); *provided, however*, if a Collateral Reduction Event has occurred, the Security Amount shall be reduced by a percentage which is proportionate to each percentage reduction of all collateral posted under the Collateral Triggering Agreements; *provided, further, however*, in no event shall the Security Amount be reduced to an amount less than 100% of the Security Amount (as defined in clause (i) of Section 1.1(aaa), of the Collateral Trust Agreement).

**7.7 Modification Upon Occurrence of a Retrocession Credit Event.**

(a) The references in this Retrocession Agreement and the Collateral Trust Agreement to changes in rights, obligations, and procedures upon the occurrence of a Retrocession Credit Event are intended, and shall be interpreted, to conform fully to the requirements of the laws and regulations governing credit for reinsurance of the Relevant Jurisdictions, so that Reinsurer shall continue to receive full credit in the Relevant Jurisdictions for the coverage provided by this Retrocession Agreement for the period of time during which the Retrocession Credit Event continues to apply. Any event that results in Reinsurer being unable to obtain full statutory financial statement credit for the reinsurance provided under this Retrocession Agreement in any Relevant Jurisdiction at any point in time during the term of this Retrocession Agreement shall be referenced herein as a "**Retrocession Credit Event**." NICO shall promptly notify Reinsurer and the Trustee of any event or change or condition that will reasonably likely result in a Retrocession Credit Event.



(b) The Parties acknowledge that a Retrocession Credit Event may occur as a result of the financial impairment of NICO, or it may occur as a result of other causes, some of which may be cured by NICO within a reasonable period of time. For purposes of this Article VII, a Retrocession Credit Event resulting from or likely to result from any financial impairment of NICO shall be referred to as a “**Retrocession Credit Event I**” and a Retrocession Credit Event resulting from or likely to result from causes other than the financial impairment of Reinsurer shall be referred to as a “**Retrocession Credit Event II**.” A Retrocession Credit Event resulting or likely to result both from financial impairment and other causes shall be a Retrocession Credit Event I.

(c) Should either Party become aware of a Retrocession Credit Event or the likelihood of the occurrence of a Retrocession Credit Event, such Party shall provide prompt written notice (a “**Retrocession Credit Event Notice**”) to the other either (x) certifying that a Retrocession Credit Event has occurred or (y) describing the circumstances and cause for such notice. Such notice shall indicate whether the Retrocession Credit Event is (or is expected to be) a Retrocession Credit Event I or a Retrocession Credit Event II and shall state the date, if known, on which the Retrocession Credit Event occurred or is expected to occur.

18

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(d) Upon the occurrence of a Retrocession Credit Event I, as noted in Section 7.7(a) above, certain provisions of the Collateral Trust Agreement shall cease to be effective, and other provisions shall automatically become effective thereafter, all as described in the Collateral Trust Agreement. In addition, any other provisions required under the law and regulations of the Relevant Jurisdictions governing trusts providing full statutory financial statement credit for reinsurance ceded by property and casualty insurance companies shall be deemed incorporated into the Collateral Trust Agreement.

(e) Upon the occurrence of a Retrocession Credit Event II, NICO shall have a period of ninety (90) calendar days (the “**Cure Period**,” which shall, however, not extend past December 31 of the year in which the Retrocession Credit Event II occurs) to seek to cure or address to the satisfaction of Reinsurer the circumstances giving rise to the Retrocession Credit Event II. Unless otherwise agreed or an arbitration panel or court otherwise determines in accordance with the dispute resolution procedures of this Retrocession Agreement, the Cure Period shall run from the date the Retrocession Credit Event Notice is received by NICO.

(i) Should NICO be able to cure the situation or address it to the reasonable satisfaction of Reinsurer during the Cure Period, no further action shall be required with respect to the Collateral Trust Agreement

(ii) Should NICO be unable so to cure or address the situation, then upon expiration of the Cure Period, or at such earlier time as NICO acknowledges or it is determined pursuant to the dispute resolution procedures of this Retrocession Agreement that cure will not be practicable, the provisions of the Collateral Trust Agreement in respect of Retrocession Credit Events shall become effective as set forth in Section 7.7(d) above.

(f) The provisions of the Collateral Trust Agreement upon the occurrence of a Retrocession Credit Event shall remain in effect only so long as Reinsurer could not, absent such provisions, take full financial statement credit in the Relevant Jurisdictions for the coverage provided by this Retrocession Agreement. If Reinsurer may once again take such full credit absent such provisions, then Reinsurer shall promptly provide a Retrocession Credit Event Termination Notice to the Trustee. If NICO contends and Reinsurer disputes that Reinsurer can once again take such full credit, then NICO shall bear the burden of establishing that such credit is available. From and after the time that it is determined that such full credit is in fact available, then the provisions of the Section 3.1 of the Collateral Trust Agreement shall be implemented.

(g) The injury caused by a failure by NICO, upon or during the pendency of a Retrocession Credit Event, to comply with the provisions hereof and of the Trust Agreement regarding maintenance of the value of the Collateral Trust Assets at or equal to the Required Amount is hereby agreed to be irreparable within the meaning of any Applicable Law relating to the issuance of preliminary injunctions.

#### **7.8 Withdrawal of Collateral Trust Assets by Reinsurer Other than During the Pendency of a Retrocession Credit Event.**

Except during the pendency of a Retrocession Credit Event:

(a) Collateral Trust Assets may be withdrawn by Reinsurer, and utilized and applied by Reinsurer, only for one or more of the following purposes:

19

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(i) to pay or reimburse Reinsurer for Reinsurer’s share of claims, losses, or other amounts due and payable under the terms and conditions of this Retrocession Agreement, or

(ii) to pay or reimburse Reinsureds for amounts to which they are entitled under the terms and conditions of the Administrative Services Agreement and not yet recovered from NICO, or

(iii) to pay to NICO amounts held in the Collateral Trust Account in excess of the Security Amount.

(b) Notwithstanding the foregoing, Reinsurer shall only withdraw Collateral Trust Assets under Sections 7.8(a)(i) and (ii) pursuant to the terms of a Final Order of an arbitration panel with which NICO has failed to comply, *provided* that notice of such withdrawal is provided not less than five (5) Business Days in advance of the requested withdrawal. If NICO contests the validity of the arbitration order by notice to Reinsurer, NICO may challenge the validity of the withdrawal order in the Designated Court, subject however in all respects to the standards of review of such awards under Applicable Law. During the pendency of such litigation, notice of withdrawal shall not be effective except as ordered by the court in which the litigation is pending.

(c) Reinsurer shall return to the Collateral Trust Account assets withdrawn in excess of all amounts due under Sections 7.8(a)(i) and (ii), within five (5) Business Days from determining that such excess amount has been withdrawn. Any such excess amount shall at all times be held

by Reinsurer in trust for the benefit of NICO and shall, to the extent known to be excess, be maintained in a segregated account, separate and apart from any assets of any Reinsured for the sole purpose of funding the payments and reimbursements described in Section 7.8(a).

#### **7.9 Withdrawal of Collateral Trust Assets by Reinsurer During the Pendency of a Retrocession Credit Event.**

During the pendency of a Retrocession Credit Event:

- (a) The Collateral Trust Assets may be withdrawn by Reinsurer, and utilized and applied by Reinsurer, for (but only for) one or more of the following purposes:
- (i) to pay or reimburse Reinsurer for NICO's share of claims, losses, or other amounts due and payable under the terms and conditions of this Retrocession Agreement;
  - (ii) to fund an account with Reinsurer in an amount at least equal to the amount that would be deductible from Reinsurer's liabilities on account of NICO's obligations under this Retrocession Agreement if full credit for such obligations were to be given to Reinsurer. The account must include, but is not limited to, amounts for policy reserves, claims and losses incurred, including losses incurred but not reported, and Allocated Loss Adjustment Expenses; and
  - (iii) to pay any other amounts Reinsurer claims are due under this Retrocession Agreement.

20

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(b) In the event of a withdrawal under Section 7.9(a)(ii):

- (i) such amount shall at all times be held by Reinsurer in trust for the benefit of NICO pending return of such amount and shall be maintained in a segregated account, separate and apart from any assets of any Reinsured for the sole purpose of funding the payments and reimbursements described in Section 7.9(a)(i) or (iii);
- (ii) Reinsurer shall return to NICO the actual amount of interest, dividends, and other income earned on the assets in such segregated account, net of expenses of maintaining the account, so long as the fair market value of the assets in such segregated account and the fair market value of any remaining Collateral Trust Assets equals, in the aggregate, 102% of the Required Amount, and shall otherwise credit to such segregated account all such income earned and received on the assets in such segregated account; and
- (iii) Reinsurer shall return to NICO and/or the Collateral Trust Account, as applicable, assets withdrawn in excess of the amounts ultimately determined to be due within five (5) Business Days from Reinsurer's concluding, or from an arbitration panel's determining, that such excess amount has been withdrawn.

(c) In the event that Reinsurer concludes, or an arbitration panel determines, that Reinsurer has withdrawn assets under Section 7.9(a)(i) or (iii) in excess of the aggregate amount permitted to be withdrawn thereunder, then Reinsurer shall, within five Business Days of making such determination, return to the Collateral Trust Account the amount of such excess, and such amount shall, until its return, be deemed to have been held in constructive trust by Reinsurer for the benefit of NICO.

#### **7.10 Reinsurance Credit.**

(a) If and to the extent that NICO's full performance of its obligations under the Collateral Trust Agreement does not result in Reinsurer's being able to obtain full credit on its statutory financial statements (including those financial statements or portions thereof required in connection with maintaining Reinsurer's status as an accredited reinsurer or eligible surplus lines insurer) for the reinsurance provided by this Retrocession Agreement in the Relevant Jurisdictions, NICO shall, at its Own Expense, be required to take all steps (including the posting of letters of credit or other acceptable security) necessary to comply with all Applicable Laws in the Relevant Jurisdictions so as to permit Reinsurer to obtain such full credit.

(b) It is understood and agreed that any term or condition required by such Applicable Law in a Relevant Jurisdiction to be included in this Retrocession Agreement for Reinsurer to receive financial statement credit for the reinsurance provided by this Retrocession Agreement shall be deemed to be incorporated in this Retrocession Agreement by reference. The Parties shall amend this Retrocession Agreement or enter into one or more other agreements or execute such additional documents as are needed to comply with the credit for reinsurance laws and regulations and/or the requirements of the applicable Governmental Authorities in all Relevant Jurisdictions. To the extent that any other agreements or additional documents are deemed by NICO to increase or accelerate its liabilities hereunder or otherwise adversely impact the economics of this Retrocession Agreement as respects NICO, NICO shall be afforded the opportunity at its Own Expense to investigate alternatives for accomplishing the financial statement credit

21

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objectives set forth herein; *provided, however*, any such investigation of alternatives shall not cause Reinsurer to incur a Schedule F penalty or otherwise fail to receive financial statement credit in a timely manner.

(c) Notwithstanding anything else contained herein, under no circumstances shall NICO be required at any time to fund any trust(s) and/or account(s) in an aggregate amount greater than 102% (or such other percentage as is then provided by Applicable Law) of the excess at such time of (x) the Retro Limit over (y) Ultimate Net Loss paid by NICO to or for the benefit of Reinsurer.

### **ARTICLE VIII DISPUTE RESOLUTION AND ARBITRATION**

#### **8.1 Arbitration of Disputes Not Resolved by Negotiation.**

All Disputes arising under or in any way related to this Retrocession Agreement, specifically including without limitation Disputes concerning alleged fraud in the inducement of this Retrocession Agreement or any other Transaction Document or other wrongful pre-Closing conduct shall, to the extent not resolved by negotiation between the Parties, be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the dispute. Any Person that is a Party to any of the foregoing agreements shall have an absolute right to intervene in any such arbitration.

**8.2 Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation.**

(a) The procedures for the arbitration and for the mandatory pre-arbitration negotiation are set forth in Article VIII of the Master Transaction Agreement, which is hereby incorporated herein. Arbitration hereunder shall be conducted in Philadelphia, Pennsylvania.

(b) In considering any relief to be awarded, the arbitrators (and the Designated Court, as appropriate) shall take into account the Parties' view that the nature and uniqueness of the relationships created under the Transaction Documents as a whole render specific performance the remedy of choice where it is possible to implement that remedy.

**8.3 Permitted Judicial Proceedings.**

The only permitted judicial proceedings relating to any Dispute are those set forth in, and are subject to the exclusive jurisdiction provisions of, Section 8.5 of the Master Transaction Agreement. Each Party finally and irrevocably waives any right to trial by jury of any matter or issue in such a permitted judicial proceeding.

**ARTICLE IX  
EXTRA CONTRACTUAL OBLIGATIONS**

**9.1 Extra Contractual Obligations.**

To the maximum extent permitted by the law of the most permissive jurisdiction that could reasonably be held to apply under Pennsylvania choice of law rules, this Retrocession Agreement covers Extra Contractual Obligations as part of Ultimate Net Loss, including without limitation liability based on alleged conduct of Reinsureds or their agents prior to the Closing Date.

22

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**9.2 Specific Matters Not Covered.**

Notwithstanding anything to the contrary in the LPT Reinsurance Agreement or this Retrocession Agreement:

(a) Any liability of Reinsureds for the intentional and malicious acts or omissions after the Closing Date of their own employees, officers, or directors (as so determined by final adjudication after all appeals and the expiration of the time to appeal by any Order, writ, injunction, directive, judgment, or decree of a court of competent jurisdiction) is not within Extra-Contractual Obligations and shall be paid by Reinsureds at their Own Expense.

(b) Any liability of Reinsurer for the intentional and malicious acts or omissions of its employees, officers, or directors (as so determined by final adjudication after all appeals and the expiration of the time to appeal by any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction) is not within Extra-Contractual Obligations and shall be paid by Reinsurer at its Own Expense.

(c) Any liability of NICO or its Affiliates for the intentional and malicious acts or omissions of their employees, officers, or directors (as so determined by final adjudication after all appeals and the expiration of the time to appeal by any Order, writ, injunction, directive, judgment or decree of a court of competent jurisdiction) is not within Extra-Contractual Obligations and shall be paid by NICO and/or the relevant Affiliate at NICO's Own Expense.

**ARTICLE X  
REGULATORY MATTERS**

**10.1 Regulatory Matters.**

(a) If Reinsurer or NICO receives notice of, or otherwise becomes aware of any inquiry, investigation, examination, audit or proceeding by Governmental Authorities (other than Tax Authorities) relating to the Subject Asbestos Liabilities or the reinsurance provided hereunder, Reinsurer or NICO, as applicable, shall promptly notify the other Party thereof, whereupon the Parties shall cooperate to resolve such matter.

(b) If Reinsurer or NICO receives written notice of, or otherwise becomes aware of any enforcement action by any Governmental Authority (other than a Tax Authority) arising out of any inquiry, investigation, examination, audit or proceeding by such Governmental Authority, Reinsurer or NICO, as applicable, shall promptly notify the other Party thereof in writing, and the Parties shall cooperate to resolve such matter.

(c) To the extent required by Applicable Law, this Retrocession Agreement shall not be cancelled or rescinded without the prior written consent of the insurance commissioner of the Commonwealth of Pennsylvania.

23

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**ARTICLE XI  
CONFIDENTIALITY**

**11.1 Confidentiality.**

(a) The Parties (each, the “**Receiving Party**”) hereby covenant and agree, each on behalf of itself and on behalf of its Affiliates, that from and after the date hereof, the Receiving Party and its Affiliates will not disclose, give, sell, use or otherwise divulge any Confidential Information (defined below) of the other Party (the “**Disclosing Party**”) or permit their respective Representatives to do the same, except that each Receiving Party may disclose such Confidential Information or portions thereof (i) if legally compelled to do so or as required in connection with an examination by an insurance regulatory authority, (ii) to the extent necessary for the performance of such Receiving Party’s obligations under this Retrocession Agreement or any other Transaction Document, (iii) the enforcement of the rights of such Receiving Party and its Affiliates under this Retrocession Agreement or any other Transaction Document, (iv) to those of such Receiving Party’s Affiliates, and to their respective Representatives in each case who need to know such information for the foregoing purposes, (v) as required under any Applicable Law, (vi) as required to a Tax Authority to support a position taken on any Tax Return or (vii) as required by the rules of any stock exchange on which the stock of a Receiving Party’s Affiliate is traded. If the Receiving Party or its Affiliates, or any of their respective Representatives become legally compelled to disclose any Confidential Information (other than as required in connection with an examination by an insurance regulatory authority or as required to a Tax Authority to support a position taken on any Tax Return), the Receiving Party shall provide Disclosing Party with prompt written notice of such requirement so that the Disclosing Party may seek a protective order or other remedy or waive compliance with this Section 11.1. In the event that such protective order or other remedy is not obtained, or the Disclosing Party waives compliance with this Section 11.1, the Receiving Party or its Affiliates, as applicable, shall furnish only that portion of Confidential Information which is legally required to be provided and exercise its commercially reasonable efforts to obtain assurances that appropriate confidential treatment will be accorded to the Confidential Information.

(b) The Receiving Party, on behalf of itself and on behalf of its Affiliates and their respective Representatives acknowledges that a breach of its obligations under this Section 11.1 may result in irreparable injury to the Disclosing Party. In the event of the breach by Receiving Party or any of its Affiliates or their respective Representatives of any of the terms and conditions of this Section 11.1 to be performed, the Disclosing Party shall be entitled to the remedies provided in Section 10.1.

(c) For the purposes of this Retrocession Agreement, “**Confidential Information**” means all confidential information (irrespective of the form of such information) of any kind, including any analyses, compilations, data, studies, notes, translations, memoranda or other documents, concerning the Disclosing Party or any of its Affiliates obtained directly or indirectly from the Disclosing Party or any of its Affiliates, or Representatives in connection with the transactions contemplated by this Retrocession Agreement and the other Transaction Documents, including any information regarding the Subject Business and any portions of any of the Transaction Documents that are not public, except information (i) which at the time of the disclosure or thereafter is ascertainable or available to the public (other than as a result of a disclosure directly or indirectly by the Receiving Party or any of its Affiliates, or Representatives), (ii) is or

becomes available to the Receiving Party on a non-confidential basis from a source other than the Disclosing Party or any of its Affiliates, or Representatives, *provided* that, to the knowledge of such Receiving Party, such source was not prohibited from disclosing such information to the Receiving Party by a legal, contractual or fiduciary obligation owed to another Person, (iii) the Receiving Party can establish is already in its possession or the possession of any of its Affiliates, or Representatives (other than information furnished by or on behalf of the Disclosing Party) or (iv) which is independently developed by the Receiving Party or its Affiliates without the use or benefit of any information that would otherwise be Confidential Information.

## **ARTICLE XII** **ERRORS AND OMISSIONS**

### **12.1 Errors and Omissions.**

Inadvertent delays, errors or omissions made in the course of performance of this Retrocession Agreement or any transaction hereunder shall not relieve either Party from any liability which would have attached had such delay, error or omission not occurred, *provided* that such error or omission is rectified promptly after discovery, and *provided, further*, that the Party making such error or omission or responsible for such delay shall be responsible for any additional liability which attaches as a result. If (a) the failure of either Party to comply with any provision of this Retrocession Agreement is unintentional or the result of a misunderstanding or oversight and (b) such failure to comply is promptly rectified, both Parties shall be restored as closely as possible to the positions they would have occupied if no error or oversight had occurred.

## **ARTICLE XIII** **MISCELLANEOUS PROVISIONS**

### **13.1 Notices.**

Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any Party hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on the date received (*provided* that any notice received after 5:00 p.m. (addressee’s local time) shall be deemed given at 9:00 a.m. (addressee’s local time) on the next Business Day), or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following address:

To Reinsurer:

David Fields  
President  
Eaglestone Reinsurance Company  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 551-7214

With a copy to:

Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

If to NICO:

National Indemnity Company  
100 First Stamford Place  
Stamford, CT 06902  
Attention: General Counsel  
Fax: 203-363-5221

With a copy to:

National Indemnity Company  
3024 Harney Street  
Omaha, NE 68131  
Attention: Treasurer  
Fax: 402-916-3030

Any Party may change its notice provisions on fifteen (15) calendar days' advance notice in writing to the other Parties.

### **13.2 Entire Agreement.**

This Retrocession Agreement (including the exhibits hereto), the other Transaction Documents, and any other documents delivered pursuant hereto or thereto, constitute the entire agreement among the Parties and their respective Affiliates with respect to the subject matter hereof and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the Parties with respect to the subject matter hereof and thereof.

### **13.3 Waiver and Amendment.**

This Retrocession Agreement may be amended, superseded, canceled, renewed, or extended, and the terms hereof may be waived, only by an instrument in writing signed by the Parties hereto, or, in the case of a waiver, by the Party waiving compliance, in each case that specifically refers to this [Section 13.3](#). No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. No waiver of any breach of this Retrocession Agreement shall be held to constitute a waiver of any other or subsequent breach.

26

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### **13.4 Successors and Assigns.**

No rights and obligations of a Party under this Retrocession Agreement shall be subject to assignment without the prior written consent of the other Party, and any attempted assignment without the prior written consent of the other Party shall be invalid *ab initio*. The terms of this Retrocession Agreement shall be binding upon, inure to the benefit of and be enforceable by and against the successors and permitted assigns of the Parties.

### **13.5 Headings.**

The headings of this Retrocession Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

### **13.6 Construction; Interpretation.**

Reinsurer and NICO have participated jointly in the negotiation and drafting of this Retrocession Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Retrocession Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Retrocession Agreement. When a reference is made to an Article, Section or Exhibit, such reference shall be to an Article, Section or Exhibit of or to this Retrocession Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Retrocession Agreement, they shall be deemed to be followed by the words "without limitation." The phrase "Retrocession Agreement," means this Retrocession Agreement as amended or supplemented, together with all Exhibits attached hereto or incorporated by reference, and the words "hereof," "herein," "hereto," "hereunder" and other words of similar import shall refer to this Retrocession Agreement in its entirety and not to any particular Article, Section or provision of this Retrocession Agreement. Reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted and then in effect, and all rules and regulations promulgated thereunder. References to a Person are also to its successors and permitted assigns.

### **13.7 Governing Law.**

This Retrocession Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's principles of conflict of laws that could compel the application of the laws of another jurisdiction.

**13.8 No Third Party Beneficiaries.**

Except with respect to the cut-through granted National Union as agent for Reinsureds in Article VI hereof, nothing in this Retrocession Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Retrocession Agreement or any provision contained herein.

**13.9 Counterparts.**

This Retrocession Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the Parties notwithstanding the fact that all Parties are not signatory to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all

27

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of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

**13.10 Severability.**

Any term or provision of this Retrocession Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Retrocession Agreement or affecting the validity or enforceability of any of the terms or provisions of this Retrocession Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. If any provision of this Retrocession Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Retrocession Agreement, the Parties shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the Parties as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

**13.11 Incontestability.**

Each Party hereby acknowledges that this Retrocession Agreement, and each and every provision hereof, is and shall be enforceable according to its terms. Each Party hereby irrevocably waives any right to contest in any respect the validity or enforceability hereof. This Retrocession Agreement shall not be subject to rescission, or to an award of damages, restitution, or reformation in lieu of rescission, on any basis whatsoever, including intentional fraud. Nothing in this Section 13.11 relieves a Party of liability, whether for damages or for specific performance, for breach of this Retrocession Agreement. Nothing herein shall be construed to prevent a claim for damages for intentional fraud in the inducement of this Retrocession Agreement or any of the Transaction Documents, or any of the transactions contemplated hereby or thereby, by either (a) NICO against Eaglestone and/or Reinsureds or by (b) Reinsureds and/or Eaglestone against NICO, *provided, however*, that (i) no such claim shall be brought against any individual but only against the entity or entities on whose behalf such individual acted, (ii) any such claim shall be brought in an arbitration pursuant to Article VIII hereof, and (iii) the measure of damages with respect to any such claim is the difference between the value as represented of the matter allegedly misrepresented and the value under the actual facts.

**13.12 Set-Off.**

There are no common law or other non-contractual rights of set-off available to the Parties with respect to transactions under or relating to the Master Transaction Agreement, this LPT Retrocession Agreement, or any of the other Transaction Documents. The sole and exclusive rights of set-off are those set forth in Section 9.12 of the Master Transaction Agreement.

**13.13 Currency.**

All financial data required to be provided pursuant to the terms of this Retrocession Agreement shall be expressed in Dollars. All payments and all settlements of account between the Parties shall likewise be in Dollars unless otherwise expressly agreed by the Parties in writing. Currency translation, if any, shall take place as provided in the LPT Reinsurance Agreement.

28

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*(The remainder of this page has been intentionally left blank)*

29

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IN WITNESS WHEREOF, the Parties hereby execute this Retrocession Agreement as of the day and year first set forth above.

EAGLESTONE REINSURANCE COMPANY

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[Signature Page to Loss Portfolio Transfer Retrocession Agreement]

**Exhibit E to the  
Master Transaction Agreement**

**THIS PARENTAL GUARANTEE AGREEMENT**, dated as of [ ], 2011 (this "**Parental Guarantee Agreement**"), is made by **Berkshire Hathaway Inc.**, a Delaware corporation ("**Berkshire**") in favor of **Eaglestone Reinsurance Inc.**, a Pennsylvania property and casualty insurance company ("**Eaglestone**") and National Union Fire Insurance Company of Pittsburgh, Pa., for itself and as agent for Reinsureds ("**National Union**"), and with respect to certain obligations of National Indemnity Company, a Nebraska property and casualty insurance company ("**NICO**").

**WITNESSETH:**

**WHEREAS**, pursuant to a Master Transaction Agreement (as amended, modified, and supplemented and in effect from time to time, the "**Master Transaction Agreement**"), dated as of [ ], 2011 among the Reinsureds party thereto, Eaglestone, NICO and Chartis, Inc., Reinsureds and Eaglestone agreed to enter into a loss portfolio reinsurance transaction, pursuant to which Reinsureds will cede certain Subject Asbestos Liabilities and certain other liabilities to Eaglestone;

**WHEREAS**, pursuant to the Master Transaction Agreement, Eaglestone and NICO agreed to enter into a loss portfolio transfer retrocession transaction, pursuant to which Eaglestone will retrocede to the Grantor 100% of the Subject Asbestos Liabilities ceded to Eaglestone by Reinsureds;

**WHEREAS**, the cession by Reinsureds to Eaglestone has been effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Reinsurance Agreement among Reinsureds and Eaglestone, dated as of the date hereof and referenced in the Master Transaction Agreement as the "**LPT Reinsurance Agreement**";

**WHEREAS**, the retrocession by Eaglestone to NICO has been effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Retrocession Agreement between Eaglestone and NICO, dated as of the date hereof and referenced in the Master Transaction Agreement as the "**LPT Retrocession Agreement**";

**WHEREAS**, NICO is a wholly-owned subsidiary of Berkshire and Berkshire shall derive direct or indirect benefit from the transactions contemplated by the Master Transaction Agreement, the LPT Retrocession Agreement and the other Transaction Documents;

**WHEREAS**, in connection with entry into the LPT Retrocession Agreement, NICO and Eaglestone have agreed to enter into a Trust Agreement (the "**Trust Agreement**"), pursuant to which NICO shall create a trust to hold assets as security for the satisfaction of the obligations of NICO to Eaglestone, and in the event of the insolvency of Eaglestone, National Union, for itself and as agent for Reinsureds, under the Transaction Documents; and

**WHEREAS**, to induce the Reinsureds to enter into the transactions contemplated by the Master Transaction Agreement, the LPT Retrocession Agreement and the other Transaction Documents, Berkshire has executed and delivered this Parental Guarantee Agreement;

**NOW, THEREFORE**, in consideration of the foregoing, the covenants and agreements set forth herein, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, and intending to be legally bound hereby, Berkshire, Eaglestone and

National Union (each individually, a "**Party**" and collectively, the "**Parties**") hereby agree as follows:

**ARTICLE I  
DEFINITIONS; CONSTRUCTION**

**Section 1.1 Definitions.** Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the LPT Retrocession Agreement. The following terms shall have the following meanings when used in this Parental Guarantee Agreement:

"**Administrative Services Agreement**" shall have the meaning set forth in the Master Transaction Agreement.

"**Affiliate**" shall have the meaning provided in the Master Transaction Agreement.

"**Agent**" means Eaglestone, in its capacity as agent for the benefit of Reinsureds, together with its successors and assigns.

"**Applicable Interest Rate**" shall have the meaning provided in the LPT Retrocession Agreement.

"**Applicable Law**" shall have the meaning provided in the Master Transaction Agreement.

"**Beneficiary**" means Eaglestone and National Union, *provided* that prior to the occurrence of a Cut-Through Event, National Union shall not be entitled to exercise its rights as a Beneficiary hereunder.

"**Berkshire**" has the meaning set forth in the Preamble and includes successors and permitted assigns.

“**Closing**” shall have the meaning set forth in the Master Transaction Agreement.

“**Collateral**” shall have the meaning provided in the Collateral Trust Agreement.

“**Collateral Obligations**” has the meaning set forth in Section 2.1(a).

“**Collateral Triggering Event**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Collateral Trust Agreement**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Cut-Through Event**” shall have the meaning set forth in the Trust Agreement.

“**Designated Court**” shall have the meaning set forth in the Master Transaction Agreement.

“**Dispute**” shall have the meaning set forth in the Master Transaction Agreement.

“**Eaglestone**” has the meaning set forth in the Preamble and includes successors and permitted assigns.

“**Guaranteed Obligations**” has the meaning set forth in Section 2.1(a).

“**Insolvency Event**” means, in respect of any Person, the occurrence or continuance of any of the following events, acts, occurrences or conditions, whether such event, act, occurrence

2

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or condition is voluntary or involuntary or results from the operation of law or pursuant to or as a result of compliance by that Person with any judgment, decree, order, rule or regulation of any court or administrative or governmental body: (i) that Person shall commence a voluntary case concerning itself under any insolvency laws or otherwise commence any other proceeding under any bankruptcy, rehabilitation, liquidation, conservation, dissolution, reorganization, arrangement, adjustment of debt, relief of debtors, insolvency or similar law of any jurisdiction whether now or hereafter in effect relating to such Person (any of the foregoing, an “**Insolvency Proceeding**”); (ii) an involuntary Insolvency Proceeding is commenced against that Person and such Insolvency Proceeding is not controverted within ten (10) calendar days, or is not dismissed within thirty (30) calendar days, after commencement of the case; (iii) a receiver, rehabilitator, custodian or liquidator is appointed for, or takes charge of, all or substantially all of the property of that Person; (iv) any order for relief or other order approving any such case or proceeding is entered; (v) that Person is adjudicated insolvent or bankrupt; (vi) that Person suffers any appointment of any custodian or the like for it or any substantial part of its property, which appointment continues undischarged or unstayed for a period of thirty (30) calendar days; (vii) that Person makes a general assignment for the benefit of creditors; (viii) that Person shall fail to pay, or shall state that it is unable to pay, or shall be unable to pay, its debts generally as they become due; (ix) that Person shall call a meeting of its creditors with a view of arranging a composition or adjustment of its debts; (x) that Person shall by any act or failure to act consent to, approve of or acquiesce in any of the foregoing; or (xi) any corporate action is taken by such Person for the purpose of effecting any of the foregoing items (i)-(x).

“**Interest**” has the meaning set forth in Section 2.1(b).

“**LPT Reinsurance Agreement**” has the meaning set forth in the Recitals.

“**LPT Retrocession Agreement**” has the meaning set forth in the Recitals.

“**Master Transaction Agreement**” has the meaning set forth in the Recitals.

“**National Union**” has the meaning set forth in the Preamble.

“**NICO**” has the meaning set forth in the Preamble and includes successors and permitted assigns.

“**Parental Guarantee**” has the meaning set forth in Section 2.1(a).

“**Parental Guarantee Agreement**” has the meaning set forth in the Preamble.

“**Party**” or “**Parties**” has the meaning set forth in the Recitals.

“**Person**” shall have the meaning set forth in the Master Transaction Agreement.

“**Proceeds**” means “proceeds” as such term is defined in the UCC.

“**Required Amount**” shall have the meaning set forth in the Trust Agreement.

“**Retro Limit**” shall have the meaning set forth in the LPT Retrocession Agreement.

“**Reinsureds**” shall have the meaning set forth in the LPT Retrocession Agreement.

“**Retrocession Credit Event**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Special Event Trigger**” shall have the meaning set forth in the Administrative Services Agreement.

3

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“**Security Amount**” shall have the meaning set forth in the Trust Agreement.

“**Subject Asbestos Liabilities**” shall have the meaning set forth in the LPT Retrocession Agreement.

“**Subject Business**” shall have the meaning set forth in the LPT Retrocession Agreement.

“**Transaction Documents**” shall have the meaning set forth in the LPT Reinsurance Agreement.

“**Trigger Events**” shall have the meaning set forth in Section 2.1(b).

“**Trust Account**” shall have the meaning set forth in the Trust Agreement.

“**Trust Agreement**” shall have the meaning set forth in the Recitals.

“**Trustee**” shall have the meaning set forth in the Trust Agreement.

“**Ultimate Net Loss**” shall have the meaning provided in the LPT Retrocession Agreement.

## **ARTICLE II** **PARENTAL GUARANTEE**

### **Section 2.1 Parental Guarantee.**

(a) Berkshire hereby unconditionally and irrevocably guarantees (the “**Parental Guarantee**”) NICO’s full and prompt payment and, in the case of the obligations set forth in (ii) and (iii) below (the “**Collateral Obligations**”), performance when due of NICO’s obligations for: (i) the payment of all Ultimate Net Loss due and owing by NICO, pursuant to and in accordance with the applicable provisions of the LPT Retrocession Agreement, subject always to the Retro Limit; (ii) the transfer and assignment of assets into the Trust Account when required, including upon the occurrence of a Collateral Triggering Event or a Retrocession Credit Event, pursuant to and in accordance with the applicable provisions of the LPT Retrocession Agreement and the Trust Agreement; and (iii) the payment of any amounts due and payable to Reinsureds pursuant to Section 15.2(c) of the Administrative Services Agreement if the Administrative Services Agreement is terminated in accordance with Section 15.2(a)(iii) thereof upon the occurrence of a Special Event Trigger as the result of an Insolvency Event with respect to NICO (such obligations, collectively, the “**Guaranteed Obligations**”).

(b) Except as set forth in Article III, Reinsureds shall be entitled to proceed against Berkshire, under this Parental Guarantee Agreement only following the occurrence of a Trigger Event. If NICO, after any of the events listed under (i), (ii) or (iii) below (the “**Trigger Events**”) has occurred, has not timely paid (or, in the case of Collateral Obligations, performed) a Guaranteed Obligation within thirty (30) days after the due date of such Guaranteed Obligation, the Beneficiary may proceed directly and at once, upon written notice to NICO and Berkshire, against Berkshire to obtain payment (or, in the case of Collateral Obligations, performance) of the full amount or any portion of the Guaranteed Obligation that is then due and payable and has not been paid (or, in the case of Collateral Obligations, performed) by NICO, together with interest on any such payments at the Applicable Interest Rate accrued from the applicable due date until the date of such payment (“**Interest**”). Following the occurrence of a Trigger Event, the Beneficiary shall be entitled to so proceed directly against Berkshire without first proceeding against or joining NICO or any other Person. The Trigger Events are as follows:

4

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(i) any dissolution, liquidation, conservation, rehabilitation, bankruptcy, statutory reorganization, receivership, compulsory composition or similar statutory or delinquency proceeding involving NICO;

(ii) a final arbitration award, court order, decision or judgment with no appeal or stay pending (A) has been issued against NICO in favor of a Reinsured under the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement and remains unpaid (or, in the case of Collateral Obligations, unperformed) by NICO, or (B) has been issued against a Reinsured with respect to a claim in respect of the Subject Asbestos Liabilities that NICO has acknowledged in writing its obligation to pay and such claim remains unpaid by NICO; or

(iii) NICO has acknowledged in writing its obligation to pay (or, in the case of Collateral Obligations, perform) a Guaranteed Obligation and such Guaranteed Obligation remains due and unpaid (or, in the case of Collateral Obligations, unperformed) by NICO.

(c) The Parental Guarantee is a guarantee of payment (or, in the case of Collateral Obligations, performance) and not of collection merely, and upon the occurrence of a Trigger Event and any failure of NICO to pay (or, in the case of Collateral Obligations, perform) a Guaranteed Obligation as set forth above any Beneficiary, may, at its option, proceed directly and at once, with written notice, against Berkshire to collect and recover the full amount of NICO’s liability to pay (or, in the case of Collateral Obligations, perform) such Guaranteed Obligation (or any portion thereof) then due and owing, together with any applicable Interest, and otherwise enforce the Collateral Obligations. The Parental Guarantee is a continuing guaranty and the obligations of Berkshire hereunder are and shall be absolute under any and all circumstances, irrespective of, and Berkshire hereby waives, any defense it may have relating to: (i) any lack of validity, regularity or enforceability of this Parental Guarantee Agreement, the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement, (ii) any change in time or place of payment of or other term of the Guaranteed Obligation, or any other amendment or waiver of or consent to departure from this Parental Guarantee Agreement, the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement, (iii) except with respect to whether a Trigger Event has occurred, any change, restructuring or termination of the corporate structure or existence of NICO, or any dissolution, liquidation, conservation, rehabilitation, bankruptcy, statutory reorganization, receivership, compulsory composition, or similar statutory or delinquency proceeding affecting NICO or any of its assets or any resulting release or discharge of any obligation of NICO under the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement or (iv) in the case of a Trigger Event of the type described in Section 2.1(b)(ii) or Section 2.1(b)(iii), any defense, set-off or other circumstance which might otherwise constitute a defense available to Berkshire or, except as to set-offs, to NICO. Notwithstanding anything contained herein to the contrary, nothing in this Parental Guarantee Agreement shall preclude Berkshire from asserting a valid claim or valid defense to the effect that the Guaranteed Obligation has been paid, discharged or satisfied in full in accordance with the terms of the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement, as applicable. Except as otherwise expressly set forth in this Parental Guarantee Agreement, Berkshire hereby expressly waives promptness, diligence, demand, notice of dishonor, non-payment, non-performance or other default with respect to the Guaranteed Obligations, or any requirements that any right or power be exhausted or any action taken

against NICO. To the extent that Berkshire shall have made any payments under this Parental Guarantee Agreement, any rights to subrogation which Berkshire may have as a result of any such payment shall be deferred, postponed and subordinated to the prior indefeasible payment in full of the Guaranteed Obligations. If all or any part payment applied to the Guaranteed Obligation is or must be recovered, rescinded or returned to NICO, Berkshire or any other Person because of a dissolution, liquidation, conservation, rehabilitation, bankruptcy, statutory reorganization, receivership, compulsory composition, or similar proceeding affecting any Party, such Guaranteed Obligation shall be deemed to have continued in existence and this Parental Guarantee Agreement shall continue in effect as to such Guaranteed Obligation, all as though such payment had not been made.

(d) Berkshire shall pay on demand all fees and out-of-pocket expenses (including reasonable attorneys' fees and expenses) incurred by the Beneficiary in any way relating to the successful enforcement of the rights of the Beneficiary hereunder. The Beneficiary shall pay on demand all fees and out-of-pocket expenses (including reasonable attorneys' fees and expenses) incurred by Berkshire in any way relating to its defense of an unsuccessful action by the Beneficiary hereunder. Notwithstanding anything to the contrary in this Section 2.1(d), the Beneficiary shall not be entitled to be reimbursed hereunder for the costs or out-of-pocket expenses incurred in connection with any notice or demand required under Section 2.1(b) to the extent that such demand is not disputed or objected to by Berkshire.

(e) For the avoidance of doubt, but subject to Section 2.1(d), the payment (or, in the case of Collateral Obligations, performance) of a Guaranteed Obligation by Berkshire pursuant to this Parental Guarantee Agreement shall be deemed to satisfy NICO's obligation to perform or pay such Guaranteed Obligation for any purpose, including under the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement, as applicable. None of Eaglestone or Reinsureds shall be entitled to obtain payment (or, in the case of Collateral Obligations, performance) of a Guaranteed Obligation from NICO under the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement or withdraw funds from the Trust Account or any replacement or successor thereof or substitution therefor to satisfy a Guaranteed Obligation to the extent that such Guaranteed Obligation has theretofore been paid or performed in full by Berkshire under this Parental Guarantee Agreement. In furtherance of the foregoing, Eaglestone and Reinsureds hereby agree that any amounts paid by Berkshire under this Parental Guarantee Agreement shall be in satisfaction of any amounts due and payable (but unpaid) by NICO under the LPT Retrocession Agreement, the Trust Agreement or the Administrative Services Agreement, as applicable.

(f) Berkshire waives any and all rights of subrogation to NICO's rights with respect to the Trust Account and any claims it may have with respect thereto now or in the future and whether by reason of any payment made by it of a Guaranteed Obligation or otherwise.

### **ARTICLE III** **REMEDIES; RIGHTS UPON DEFAULT, INSOLVENCY, ETC.**

**Section 3.1 Insolvency Event.** Upon the occurrence and continuance of an Insolvency Event of Berkshire, Beneficiary may proceed directly against Berkshire, independent of the existence or non-existence of a Trigger Event at such time. For the avoidance of doubt, for purposes of this Section 3.1, the Guaranteed Obligations with respect to the Trust Account shall include the obligation to contribute to the Trust Account the amounts necessary to satisfy the payment

and performance obligations under the Trust Agreement with respect to the Security Amount or the Required Amount applicable to the Trust Account in effect at the time of the Insolvency Event of Berkshire and thereafter.

### **ARTICLE IV** **DISPUTE RESOLUTION; ARBITRATION**

#### **Section 4.1 Arbitration of Disputes Not Resolved by Negotiation.**

All Disputes arising under or in any way related to this Parental Guarantee Agreement, specifically including without limitation disputes concerning alleged fraud in the inducement hereof or other wrongful pre-Closing conduct shall, to the extent not resolved by negotiation between the Parties, be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the dispute. Any Person that is a Party to any of the Transaction Documents shall have an absolute right to intervene in any such arbitration.

#### **Section 4.2 Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation.**

(a) The procedures for the arbitration and for the mandatory pre-arbitration negotiation are set forth in Article VIII of the Master Transaction Agreement, which is hereby incorporated herein. Arbitration hereunder shall be conducted in Philadelphia, Pennsylvania.

(b) In considering any relief to be awarded, the arbitrators (and the Designated Court, as appropriate) shall take into account the Parties' view that the nature and uniqueness of the relationships created under the Transaction Documents as a whole render specific performance the remedy of choice where it is possible to implement that remedy.

#### **Section 4.3 Permitted Judicial Proceedings.**

The only permitted judicial proceedings relating to any Dispute are those set forth in, and are subject to the exclusive jurisdiction provisions of, Section 8.5 of the Master Transaction Agreement. Each Party finally and irrevocably waives any right to trial by jury of any matter or issue in such a permitted judicial proceeding.

### **ARTICLE V** **MISCELLANEOUS PROVISIONS**

**Section 5.1 Entire Agreement.** This Parental Guarantee Agreement, the LPT Retrocession Agreement and the Transaction Documents and any other documents delivered pursuant hereto or thereto, constitute the entire agreement among the Parties and their respective Affiliates with respect to the subject matter hereof and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the Parties with respect to the subject matter hereof and thereof.

**Section 5.2 Waiver and Amendment.** This Parental Guarantee Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by an instrument in writing signed by the Parties hereto, or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. No waiver of any breach of this Parental Guarantee Agreement shall be held to constitute a waiver of any other or subsequent breach.

7

**Section 5.3 Successors and Assigns.** The rights and obligations of the Parties under this Parental Guarantee Agreement shall not be subject to assignment without the prior written consent of the other Parties, and any attempted assignment without the prior written consent of the other Parties shall be invalid *ab initio*. The terms of this Parental Guarantee Agreement shall be binding upon, inure to the benefit of and be enforceable by and against the successors and permitted assigns of the Parties.

**Section 5.4 Construction; Interpretation.** The Parties have participated jointly in the negotiation and drafting of this Parental Guarantee Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Parental Guarantee Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Parental Guarantee Agreement. When a reference is made to a Section such reference shall be to a Section of this Parental Guarantee Agreement unless otherwise indicated. Whenever the words “include”, “includes” or “including” are used in this Parental Guarantee Agreement, they shall be deemed to be followed by the words “without limitation.” The term “Parental Guarantee Agreement,” means this Parental Guarantee Agreement as amended or supplemented, and the words “hereof,” “herein,” “hereto,” “hereunder” and other words of similar import shall refer to this Parental Guarantee Agreement in its entirety and not to any particular Section or provision of this Parental Guarantee Agreement. Reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, and all rules and regulations promulgated thereunder. References to a Person are also to its successors and permitted assigns.

**Section 5.5 Governing Law and Jurisdiction.** This Parental Guarantee Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts entered into therein, without reference to principles of choice of law or conflicts of laws that would require the application of the law of another jurisdiction.

**Section 5.6 No Third Party Beneficiaries.** Nothing in this Parental Guarantee Agreement is intended or shall be construed to give any Person, other than the Parties hereto, any legal or equitable right, remedy or claim under or in respect of this Parental Guarantee Agreement or any provision contained herein.

**Section 5.7 Counterparts.** This Parental Guarantee Agreement may be executed by the Parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the Parties notwithstanding the fact that all Parties are not signatory to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

**Section 5.8 Severability.** Any term or provision of this Parental Guarantee Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Parental Guarantee Agreement or affecting the validity or enforceability of any of the terms or provisions of this Parental Guarantee Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. If any provision of this Parental

8

Guarantee Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Parental Guarantee Agreement, the Parties shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the Parties as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

**Section 5.9 Specific Performance.** Each of the Parties acknowledges and agrees that the other Party would be irreparably damaged in the event that any of the provisions of this Parental Guarantee Agreement were not performed or complied with in accordance with their specific terms or were otherwise breached, violated or unfulfilled. Accordingly, each of the Parties agrees that the other Party shall be entitled to an injunction or injunctions to prevent noncompliance with, or breaches or violations of, the provisions of this Parental Guarantee Agreement by the other Party and to enforce specifically this Parental Guarantee Agreement and the terms and provisions hereof in any action instituted in accordance with Section 5.5, in addition to any other remedy to which such Party may be entitled, at law or in equity. In the event that any action is brought in equity to enforce the provisions of this Parental Guarantee Agreement, no Party will allege, and each Party hereby waives the defense or counterclaim, that there is an adequate remedy at law. The Parties further agree that (i) by seeking the remedies provided for in this Section 5.9, a Party shall not in any respect waive its right to seek any other form of relief that may be available to a Party under this Parental Guarantee Agreement, including monetary damages in the event that this Parental Guarantee Agreement has been terminated or in the event that the remedies provided for in this Section 5.9 are not available or otherwise are not granted and (ii) nothing contained in this Section 5.9 shall require any Party to institute any action for (or limit any Party’s right to institute any action for) specific performance under this Section 5.9 before exercising any other remedies under this Parental Guarantee Agreement that may be available then or thereafter nor shall the commencement of any action pursuant to this Section 5.9 or anything contained in this Section 5.9 restrict or limit any Party’s right to pursue any other remedies under this Parental Guarantee Agreement that may be available then or thereafter.

**Section 5.10 Incontestability.** Each Party hereby acknowledges that this Parental Guarantee Agreement, and each and every provision hereof, is and shall be enforceable according to its terms. Each Party hereby irrevocably waives any right to contest in any respect the validity or enforceability hereof. This Parental Guarantee Agreement shall not be subject to rescission, or to an award of damages, restitution, or reformation in lieu thereof, on any basis whatsoever, including intentional fraud.

**Section 5.11 Notice.** Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any Party hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on the date received (*provided* that any notice received after 5:00 p.m. (addressee's local time) shall be deemed given at 9:00 a.m. (addressee's local time) on the next Business Day), or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following address:

9

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To Eaglestone: David Fields  
President  
Eaglestone Reinsurance Company  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 551-7214

With a copy to: Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To National Union: General Counsel  
National Union Fire Insurance Company of Pittsburgh, Pa.  
175 Water Street  
New York, NY 10038  
Fax: [ ]

With a copy to: Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

To Berkshire: Berkshire Hathaway Inc.  
3555 Farnam Street  
Suite 1440  
Omaha, NE 68131  
Attention: Chief Financial Officer  
Fax: (402) 346-3375

To NICO: National Indemnity Company  
100 First Stamford Place  
Stamford, Connecticut 06902  
Attention: General Counsel  
Fax: (203) 363-5221

With a copy to: National Indemnity Company  
3024 Harney Street  
Omaha, NE 68131  
Attention: Treasurer  
Fax: (402) 916-3030

Any of Eaglestone, Berkshire or NICO may change its notice provisions hereunder on fifteen (15) calendar days' advance notice in writing to each of such other Persons.

10

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IN WITNESS WHEREOF, the Parties hereby execute this Parental Guarantee Agreement as of the day and year first set forth above.

BERKSHIRE HATHAWAY INC.

By: \_\_\_\_\_  
Name:  
Title:

EAGLESTONE REINSURANCE INC.

By: \_\_\_\_\_  
Name:  
Title:

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.

By: \_\_\_\_\_  
Name:  
Title:

NATIONAL INDEMNITY COMPANY

By: \_\_\_\_\_  
Name:  
Title:

[Signature Page to Parental Guarantee Agreement]

Exhibit F to the  
Master Transaction Agreement

CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
EAGLESTONE REINSURANCE COMPANY

This Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of [ , 2011], by and between American International Group Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Eaglestone Reinsurance Company, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of Pennsylvania (the "Domiciliary State"); and

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in maintaining and enhancing the Company's financial condition, including in respect of the Company's rights and obligations under that certain Loss Portfolio Transfer Retrocession Agreement, dated the date hereof, between the Company, as retrocedent, and National Indemnity Company ("NICO"), as retrocessionaire (the "LPT Retrocession Agreement").

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital falls below 225% of the Company's Authorized Control Level RBC, as shown in any of the Company's annual filed statutory financial statements or quarterly reports provided pursuant to Paragraph 3 of this Agreement, subject to any adjustments or modifications thereto required, permitted and/or allowed by the Domiciliary State's insurance department or the Company's independent auditors, AIG shall, within sixty (60) days of written notice thereof from the Company or NICO pursuant to the terms of this Agreement, and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify as admitted assets for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount equal to the

difference between the Company's Total Adjusted Capital and 225% of the Company's Authorized Control Level RBC.

2. For the avoidance of doubt, the terms "Total Adjusted Capital" and "Authorized Control Level RBC" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC").
3. During the term of the LPT Retrocession Agreement, the Company shall furnish to NICO, (i) within forty-five (45) days after each of the first, second and third calendar quarter close, a report (a "TAC Quarterly Report") certified by an officer of the Company setting forth, as of each such quarter-end: (a) the Company's good faith best estimate of its Total Adjusted Capital; (b) the Company's good faith best estimate of its Authorized Control Level; and (c) the ratio of the Company's good faith best estimate of its Total Adjusted Capital to the Company's good faith best estimate of its Authorized Control Level, and (ii) within sixty (60) days after each calendar year-end, a report (a "TAC Annual Report") certified by an officer of the Company setting forth, as of such year-end: (a) the Company's Total Adjusted Capital; (b) the Company's Authorized Control Level; and (c) the ratio of the Company's Total Adjusted Capital to the Company's Authorized Control Level. In the event any TAC Quarterly Report or any TAC Annual Report indicates that the Company's Total Adjusted Capital is below 225% of the Company's Authorized Control Level RBC, the Company shall include with such report a copy of the Company's written notice to AIG of such event as contemplated by Paragraph 1 of this Agreement. If such notice is not included where so required by this Paragraph, NICO shall be entitled to deliver such notice on behalf of the Company. In the event that NICO does not receive a TAC Quarterly Report or TAC Annual Report from the Company within the time period set forth in this Paragraph, NICO may deliver notice to the Company advising of same and the Company shall be obligated to provide the report to NICO promptly, but in no event later than fifteen (15) days after receipt of the notice from NICO.
4. At the time that any contribution is due under Paragraph 1, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. All contributions contemplated under this Agreement shall be approved and made, as applicable, in compliance with applicable law, including, without

2

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limitation, any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.

5. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG, *provided, however*, that the Company's failure to comply with the requirements of this Paragraph shall not affect AIG's obligations under this Agreement.
6. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
7. In its capacity as retrocessionaire of the Company under the LPT Retrocession Agreement, and only in such capacity, NICO shall, prior to the termination of this Agreement, have the right to demand that the Company enforce the Company's rights under Paragraph 1 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights, NICO may proceed directly against AIG to enforce the Company's rights under Paragraph 1 of this Agreement; *provided, however*, that NICO may not take any action authorized under this Paragraph unless and until (a) NICO has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this Paragraph, which notice shall specify in reasonable detail the nature of and basis for NICO's complaint and (b) AIG has failed to comply with this Agreement within thirty (30) days after such notice is given; and, *provided further*, upon termination of the LPT Retrocession Agreement, the rights of NICO under this Agreement shall terminate effective as of the date of such termination. For the avoidance of doubt, NICO shall have no rights under this Agreement other than as expressly provided herein.
8. Absent the prior written consent of NICO, this Agreement may not be terminated until such time that the LPT Retrocession Agreement is terminated. Following the termination of the LPT Retrocession Agreement, this Agreement may be terminated by AIG on thirty (30) days prior written notice to the Company or at any time as mutually agreed by AIG and the Company.
9. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not

3

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provide, and is not intended to be construed or deemed to provide, NICO with recourse to or against any of the assets of AIG, *provided, however*, that nothing in this Paragraph shall limit NICO's rights as they are set forth in this Agreement.

10. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Treasurer

with a copy (which shall not constitute notice) to:

American International Group, Inc.  
80 Pine Street  
New York, New York 10038  
Attention: Secretary

If to the Company:

Eaglestone Reinsurance Company  
175 Water Street  
New York, New York 10038  
Attention: Treasurer

with a copy (which shall not constitute notice) to:

Eaglestone Reinsurance Company  
175 Water Street  
Attention: Secretary

11. Other than as expressly provided herein, this Agreement does not provide, and is not intended to be construed or deemed to provide, any rights to any third party.
12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.

4

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13. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. Until such time that the LPT Retrocession Agreement is terminated, this Agreement may not be amended without written agreement or instrument signed by the parties hereto and NICO. Following the termination of the LPT Retrocession Agreement, this Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

5

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

Capital Maintenance Agreement Signature Page

Exhibit H to the  
Master Transaction Agreement

**TRANSITION SERVICES AGREEMENT**

**by and between**

**AMERICAN HOME ASSURANCE COMPANY**  
**CHARTIS CASUALTY COMPANY**  
(f/k/a American International South Insurance Company)  
**CHARTIS PROPERTY CASUALTY COMPANY**  
(f/k/a AIG Casualty Company)  
**COMMERCE AND INDUSTRY INSURANCE COMPANY**  
**GRANITE STATE INSURANCE COMPANY**  
**ILLINOIS NATIONAL INSURANCE CO.**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
**NEW HAMPSHIRE INSURANCE COMPANY**  
**THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA**  
**CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)  
**CHARTIS SPECIALTY INSURANCE COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)  
**LANDMARK INSURANCE COMPANY**  
**LEXINGTON INSURANCE COMPANY**  
**AIU INSURANCE COMPANY**  
**AMERICAN INTERNATIONAL REINSURANCE COMPANY, LTD.**  
*and*  
**AMERICAN HOME ASSURANCE COMPANY**  
**NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.**  
**NEW HAMPSHIRE INSURANCE COMPANY**  
**CHARTIS OVERSEAS LIMITED**  
*acting as members of the Chartis Overseas  
Association as respects business written or  
assumed by or from affiliated companies of  
Chartis Inc.*  
(collectively, "**Reinsureds**")

**and**

**NATIONAL INDEMNITY COMPANY**  
(**"NICO"**)

Dated as of [ ] 2011

**TABLE OF CONTENTS**

ARTICLE I DEFINITIONS	2
Section 1.1 Definitions	2
ARTICLE II SERVICES	3
Section 2.1 Services	3
Section 2.2 Discontinuation or Reduction of Services	4
Section 2.3 Standard of Performance	6
Section 2.4 Cooperation and Access	6
Section 2.5 Independent Contractor	7
Section 2.6 Documentation	7
Section 2.7 Change Requests	7



ARTICLE III FEES AND PAYMENT		8
Section 3.1	Fees	8
Section 3.2	Payment	8
Section 3.3	Disputes	9
Section 3.4	Audit and Inspection Rights	9
ARTICLE IV RECORDS		9
ARTICLE V MIGRATION PLAN		9
Section 5.1	Migration	9
ARTICLE VI TRANSITION SERVICES MANAGERS AND DISPUTE RESOLUTION		10
Section 6.1	Transition Services Manager	10
Section 6.2	Dispute Resolution	10
Section 6.3	Arbitration of Disputes Not Resolved by Negotiation	11
Section 6.4	Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation	11
Section 6.5	Permitted Judicial Proceedings	11
ARTICLE VII INTELLECTUAL PROPERTY		11
Section 7.1	Ownership of Work Product	11
Section 7.2	Consents	11
ARTICLE VIII TERM AND TERMINATION		12
Section 8.1	Term	12
Section 8.2	Termination Due to Termination of the Administrative Services Agreement	12
Section 8.3	Termination of Services	12
Section 8.4	Survival	12
ARTICLE IX INDEMNITY		12
Section 9.1	Indemnity	12
Section 9.2	Procedures	12
ARTICLE X CONFIDENTIALITY; PRIVACY REQUIREMENTS		13
Section 10.1	Confidentiality and Privacy	13
Section 10.2	Disaster Recovery	13
ARTICLE XI FORCE MAJEURE		13
Section 11.1	Force Majeure Event	13
ARTICLE XII MISCELLANEOUS		14

Section 12.1	Notices	14
Section 12.2	Entire Agreement	15
Section 12.3	Waiver and Amendment	15
Section 12.4	Successors and Assigns	15
Section 12.5	Headings	16
Section 12.6	Construction; Interpretation	16
Section 12.7	Governing Law and Jurisdiction	16
Section 12.8	No Third Party Beneficiaries	16
Section 12.9	Counterparts	16
Section 12.10	Severability	17
Section 12.11	Incontestability	17
Section 12.12	Set-Off	17
Section 12.13	Currency	17

LIST OF SCHEDULES

Schedule 2.1	Scheduled Services
Schedule 3.1	Fees
Schedule 5.1	Migration Plan
Schedule 6.1(a)	Direct Transition Services Managers
Schedule 6.1(b)	Reinsurance Transition Services Manager
Schedule 6.2	Senior Officers

TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT (hereinafter referred to as this “**Transition Services Agreement**”), dated as of \_\_\_\_\_, 2011, is made and entered into by and between Reinsureds, as defined in the Master Transaction Agreement, and National Indemnity Company, a Nebraska property and casualty insurance company (with its successors and permitted assigns, “**NICO**”), NICO and the Reinsureds each being a “**Party**” and collectively the “**Parties.**”

**WITNESSETH:**

**WHEREAS**, pursuant to a Master Transaction Agreement (as amended, modified, and supplemented and in effect from time to time, the “**Master Transaction Agreement**”), dated as of \_\_\_\_\_, 2011 among the Parties, and Eaglestone Reinsurance Company, a Pennsylvania property and casualty insurance company and an Affiliate of Reinsureds (with its successors and permitted assigns, “**Eaglestone**”), Reinsureds and Eaglestone agreed to enter into a loss portfolio reinsurance transaction, pursuant to which Reinsureds will cede, and Eaglestone will assume and reinsure, certain Subject Asbestos Liabilities and certain other liabilities to Eaglestone; and

**WHEREAS**, pursuant to the Master Transaction Agreement, Eaglestone and NICO agreed to enter into a loss portfolio transfer retrocession transaction, pursuant to which Eaglestone will retrocede to NICO, and NICO will assume and reinsure, 100% of the Subject Asbestos Liabilities ceded to Eaglestone by Reinsureds; and

**WHEREAS**, the cession by Reinsureds to Eaglestone has been effected by and pursuant to the terms and conditions of an Amended and Restated Loss Portfolio Transfer Reinsurance Agreement among Reinsureds and Eaglestone, dated as of the date hereof and referenced in the Master Transaction Agreement as the “**LPT Reinsurance Agreement**”; and

**WHEREAS**, the retrocession by Eaglestone to NICO has been effected by and pursuant to the terms and conditions of a Loss Portfolio Transfer Retrocession Agreement between Eaglestone and NICO, dated as of the date hereof and referenced in the Master Transaction Agreement as the “**LPT Retrocession Agreement**”; and

**WHEREAS**, the Parties hereto have also entered into that certain “**Administrative Services Agreement**” whereby NICO shall perform certain administrative functions on behalf of Reinsureds from and after the date hereof with respect to the Subject Asbestos Liabilities, and the Parties have agreed to enter into this Transition Services Agreement as a condition of Eaglestone and NICO’s entering into the LPT Retrocession Agreement, and

**WHEREAS**, in order for NICO to be able to perform its obligations under the Administrative Services Agreement, certain administrative functions need to be transitioned and certain knowledge about the Subject Asbestos Liabilities needs to be transferred to NICO, and the Parties have agreed to enter into this Transition Services Agreement as a condition of entering into the Administrative Services Agreement; and

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**NOW, THEREFORE**, for and in consideration of these premises and the promises and the mutual agreements hereinafter set forth and set forth in the Master Transaction Agreement, the LPT Reinsurance Agreement, the LPT Retrocession Agreement and the Administrative Services Agreement, the Parties agree as follows:

## **ARTICLE I DEFINITIONS**

### **Section 1.1**      Definitions

All capitalized terms not otherwise defined in this Transition Services Agreement shall have the meaning given them under the Master Transaction Agreement or the Administrative Services Agreement, as applicable. The following terms have the respective meanings set forth below throughout this Transition Services Agreement:

“**Additional Services**” has the meaning set forth in Section 2.1(c).

“**Administrative Services Agreement**” has the meaning set forth in the Recitals.

“**Change Request**” has the meaning set forth in Section 2.7(a).

“**Change Request Charges**” has the meaning set forth in Section 2.7(b).

“**Confidential Information**” has the meaning set forth in the Administrative Services Agreement.

“**Direct Transition Services Manager**” has the meaning set forth in Section 6.1.

“**Eaglestone**” has the meaning set forth in the Recitals.

“**Evaluation Report**” has the meaning set forth in Section 2.7(b).

“**Extended Term**” has the meaning set forth in Section 8.1.

“**Force Majeure Event**” has the meaning set forth in Section 11.1.

“**Guest User**” means any Party that is given access (in such capacity) to the other Party’s computer system(s), software, datasets and databases.

“**Hourly Rates**” has the meaning set forth in the Administrative Services Agreement.

“**Indemnified Damages**” has the meaning set forth in Section 9.1.

“**Initial Term**” has the meaning set forth in Section 8.1.

“**LPT Reinsurance Agreement**” has the meaning set forth in the Recitals.

“**LPT Retrocession Agreement**” has the meaning set forth in the Recitals.

“**Master Transaction Agreement**” has the meaning set forth in the Recitals.

“**Migration Plan**” has the meaning set forth in Section 5.1.

“**Migration Services**” has the meaning set forth in Section 2.1(b).

“**NICO**” has the meaning set forth in the Preamble.

“**Party**” has the meaning set forth in the Preamble.

“**Pass-Through Expenses**” has the meaning set forth in Section 3.1(a)(ii).

“**Reinsurance Transition Services Manager**” has the meaning set forth in Section 6.1.

“**Required Data**” has the meaning set forth in Section 2.1(b).

“**Scheduled Services**” has the meaning set forth in Section 2.1(a).

“**Senior Officers**” has the meaning set forth in Section 6.2.

“**Term**” has the meaning set forth in Section 8.1.

“**Third Party Consent**” has the meaning set forth in Section 7.2.

“**Transaction Documents**” shall have the meaning provided in the LPT Retrocession Agreement.

“**Transition Services**” has the meaning set forth in Section 2.1(a).

“**Transition Services Agreement**” has the meaning set forth in the Preamble.

“**Transition Services Manager**” has the meaning set forth in Section 6.1.

“**Transition Services Providers**” has the meaning set forth in Section 2.1(a).

“**TSA Monthly Invoice**” has the meaning set forth in Section 3.2(a).

“**Work Product**” has the meaning set forth in Section 7.1.

## ARTICLE II SERVICES

### Section 2.1 Services

(a) Subject to the terms and conditions set forth herein, Reinsureds shall cause to be provided through themselves, their Affiliates, their respective employees, agents or contractors

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or any Subcontractors (collectively, including Reinsureds, “**Transition Services Providers**”), to NICO and its Affiliates those services as set forth on Schedule 2.1 hereto (the “**Scheduled Services**,” and collectively, including the Migration Services and any Additional Services (each as defined below), the “**Transition Services**”). The corresponding fees for the Scheduled Services shall be set forth in Schedule 2.1.

(b) Without limiting Section 2.1(a), Reinsureds shall make knowledgeable personnel available to consult and advise NICO, its Affiliates and its and their contractors regarding the location, form, format and content of all data, databases and information that NICO and its Affiliates may reasonably require to transition administration of the Subject Asbestos Liabilities for which NICO is responsible under the Administrative Services Agreement from Reinsureds’ systems, processes and procedures employed in the administration of the Subject Asbestos Liabilities prior to the Closing Date to systems, processes and procedures used by NICO and cause to be performed such other acts requested by NICO as are reasonably necessary or desirable to accomplish the objectives set forth in the Migration Plan (all of the foregoing, collectively, the “**Migration Services**”). For the avoidance of doubt, “Migration Services” shall include those services reasonably necessary to deliver to NICO, for its use on its own systems, all customer data related to the Subject Asbestos Liabilities and any additions and modifications made thereto in the course of performing or receiving the Transition Services (the “**Required Data**”); provided that Reinsureds shall bear the costs of any modification to their own systems made to enable extraction of Required Data.

(c) At any time during the Term, NICO may provide a written request to the applicable Reinsureds’ Transition Services Manager that Reinsureds cause to be provided to NICO and/or its Affiliates services that were not set forth in Schedule 2.1 but are reasonably related to enabling NICO’s performance of its obligations under the Administrative Services Agreement (each, an “**Additional Service**”). To the extent that NICO has offered commercially reasonable terms, Reinsureds agree to provide or cause to be provided such Additional Services substantially on such terms and such other fair and reasonable terms as are negotiated in good faith by the Parties; provided, that the fees payable by NICO for any Additional Services shall be set at the Transition Services Provider’s Hourly Rates. All such Additional Services shall be deemed to be Transition Services hereunder, and Schedules 2.1 and 3.1 shall be deemed amended to include such Additional Services and any fees payable in relation thereto.

(d) Notwithstanding any other provision hereof, Reinsureds shall not under any circumstances be required to provide NICO with direct access to Reinsureds’ systems, whether by electronic interface or otherwise, so that, without limitation, NICO shall never be a Guest User on Reinsureds’ systems.

**Section 2.2** Discontinuation or Reduction of Services.

(a) NICO may, for any reason or no reason, (i) discontinue receiving any Transition Services Provided hereunder or (ii) materially reduce the amount or volume of a Transition Service, in each case (or, if applicable, for each material reduction) by giving Reinsureds at least thirty (30) days' prior written notice (unless the Parties mutually agree in writing on a period of notice shorter than thirty (30) days), which notice shall specify the date as of which such Transition

4

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Service shall be discontinued or materially reduced and, in the case of a material reduction, shall specify the amount or volume of the reduction of the Transition Service.

(b) NICO shall use commercially reasonable efforts to assume responsibility for all claims handling with respect to the Subject Asbestos Liabilities (excluding any payment and funding obligations) in accordance with the Administrative Services Agreement within ninety (90) days of the Closing Date and no later than 120 days following the Closing Date unless the Parties mutually agree to a longer period of time or unless Reinsureds have failed in a material respect to provide the Transition Services. Notwithstanding any provision in Section 2.2(a), (i) NICO's Direct Transition Services Manager shall provide ten (10) days' prior written notice of the date on which NICO and its Affiliates are ready to assume the obligations under the Administrative Services Agreement related to direct insurance for the Subject Asbestos Liabilities (but excluding any payment and funding obligations) and (ii) NICO's Reinsurance Transition Services Manager shall provide ten (10) days' prior written notice of the date on which NICO and its Affiliates are ready to assume the obligations under the Administrative Services Agreement related to reinsurance for the Subject Asbestos Liabilities (but excluding any payment and funding obligations). In each case, upon the date specified in the applicable notice, the Scheduled Services (and any other Transition Services identified in the notice) related to claims handling (other than with respect to payment and funding of claims) shall terminate.

(c) NICO shall use commercially reasonable efforts to assume responsibility for all payment and funding obligations with respect to the Subject Asbestos Liabilities in accordance with the Administrative Services Agreement within one (1) year of the Closing Date and no later than the end of the Term unless the Parties mutually agree to a longer period of time or unless Reinsureds have failed in a material respect to provide the Transition Services. Notwithstanding any provision in Section 2.2(a), (i) NICO's Direct Transition Services Manager shall provide ten (10) days' prior written notice of the date on which NICO and its Affiliates are ready to assume the obligations under the Administrative Services Agreement related to payment and funding obligations with respect to direct insurance for the Subject Asbestos Liabilities and (ii) NICO's Reinsurance Transition Services Manager shall provide ten (10) days' prior written notice of the date on which NICO and its Affiliates are ready to assume the obligations under the Administrative Services Agreement related to the payment and funding obligations with respect to reinsurance for the Subject Asbestos Liabilities. In each case, upon the date specified in the applicable notice, the Scheduled Services (and any other Transition Services identified in the applicable notice) related to claims handling shall terminate.

(d) Upon discontinuation of a Transition Service in accordance with this Section 2.2, Schedule 2.1 shall be deemed amended to delete such Transition Service as of such date, and, subject to Section 8.4, this Transition Services Agreement shall be of no further force and effect for such Transition Service, except as to obligations arising out of the Parties' performance hereunder through the date of discontinuation of such services.

(e) The measure of damages for any delay caused by a failure of Reinsureds to provide Transition Services in accordance with the terms of this Transition Services Agreement (including Section 2.3) shall be the increased out-of-pocket costs (including personnel and overhead costs, but excluding lost profits or consequential damages) to NICO, if any, occasioned by the

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failure. NICO and its Affiliates shall not be relieved of their obligations under the Administrative Services Agreement by reason of such failure except to the extent that such failure renders NICO's performance commercially impracticable, and then only to the extent caused by such failure and only until such time as the commercial impracticability has been cured.

**Section 2.3** Standard of Performance.

(a) With respect to the Scheduled Services, Reinsureds shall perform, and shall cause the Transition Services Providers to perform, the Transition Services provided for hereunder in substantially the same manner, and with the same level of care and controls, as they previously performed such services for themselves, and at substantially the same standards of performance consistent with their practices for providing such services in effect during the twelve (12) months immediately preceding Inception, but in no event in less than a professional, competent and workmanlike manner.

(b) With respect to all Transition Services other than Scheduled Services, Reinsureds shall cause the Transition Services Providers to perform the Transition Services provided for hereunder on behalf of Reinsureds in a professional and competent manner and (i) in good faith, at a quality consistent with such quality as such Reinsureds reasonably would expect to receive if they were the recipient of such Transition Services, and at substantially the same standards of performance consistent with their practices for providing such services in effect during the twelve (12) months immediately preceding Inception, but in no event in less than a professional, competent and workmanlike manner. Without limiting the generality of the foregoing, Reinsureds shall cause the Transition Services Providers to provide such Transition Services (x) in accordance with the terms of this Transition Services Agreement, (y) in compliance with Applicable Law, and (z) subject to the foregoing clauses (x) — (y), to the extent applicable, in the same manner as Reinsureds conduct their own businesses not subject to this Transition Services Agreement.

**Section 2.4** Cooperation and Access.

(a) Subject to Section 2.1(d), Reinsureds shall provide and shall cause its Affiliates and Transition Services Providers (as applicable) to provide, NICO and its Affiliates with commercially reasonable and supervised access to information, personnel, equipment, facilities, office and storage space as well as Internet access (but not access to Reinsureds' systems) during their regular office hours to the extent reasonably necessary to provide or receive the relevant Transition Services without disruption to the business operations of Reinsureds, their Affiliates and the Transition Services Providers. NICO shall give Reinsureds and its Affiliates and Transition Services Providers (as applicable) reasonable prior written notice of the need for such access and shall comply with any written instructions or written policies provided by Reinsureds or their Affiliates or Service Providers in connection with the use of or access

to any of such Party's information, personnel, equipment, facilities, office and storage space and Internet access. Without limiting the foregoing, each Party hereto shall cooperate fully with the other in all reasonable respects in order to accomplish the objectives of this Transition Services Agreement including making available to each other, at NICO's expense, their respective officers and employees for

interviews and meetings with Governmental Authorities and furnishing any additional assistance, information and documents as may be reasonably requested by a Party from time to time.

(b) Reinsureds shall provide or cause to be provided periodic metric reports to NICO in connection with the provision of the Transition Services, including such reports as were routinely prepared in connection with the Subject Asbestos Liabilities during the twelve (12) months immediately preceding Inception.

**Section 2.5 Independent Contractor.** For all purposes hereof, each Transition Services Provider shall at all times act as an independent contractor and the Transition Services Providers and Reinsureds' Affiliates, on the one hand, and NICO and its Affiliates, on the other hand, shall not be deemed an agent, lawyer, employee, representative, joint venturer or fiduciary of one another pursuant to this Transition Services Agreement, nor shall this Transition Services Agreement or the Transition Services or any activity or any transaction contemplated hereby be deemed to create any partnership or joint venture between the Parties or among their Affiliates or, in the Reinsureds' case, its Transition Services Providers. This Section 2.5 shall not be construed to describe or affect relationships created by the Administrative Services Agreement.

**Section 2.6 Documentation.** To the extent permitted by Applicable Law, (a) Reinsureds shall provide to NICO copies of all service operating manuals and other relevant and existing materials in Reinsureds' or any Transition Services Provider's possession reasonably required to use the Transition Services, together with copies of any supplements or updates to such manuals and materials, and (b) NICO and its Affiliates shall be entitled to make copies of the materials provided pursuant to this Section 2.6 in order to administer the Subject Asbestos Liabilities in accordance with the Administrative Services Agreement.

**Section 2.7 Change Requests.**

(a) Subject to this Section 2.7, NICO may propose any change to the Transition Services by written notice to Reinsureds specifying the proposed change in reasonable detail ("**Change Request**").

(b) The relevant Transition Services Provider shall provide NICO with a reasonably detailed outline specification in writing (an "**Evaluation Report**") describing the nature of the change, an assessment of any impact of the change on the Transition Services and the fees therefor, an estimate of the time required to implement the change, and a comprehensive list of the charges for the implementation of the Change Request ("**Change Request Charges**") within ten (10) Business Days of receiving the Change Request (unless otherwise mutually agreed by the Parties). NICO shall compensate the relevant Transition Services Provider at Hourly Rates for the preparation of the Evaluation Report.

(c) NICO shall notify the relevant Transition Services Provider within ten (10) Business Days (unless otherwise mutually agreed by the Parties) of the date on which NICO received the Evaluation Report whether or not NICO wishes to proceed with the Change Request.

(d) Thereafter, the Parties shall, and the Reinsureds shall cause the Transition Services Providers to, negotiate in good faith in relation to Change Requests, and shall not unreasonably

withhold any consent or cause any delay in relation to them. If the Parties agree upon a Change Request and the corresponding Evaluation Report, or if the Parties agree on a variation thereof memorialized in writing, this Transition Services Agreement and the Schedules hereto shall be deemed amended to include the terms and conditions of such agreed-upon Change Request and Evaluation Report or other writing. If the Parties cannot agree upon a Change Request or a Service Provider's Evaluation Report (including any Change Request Charges) or a variation thereof, each of the Parties may refer the matter to be resolved in accordance with Section 6.2.

(e) The relevant Transition Services Provider shall invoice NICO for the Change Request Charges resulting from the implementation of any changes to the Transition Services that arise out of any agreed Change Request and NICO shall remit payment in accordance with Article III hereof.

**ARTICLE III  
FEES and PAYMENT**

**Section 3.1 Fees.**

(a) In consideration for Reinsureds causing the Transition Services to be provided, and for any and all rights granted or obligations undertaken hereunder, NICO shall pay to Reinsureds, and reimburse Reinsureds for, each of the following:

(i) the amounts set forth on Schedule 2.1 or calculated in accordance with the mechanisms set forth on Schedule 3.1, as may be revised from time to time pursuant hereto;

(ii) any and all out-of-pocket expenses incurred by the Transition Services Providers arising from travel (other than first-class (or equivalent) travel) pre-approved by NICO in connection with providing the Migration Services (collectively, the "**Pass-Through Expenses**");

(iii) any and all Change Request Charges mutually agreed by the Parties pursuant to Section 2.7; and

(iv) any sales, use, excise, services, consumption and other Taxes or duties that are assessed on the purchase, license and/or supply of Transition Services.

(b) In the event a Reinsureds Service is discontinued pursuant to Section 2.2 or the Term expires during a calendar month, NICO shall only pay a pro-rated portion of the relevant fee for such days of the calendar month when such Transition Service was provided.

**Section 3.2** Payment.

(a) Within fifteen (15) calendar days following the end of any month during which Transition Services Providers provide Transition Services, Reinsureds shall issue or cause to be

8

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issued an invoice (“**TSA Monthly Invoice**”), which shall set forth the amounts payable hereunder by or on behalf of NICO for all applicable Transition Services and any Pass-Through Expenses.

(b) Payment of all amounts in each TSA Monthly Invoice by NICO shall be due and payable within forty-five (45) days of receipt by NICO of such TSA Monthly Invoice. NICO shall remit such payments by wire transfer of immediately available funds to an account identified for the purpose by written notice to NICO.

**Section 3.3** Disputes. In the event that NICO chooses to dispute a specific item of any invoice provided hereunder, NICO shall deliver to Reinsureds written notice of such specific items that are disputed in good faith and describing in reasonable detail the basis for any such dispute within the time otherwise required for payment of such specific items, and shall timely make payment pursuant to Section 3.2(b), other than payment for such disputed items. Any such dispute shall be referred to the Transition Services Managers in accordance with Section 6.2.

**Section 3.4** Audit and Inspection Rights.

As and when so requested by NICO for purposes of verifying TSA Monthly Invoices submitted to NICO Reinsureds shall make available to NICO such documentation as it may reasonably request to support such invoices.

**ARTICLE IV  
RECORDS**

During the Term and for two years thereafter or as required by Applicable Law, Reinsureds shall each maintain, and shall cause Transition Services Providers to maintain, true and correct records of all receipts, invoices, reports and other documents relating to the services rendered and activities performed hereunder in accordance with Applicable Law and its standard accounting and record management practices and procedures, consistently applied, which practices and procedures are employed by Reinsureds or such Transition Services Providers (as applicable) in their provision or receipt of services for themselves and their Affiliates.

**ARTICLE V  
MIGRATION PLAN**

**Section 5.1** Migration. The Parties shall reasonably agree upon a mutually agreed migration plan (the “**Migration Plan**”) as soon as practicable following the Closing Date and attach it hereto as Schedule 5.1. For the avoidance of doubt, the Migration Plan is subject to Section 2.1(d) hereof. If no final Migration Plan has been agreed to by the Parties by the 90<sup>th</sup> day following the Closing Date, any disputes regarding the Migration Plan shall be resolved pursuant to Section 6.2. If, within thirty (30) days following an agreement upon the Migration Plan, or the adoption of the Migration Plan resolved in accordance with Section 6.2, any Party becomes aware of a material element of separation or migration that was inadvertently omitted from the Migration Plan, then NICO or Reinsureds, as applicable, shall provide written notice thereof to the other Party’s applicable Transition Services Manager. Within a reasonable period of time after receipt of such notice, the applicable Transition Services Managers shall determine whether

9

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to amend the Migration Plan or otherwise resolve any disputes in accordance with Section 6.2. The applicable Transition Services Managers may, upon mutual agreement, modify or amend the Migration Plan, as necessary, to complete the separation and migration anticipated by the Migration Plan. The Parties shall take all necessary actions to implement the Migration Plan in accordance with its terms. Unless otherwise agreed to in advance in writing by the Parties, as between the Parties, NICO shall be solely responsible for creating the infrastructure of NICO, its Affiliates, or any third party retained by NICO and Reinsureds shall be solely responsible for creating any infrastructure, including systems interfaces, of Reinsureds, its Affiliates or any third party retained by Reinsureds.

**ARTICLE VI  
TRANSITION SERVICES MANAGERS AND DISPUTE RESOLUTION**

**Section 6.1** Transition Services Manager. Reinsureds and NICO hereby each appoint (a) the employee identified on Schedule 6.1(a) hereto as its respective transition services manager with all Transition Services related to direct insurance for the Subject Asbestos Liabilities (each a “**Direct Transition Services Manager**”) and (b) the employee identified on Schedule 6.1(b) hereto as its respective transition services manager with all Transition Services related to reinsurance for the Subject Asbestos Liabilities (each a “**Reinsurance Transition Services Manager**”, and each of the Direct Transition Services Managers and the Reinsurance Transition Services Managers is a “**Transition Services Manager**”) to, among other things, resolve disputes pursuant to Section 6.2, decide the terms and conditions of Additional Services pursuant to Section 2.1(c) and Change Requests pursuant to Section 2.7, and oversee day-to-day management of the Transition Services and activities contemplated by this Transition Services Agreement, including implementation of the Migration Plan. On reasonable prior written notice to the other, Reinsureds and NICO shall each have the right to replace either of its respective Transition Services Managers with an employee or officer with comparable knowledge, expertise and decision-making authority.

**Section 6.2** Dispute Resolution. Except as otherwise expressly set forth in this Transition Services Agreement, any Dispute arising out of or relating to this Transition Services Agreement shall be submitted for resolution to the applicable Transition Services Managers. In the event such Transition

Services Managers fail to resolve a Dispute pursuant to this Section 6.2 within a reasonable time of receiving notice of such Dispute from a Party, then each Party shall designate a Senior Officer (such officers, the “**Senior Officers**”) and such Senior Officers shall attempt in good faith to conclusively resolve any such Dispute. On reasonable prior written notice to the other, Reinsureds and NICO shall each have the right to replace its respective Senior Officer with an officer with comparable rank, knowledge, expertise and decision-making authority. If the Senior Officers cannot resolve such Dispute within a reasonable period of time, the Parties shall resolve the Dispute in accordance with Section 6.3. Except as otherwise expressly set forth in this Transition Services Agreement, the procedures set forth in this Section 6.2 must be satisfied as a condition precedent to a Party commencing any arbitration in connection with any Dispute arising hereunder. A Party’s failure to comply with the preceding sentence shall constitute cause for the dismissal without prejudice of any such arbitration or other legal proceeding.

**Section 6.3** Arbitration of Disputes Not Resolved by Negotiation. All Disputes arising under or in any way related to this Transition Services Agreement, specifically including disputes concerning alleged fraud in the inducement hereof or other wrongful pre-Closing conduct shall, to the extent not resolved by negotiation between the Parties, be resolved by arbitration in a consolidated arbitration involving all agreements and Parties relevant to the dispute. Any Person that is a Party to any of the Transaction Documents shall have an absolute right to intervene in any such arbitration.

**Section 6.4** Procedure for Arbitration and Mandatory Pre-Arbitration Negotiation.

(a) The procedures for the arbitration and for the mandatory pre-arbitration negotiation are set forth in Article VIII of the Master Transaction Agreement, which is hereby incorporated herein. Arbitration hereunder shall be conducted in Philadelphia, Pennsylvania.

(b) In considering any relief to be awarded, the arbitrators (and the Designated Court, as appropriate) shall take into account the Parties’ view that the nature and uniqueness of the relationships created under the Transaction Documents as a whole render specific performance the remedy of choice where it is possible to implement that remedy.

**Section 6.5** Permitted Judicial Proceedings. The only permitted judicial proceedings relating to any Dispute are those set forth in, and are subject to the exclusive jurisdiction provisions of, Section 8.5 of the Master Transaction Agreement. Each Party finally and irrevocably waives any right to trial by jury of any matter or issue in such a permitted judicial proceeding.

**ARTICLE VII  
INTELLECTUAL PROPERTY**

**Section 7.1** Ownership of Work Product. Unless otherwise agreed to by the Parties in writing, each Party shall retain all right, title and interest in all materials, products, reports, computer programs (source or object code), documentation, deliverables and inventions developed or prepared by such Party pursuant to this Transition Services Agreement (the “**Work Product**”). All such Work Product shall be Confidential Information and treated as such under the Administrative Services Agreement.

**Section 7.2** Consents. To the extent necessary to provide the Transition Services, Reinsureds shall, at Reinsureds’ expense, (a) use reasonable best efforts to obtain any waivers, permits, consents or sublicenses required under the terms of any third party agreements governing intellectual property, confidential information, or the provision of services necessary to provide the Transition Services, or for NICO or its Affiliates to receive and enjoy the full benefit of the Transition Services and to use any deliverables provided in connection therewith (“**Third Party Consents**”), and (b) provide NICO and its Affiliates with equivalent substitute services or deliverables in the event such waivers, permits, consents, or sublicenses are not obtained. NICO shall reasonably assist Reinsureds, at Reinsureds’ reasonable request and at Reinsureds’ expense, in Reinsureds’ efforts to obtain any Third Party Consents. Reinsureds shall provide NICO with copies of any purchase orders, proofs of payment and vendor invoices concerning such Third Party Consents in reasonably sufficient detail to verify the terms of such Third Party Consents.

**ARTICLE VIII  
TERM AND TERMINATION**

**Section 8.1** Term. The term of this Transition Services Agreement shall commence on the Closing Date and end after a term (the “**Initial Term**”) of thirteen (13) months; provided, that (i) no less than sixty (60) days prior to the end of the Initial Term, NICO may require by written notice an extension of the Initial Term for one additional three (3) month period (the “**Extended Term**”); and provided, further that if all the Transition Services to be provided hereunder have been discontinued pursuant to Section 2.2 prior to the end of the Term, then the Term shall terminate as of the date all Transition Services provided hereunder are discontinued. Notwithstanding the foregoing, no less than thirty (30) days prior to the end of the Initial Term or any Extended Term, NICO may require by written notice an extension of the Term for an additional period of up to six (6) months in the event that the Transition Services are not completed because of the fault of Reinsureds or any Transition Service Provider. Collectively, the Initial Term and the First Extended Term and any further extension thereof are referred to herein as the “**Term.**”

**Section 8.2** Termination Due to Termination of the Administrative Services Agreement. This Transition Services Agreement shall terminate with immediate effect upon termination of the Administrative Services Agreement.

**Section 8.3** Termination of Services. In the event that NICO elects to terminate less than all Transition Services, Reinsureds shall continue to be obligated to provide or cause to be provided the remaining Transition Services for the remainder of the Term consistent with the terms and conditions of this Transition Services Agreement.

**Section 8.4** Survival. ARTICLES III, IV, VI, VIII, IX, XI and Sections 7.1 and 10.1 shall survive termination of this Transition Services Agreement.

**ARTICLE IX  
INDEMNITY**

**Section 9.1** Indemnity. Reinsureds shall, at their Own Expense, indemnify and hold harmless NICO and any of its directors, officers, employees, agents or Affiliates (and the directors, officers, employees and agents of such Affiliates) and representatives thereof at any time and from time to time, from any and all losses, liabilities, costs, claims, demands, compensatory, extra contractual and/or punitive damages, fines, penalties and expenses payable to third parties (together with NICO's associated reasonable attorneys' fees and expenses, "Indemnified Damages"), to the extent but only to the extent that such Indemnified Damages are caused by Reinsureds' provision of, or failure to provide, the Transition Services. For the avoidance of doubt, such indemnity does not apply to matters encompassed by Ultimate Net Loss on the Subject Asbestos Liabilities.

**Section 9.2** Procedures. Section 18.7 of the Administrative Services Agreement is hereby incorporated by reference.

12

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## ARTICLE X CONFIDENTIALITY; PRIVACY REQUIREMENTS

### **Section 10.1** Confidentiality and Privacy

Article 16 of the Administrative Services Agreement is hereby incorporated by reference.

### **Section 10.2** Disaster Recovery.

(a) During the Term, Reinsureds, NICO, and Transition Services Providers shall maintain such backup, business continuation and disaster recovery plans as they maintained in the 12 months prior to the Term insofar as such plans affect the Transition Services and/or the data and/or information being transferred hereunder.

(b) In the event of a business interruption, Reinsureds, each Transition Service Provider and/or NICO shall promptly implement its respective disaster recovery plans, as appropriate.

## ARTICLE XI FORCE MAJEURE

### **Section 11.1** Force Majeure Event.

Except for any failure of either Party to comply with the provisions of its then-existing disaster recovery plans, neither Party shall have any liability or responsibility, and shall be excused from performance for, any interruption, delay, impairment or other failure to fulfill any obligation under this Transition Services Agreement to the extent and so long as the fulfillment of such obligation is interrupted, delayed, impaired, prevented or frustrated as a result of or by natural disaster, hurricane, earthquake, floods, fire, catastrophic weather conditions, diseases or other elements of nature or acts of God, acts of war (declared or undeclared), insurrection, riot, civil disturbance or disorders, rebellion, sabotage, government regulations or directives, embargoes, terrorist acts, or explosions, strikes, failure of or damage to public utility ("**Force Majeure Event**"); *provided* that such Party uses best efforts promptly to overcome or mitigate the cause of such delay or failure to perform, including the implementation of such Party's then-existing disaster recovery plan. Any Party so delayed in its performance shall immediately notify the other thereof by telephone and confirm promptly thereafter in writing, describing in reasonable detail the circumstances causing such delay, and shall resume the performance of its obligations as promptly as reasonably practicable after the Force Majeure Event has ceased to exist.

13

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## ARTICLE XII MISCELLANEOUS

### **Section 12.1** Notices.

Any notice, request, demand, waiver, consent, approval or other communication required or permitted to be given by any Party hereunder shall be in writing and shall be delivered personally, sent by facsimile transmission, sent by registered or certified mail, postage prepaid, or sent by a standard overnight courier of national reputation with written confirmation of delivery. Any such notice shall be deemed given when so delivered personally, or if sent by facsimile transmission, on the date received (*provided* that any notice received after 5:00 p.m. (addressee's local time) shall be deemed given at 9:00 a.m. (addressee's local time) on the next Business Day), or if mailed, on the date shown on the receipt therefor, or if sent by overnight courier, on the date shown on the written confirmation of delivery. Such notices shall be given to the following address:

To Reinsureds:

David Fields  
Chief Underwriting Officer and  
Chief Reinsurance Officer  
Chartis Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 551-7214

- and -

Sean Leonard  
Senior Vice President &



Chief Financial Officer  
Chartis U.S.  
180 Maiden Lane  
New York, NY 10038  
Fax: (877) 484-1961

With a copy to:

Eric S. Kobrick  
Deputy General Counsel and  
Chief Reinsurance Legal Officer  
American International Group, Inc.  
180 Maiden Lane  
New York, NY 10038  
Fax: (866) 371-7209

14

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To NICO:

National Indemnity Company  
100 First Stamford Place  
Stamford, CT 06902  
Attention: General Counsel  
Fax: (203) 363-5221

With a copy to:

National Indemnity Company  
3024 Harney Street  
Omaha, NE 68131  
Attention: Treasurer  
Fax: (402) 916-3030

Any Party may change its notice provisions on fifteen (15) calendar days' advance notice in writing to the other Parties.

**Section 12.2 Entire Agreement.**

This Transition Services Agreement (including the exhibits and schedules hereto), the Master Transaction Agreement, the LPT Reinsurance Agreement, the LPT Retrocession Agreement, the Administrative Services Agreement and the other Ancillary Agreements and any other documents delivered pursuant hereto and thereto, constitute the entire agreement among the Parties and their respective Affiliates with respect to the subject matter hereof and supersede all prior negotiations, discussions, writings, agreements and understandings, oral and written, among the Parties with respect to the subject matter hereof and thereof.

**Section 12.3 Waiver and Amendment.**

This Transition Services Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by an instrument in writing signed by the Parties, or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. No waiver of any breach of this Transition Services Agreement shall be held to constitute a waiver of any other or subsequent breach.

**Section 12.4 Successors and Assigns.**

The rights and obligations of the Parties under this Transition Services Agreement are personal to the Parties and no Party shall be relieved of any liability or responsibility hereunder by any assignment. They shall not be subject to assignment without the prior written consent of the other Parties in their sole discretion, and any attempted assignment without the prior written consent of the other Parties shall be invalid *ab initio*. The terms of this Transition Services

15

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Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the successors and permitted assigns of the Parties.

**Section 12.5 Headings.**

The headings of this Transition Services Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

**Section 12.6 Construction; Interpretation.**

Reinsureds and NICO have participated jointly in the negotiation and drafting of this Transition Services Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Transition Services Agreement shall be construed as if drafted jointly by the Parties and no presumption or

burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any of the provisions of this Transition Services Agreement. When a reference is made to an Article, Section, Schedule or Exhibit such reference shall be to an Article, Section, Schedule or Exhibit of or to this Transition Services Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Transition Services Agreement, they shall be deemed to be followed by the words "without limitation." The word "Agreement," means this Transition Services Agreement as amended or supplemented, together with all Exhibits and Schedules attached hereto or incorporated by reference, and the words "hereof," "herein," "hereto," "hereunder" and other words of similar import shall refer to this Transition Services Agreement in its entirety and not to any particular Article, Section or provision of this Transition Services Agreement. The references to "\$" shall be to United States dollars. Reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, and all rules and regulations promulgated thereunder. References to a Person are also to its successors and permitted assigns.

**Section 12.7** Governing Law and Jurisdiction.

This Transition Services Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's principles of conflict of laws that could compel the application of the laws of another jurisdiction.

**Section 12.8** No Third Party Beneficiaries.

Nothing in this Transition Services Agreement is intended or shall be construed to give any Person, other than the Parties, any legal or equitable right, remedy or claim under or in respect of this Transition Services Agreement or any provision contained herein.

**Section 12.9** Counterparts.

This Transition Services Agreement may be executed by the Parties in separate counterparts; each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument binding upon all of the Parties notwithstanding the fact that all Parties are not signatories to the original or the same counterpart. Each counterpart may consist of a number of copies hereof each signed by less than all, but

together signed by all of the Parties. Each counterpart may be delivered by facsimile transmission, which transmission shall be deemed delivery of an originally executed document.

**Section 12.10** Severability.

Any term or provision of this Transition Services Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Transition Services Agreement or affecting the validity or enforceability of any of the terms or provisions of this Transition Services Agreement in any other jurisdiction, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. If any provision of this Transition Services Agreement is so broad as to be unenforceable, that provision shall be interpreted to be only so broad as is enforceable. In the event of such invalidity or unenforceability of any term or provision of this Transition Services Agreement, such term or provision shall be reformed and the Parties shall use their commercially reasonable efforts to reform such terms or provisions to carry out the commercial intent of the Parties as reflected herein, while curing the circumstance giving rise to the invalidity or unenforceability of such term or provision.

**Section 12.11** Incontestability.

In consideration of the mutual covenants and agreements contained herein, each Party does hereby agree that this Transition Services Agreement, and each and every provision hereof, is and shall be enforceable by and between them according to its terms, and each Party does hereby agree that it shall not contest in any respect the validity or enforceability hereof.

**Section 12.12** Set-Off.

There are no common law or other non-contractual rights of set-off available to the Parties with respect to transactions under or relating to this Transition Services Agreement. The sole and exclusive rights of set-off are those set forth in Section 9.12 of the Master Transaction Agreement.

**Section 12.13** Currency.

All financial data required to be provided pursuant to the terms of this Transition Services Agreement shall be expressed in United States dollars. All payments and all settlements of account between the Parties shall be in United States currency unless otherwise expressly agreed by the Parties in writing.

*(The remainder of this page has been intentionally left blank.)*

**IN WITNESS WHEREOF**, This Transition Services Agreement has been duly executed by a duly authorized officer of each Party hereto as of the date first above written.

**AMERICAN HOME ASSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS CASUALTY COMPANY**  
(f/k/a American International South Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS PROPERTY CASUALTY COMPANY**  
(f/k/a AIG Casualty Company)

By: \_\_\_\_\_  
Name:  
Title:

**COMMERCE AND INDUSTRY INSURANCE  
COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**GRANITE STATE INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

S-1

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**ILLINOIS NATIONAL INSURANCE  
COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE  
COMPANY OF PITTSBURGH, PA.**

By: \_\_\_\_\_  
Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**THE INSURANCE COMPANY OF THE  
STATE OF PENNSYLVANIA**

By: \_\_\_\_\_  
Name:  
Title:

**CHARTIS SELECT INSURANCE COMPANY**  
(f/k/a AIG Excess Liability Insurance Company Ltd.)

By: \_\_\_\_\_  
Name:  
Title:

S-2

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**CHARTIS SPECIALTY INSURANCE  
COMPANY**  
(f/k/a American International Specialty Lines Insurance Company)

By: \_\_\_\_\_  
Name:  
Title:

**LANDMARK INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**LEXINGTON INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AIU INSURANCE COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

**AMERICAN INTERNATIONAL  
REINSURANCE COMPANY, LTD.**

By: \_\_\_\_\_  
Name:  
Title:

S-3

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**AMERICAN HOME ASSURANCE COMPANY**  
(acting as a member of the Chartis Overseas Association as respects business  
written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_  
Name:  
Title:

**NATIONAL UNION FIRE INSURANCE  
COMPANY OF PITTSBURGH, PA.**  
(acting as a member of the Chartis Overseas Association as respects business  
written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_

Name:  
Title:

**NEW HAMPSHIRE INSURANCE COMPANY**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_

Name:  
Title:

**CHARTIS OVERSEAS LIMITED**

(acting as a member of the Chartis Overseas Association as respects business written or assumed by or from affiliated companies of Chartis Inc.)

By: \_\_\_\_\_

Name:  
Title:

S-4

**NATIONAL INDEMNITY COMPANY**

By: \_\_\_\_\_

Name: Brian Snover  
Title: Vice Preside

S-5

**SCHEDULE 2.3**

**Reconciliation Statement Calculations**

	<u>Initial Reconciliation (Estimated)</u>	<u>Preliminary Reconciliation (Estimated)</u>	<u>Final Reconciliation</u>
(i) Retrocession Premium, <i>plus</i>	\$1,647,000,000		
(ii) simple interest on the Retrocession Premium at the Applicable Interest Rate from and including Inception to but excluding the Closing Date, <i>less</i>			
(iii) Ultimate Net Loss with respect to Coverage A that was Actually Paid in the period between Inception and the Closing Date,			
Losses with respect to Subject Asbestos Liabilities, <i>plus</i>			
Allocated Loss Adjustment Expenses with respect to Subject Asbestos Liabilities, <i>plus</i>			
Extra-Contractual Obligations with respect to Subject Asbestos Liabilities, <i>less</i>			
Included Reinsurance Recoverables, but only to the extent Actually Paid, <i>less</i>			
Other Recoverables recoverable by Reinsureds with respect to Subject Asbestos Liabilities, but only to the extent Actually Paid.			
<b>Ultimate Net Loss: <i>less</i></b>			
(iv) ceding commission.	\$784,052 per month or <i>pro rata</i> portion thereof for the period from and including		

**Payment** ((i) *plus* (ii) *less* (iii) *less* (iv)):

2.3-1

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**SCHEDULE 3.1(b)**

**Certain Transactions Since Inception**

Such items as are mutually identified by the Parties from time to time.

3.1(b)

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**SCHEDULE 3.1(c)**

**Information Provided**

Such items as are mutually identified by the Parties from time to time.

3.1(c)-1

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**SCHEDULE 3.1(c)-1**

**Certain Individuals**

Bill Goldsmith  
William Jacobi  
Mindy Kipness  
Eric Kobrick  
Bettina Kortland  
Doug McCabe  
Mark Mondello  
Jay Morrow  
Irwin Nirenberg  
Marco Spadacenta  
James Sutterby  
John Veracochea

3.1(c)-1-1

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
AMERICAN GENERAL ASSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and American General Assurance Company, a corporation organized under the laws of the Illinois (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Illinois (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the

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Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the

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extraordinary dividend provisions of Section 215 ILCS 5/131.20a of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal

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quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and

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any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this

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Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply



with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

American General Assurance Company  
c/o SunAmerica Financial Group, Inc.  
2727-A Allen Parkway

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Houston, Texas 77019  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

American General Assurance Company  
c/o SunAmerica Financial Group, Inc.  
1999 Avenue of the Stars  
Los Angeles, CA 90067  
Attention: General Counsel

12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

AMERICAN GENERAL ASSURANCE COMPANY

By: /s/ Don W. Cummings  
Name: Don W. Cummings  
Title: Senior Vice President and Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
 BETWEEN  
 AMERICAN INTERNATIONAL GROUP, INC.  
 AND  
 AMERICAN GENERAL LIFE INSURANCE COMPANY OF DELAWARE

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and American General Life Insurance Company of Delaware, a corporation organized under the laws of the Delaware (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Delaware (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the

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Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the

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extraordinary dividend provisions of Section 18 § 5005 (B) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal

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quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and

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any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this

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Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply

with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

American General Life Insurance Company of Delaware  
c/o SunAmerica Financial Group, Inc.  
2727-A Allen Parkway

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Houston, Texas 77019  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

American General Life Insurance Company of Delaware  
c/o SunAmerica Financial Group, Inc.  
1999 Avenue of the Stars  
Los Angeles, CA 90067  
Attention: General Counsel

12. On April 24, 2011, this Agreement shall supersede and replace that certain letter agreement, dated December 13, 1991, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

AMERICAN GENERAL LIFE INSURANCE COMPANY OF DELAWARE

By: /s/ Don W. Cummings  
Name: Don W. Cummings  
Title: Senior Vice President and Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
AMERICAN GENERAL LIFE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and American General Life Insurance Company, a corporation organized under the laws of the Texas (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Texas (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the

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Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the

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extraordinary dividend provisions of Section 823.107 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal

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quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and

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any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this

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Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply



with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

American General Life Insurance Company  
c/o SunAmerica Financial Group, Inc.  
2727-A Allen Parkway

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Houston, Texas 77019  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

American General Life Insurance Company  
c/o SunAmerica Financial Group, Inc.  
1999 Avenue of the Stars  
Los Angeles, CA 90067  
Attention: General Counsel

12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

AMERICAN GENERAL LIFE INSURANCE COMPANY

By: /s/ Don W. Cummings  
Name: Don W. Cummings  
Title: Senior Vice President and Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and American General Life and Accident Insurance Company, a corporation organized under the laws of the Tennessee (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Tennessee (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the

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foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 56-11-106(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the

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case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.
7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M.

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Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.

9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that

upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG

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as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.

11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

American General Life and Accident Insurance Company  
c/o SunAmerica Financial Group, Inc.  
458 N. American General Center  
Nashville, Tennessee 37250  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

American General Life and Accident Insurance Company  
c/o SunAmerica Financial Group, Inc.  
1999 Avenue of the Stars  
Los Angeles, CA 90067  
Attention: General Counsel

12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and

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effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.

15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY

By: /s/ Gregory A. Hayes  
Name: Gregory A. Hayes  
Title: Senior Vice President, Chief Financial Officer and Treasurer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
 BETWEEN  
 AMERICAN INTERNATIONAL GROUP, INC.  
 AND  
 THE UNITED STATES LIFE INSURANCE COMPANY IN THE CITY OF NEW YORK

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and The United States Life Insurance Company of New York, a corporation organized under the laws of the New York (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of New York (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the

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foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 4207 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the

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case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.
7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M.

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Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.

9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that



upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG

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as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.

11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

The United States Life Insurance Company in the City of New York  
c/o SunAmerica Financial Group, Inc.  
2727-A Allen Parkway  
Houston, Texas 77019  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

The United States Life Insurance Company in the City of New York  
c/o SunAmerica Financial Group, Inc.  
1999 Avenue of the Stars  
Los Angeles, CA 90067  
Attention: General Counsel

12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and

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effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.

15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

THE UNITED STATES LIFE INSURANCE COMPANY  
IN THE CITY OF NEW YORK

By: /s/ Don W. Cummings  
Name: Don W. Cummings  
Title: Senior Vice President and Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
AIU INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and AIU Insurance Company, a corporation organized under the laws of the State of New York (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of New York (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would require prior application to the superintendent of insurance under Section 4105 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

AIU Insurance Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the New York insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties, but does not supersede the Agreement between AIG and the Company dated April 1, 2008 pertaining to support for Chartis Insurance Company China Limited. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.

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17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

AIU INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Senior Vice President

By: /s/ Victoria Bozovic  
Name: Victoria Bozovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
AMERICAN HOME ASSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and American Home Assurance Company, a corporation organized under the laws of the State of New York (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of New York (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would require prior application to the superintendent of insurance under Section 4105 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company’s rights under paragraphs 1, 4 and 5 of this

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Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

American Home Assurance Company  
175 Water Street, 30<sup>th</sup> Floor  
New York, NY 10038

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Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the New York insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

AMERICAN HOME ASSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
COMMERCE AND INDUSTRY INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Commerce and Industry Insurance Company, a corporation organized under the laws of the State of New York (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of New York (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would require prior application to the superintendent of insurance under Section 4105 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Commerce and Industry Insurance Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the New York insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

COMMERCE AND INDUSTRY INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
CHARTIS CASUALTY COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Chartis Casualty Company, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1405(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Chartis Casualty Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Pennsylvania insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

CHARTIS CASUALTY COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
CHARTIS PROPERTY CASUALTY COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Chartis Property Casualty Company, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted

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Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company

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to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1405(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time

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periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of

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directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when

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due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this

Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Chartis Property Casualty Company

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175 Water Street, 30<sup>th</sup> Floor  
New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Pennsylvania insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender

Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

CHARTIS PROPERTY CASUALTY COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
GRANITE STATE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Granite State Insurance Company, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted

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Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company

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to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1405(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time

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periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of

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directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when

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due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this



Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Granite State Insurance Company

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175 Water Street, 30<sup>th</sup> Floor  
New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Pennsylvania insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

GRANITE STATE INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
ILLINOIS NATIONAL INSURANCE CO.

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Illinois National Insurance Co., a corporation organized under the laws of the State of Illinois (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of Illinois (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 131.20a(2) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Illinois National Insurance Co.  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Illinois insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

ILLINOIS NATIONAL INSURANCE CO.

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and The Insurance Company of the State of Pennsylvania, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted

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Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company

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to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1405(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time

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periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of

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directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when

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due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this



Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

The Insurance Company of the State of Pennsylvania

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175 Water Street, 30<sup>th</sup> Floor  
New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Pennsylvania insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

THE INSURANCE COMPANY OF THE STATE OF PENNSYLVANIA

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
LANDMARK INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Landmark Insurance Company, a corporation organized under the laws of the State of California (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of California (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1215.5(g) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Landmark Insurance Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Landmark Insurance Company  
100 Summer Street  
Boston, MA 02110  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the California insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

LANDMARK INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
LEXINGTON INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Lexington Insurance Company, a corporation organized under the laws of the State of Delaware (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of Delaware (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 5005(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the



terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, provided, further, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Lexington Insurance Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Lexington Insurance Company  
100 Summer Street  
Boston, MA 02110  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Delaware insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender  
Name: Robert A. Gender

Title: Senior Vice President

By: /s/ Jeffrey A. Welikson

Name: Jeffrey A. Welikson

Title: Corporate Secretary

LEXINGTON INSURANCE COMPANY

By: /s/ Robert S. Schimek

Name: Robert S. Schimek

Title: Executive Vice President

By: /s/ Denis M. Butkovic

Name: Denis M. Butkovic

Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
NEW HAMPSHIRE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and New Hampshire Insurance Company, a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted

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Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company

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to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1405(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time

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periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of

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directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when

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due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this

Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4, and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

New Hampshire Insurance Company

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175 Water Street, 30<sup>th</sup> Floor  
New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Pennsylvania insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender

Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

NEW HAMPSHIRE INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
 BETWEEN  
 AMERICAN INTERNATIONAL GROUP, INC.  
 AND  
 NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and National Union Fire Insurance Company of Pittsburgh, Pa., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the Commonwealth of Pennsylvania (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted

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Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company

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to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 1405(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time

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periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of

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directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when

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due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this



Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

National Union Fire Insurance Company of Pittsburgh, Pa.

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175 Water Street, 30<sup>th</sup> Floor  
New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Pennsylvania insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Robert A. Gender

Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA.

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
CHARTIS SELECT INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Chartis Select Insurance Company, a corporation organized under the laws of the State of Delaware (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of Delaware (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 5005(b) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligations arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Chartis Select Insurance Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Delaware insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

CHARTIS SELECT INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
CHARTIS SPECIALTY INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of February 25, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Chartis Specialty Insurance Company, a corporation organized under the laws of the State of Illinois (the "Company").

WITNESSETH:

WHEREAS, the Company is a property-casualty insurer subject to certain capital requirements of the insurance laws and regulations of the State of Illinois (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that

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the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Authorized Control Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Authorized Control Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Authorized Control Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Authorized Control Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Authorized Control Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the

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Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 131.20a(2) of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Authorized Control Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Authorized Control Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's

Corp. (“S&P”), Moody’s Investors Service (“Moody’s”) and A.M. Best Company (“A.M. Best”). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody’s or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the

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first business day after the filing of the Company’s first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company’s third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company’s fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company’s direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company’s direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company’s senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby

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acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days’ prior written notice to the Company, which notice shall state the effective date of termination (the “Termination Date”); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG’s then-current rating from such agency or (y) the Company’s then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company’s capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody’s, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company’s then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company’s rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce

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the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Chartis Specialty Insurance Company  
175 Water Street, 30<sup>th</sup> Floor

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New York, NY 10038  
Attention: Robert S. H. Schimek

with a copy (which shall not constitute notice) to:

Chartis U.S. Law Department  
175 Water Street, 18<sup>th</sup> Floor  
New York, NY 10038  
Attention: General Counsel

12. Effective upon the date of filing of the Company's 2010 Annual Statement with the Illinois insurance department, this Agreement shall supersede and replace that certain letter agreement, dated February 23, 2010, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President

By: /s/ Jeffrey A. Welikson  
Name: Jeffrey A. Welikson  
Title: Corporate Secretary

CHARTIS SPECIALTY INSURANCE COMPANY

By: /s/ Robert S. Schimek  
Name: Robert S. Schimek  
Title: Executive Vice President

By: /s/ Denis M. Butkovic  
Name: Denis M. Butkovic  
Title: Secretary

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 425% of the Company's Authorized Control Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
AGC LIFE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made and entered into as of March 15, 2011 by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and AGC Life Insurance Company, a corporation organized under the laws of Missouri (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Missouri (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's Company Action Level RBC, AIG

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shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second, third and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by Missouri law, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect

the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 382.210, RSMo of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital

("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC") provided that in either case such calculations shall be adjusted by making appropriate extrapolations from the applicable quarterly financial statement to an estimated annual statement. The term "Specified Minimum Percentage" shall initially be equal to 250% of the Company's Company Action Level RBC, which shall be reviewed and agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department; *provided, however*, that no change to the Specified Minimum Percentage would become effective until following 60 days written notice to the Domiciliary State's insurance department and the Domiciliary State has not otherwise disapproved. Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage taking into account (a) any material changes to the law of the Domiciliary State or NAIC RBC rules or instructions, (b) any material transaction completed by the Company that is treated materially differently by the NAIC RBC rules or instructions or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

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4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.
5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.

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6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.
7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. Subject to the requirements of paragraph 11, AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's"), A.M. Best Company ("A.M. Best") or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, and subject to the requirements of paragraph 11, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.

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9. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company insofar as concerns any policyholder, creditor or stakeholder

of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.

10. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

AGC Life Insurance Company  
c/o SunAmerica Financial Group, Inc.  
2727-A Allen Parkway  
Houston, TX 77019  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

AGC Life Insurance Company  
c/o SunAmerica Financial Group, Inc.  
1999 Avenue of the Stars  
Los Angeles, CA 90067  
Attention: General Counsel

11. The Company and AIG agree that the Domiciliary State's insurance department and its Director are intended to be third party beneficiaries of this Agreement with full rights to enforce its terms as to either the Company or AIG or both. No termination of this Agreement will become effective unless ninety (90) days prior written notice of such termination has been provided to the Domiciliary State's insurance department and its Director.

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12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ David L. Herzog  
David L. Herzog, Executive Vice President  
and Chief Financial Officer

By: /s/ Robert A. Gender

Robert A. Gender  
Senior Vice President and Treasurer

AGC LIFE INSURANCE COMPANY

By: /s/ Robert M. Beuerlein  
Robert M. Beuerlein, Senior Vice President  
and Chief and Appointed Actuary

By: /s/ Don W. Cummings  
Don W. Cummings, Senior Vice President  
and Chief Financial Officer

UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
 BETWEEN  
 AMERICAN INTERNATIONAL GROUP, INC.  
 AND  
 FIRST SUNAMERICA LIFE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and First SunAmerica Life Insurance Company, a corporation organized under the laws of the State of New York (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of the State of New York (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the

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Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the

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extraordinary dividend provisions of Section 4207 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last

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business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all

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financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; *provided, however*, that no policyholder of the

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Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

First SunAmerica Life Insurance Company  
c/o SunAmerica Life Insurance Companies  
21650 Oxnard Street, MS 6-9  
Woodland Hills, CA 91367

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Attention: Scott Gillis

with a copy (which shall not constitute notice) to:

SAFG Retirement Services, Inc.  
1 SunAmerica Center, 37th Floor  
Los Angeles, CA 90067  
Attention: General Counsel

12. On April 24, 2011, this Agreement shall supersede and replace that certain agreement, dated January 4, 1999, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

FIRST SUNAMERICA LIFE INSURANCE COMPANY

By: /s/ N. Scott Gillis  
Name: N. Scott Gillis  
Title: Senior Vice President & Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and SunAmerica Annuity and Life Assurance Company, a corporation organized under the laws of the State of Arizona (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of the State of Arizona (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the

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Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the

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extraordinary dividend provisions of Section §20-481.19 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal

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quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and

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any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this

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Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply

with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

SunAmerica Annuity and Life Assurance Company  
c/o SunAmerica Life Insurance Companies  
21650 Oxnard Street, MS 6-9

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Woodland Hills, CA 91367  
Attention: Scott Gillis

with a copy (which shall not constitute notice) to:

SAFG Retirement Services, Inc.  
1 SunAmerica Center, 37th Floor  
Los Angeles, CA 90067  
Attention: General Counsel

12. On April 24, 2011, this Agreement shall supersede and replace that certain agreement, dated January 4, 1999, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber

Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender

Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

By: /s/ N. Scott Gillis

Name: N. Scott Gillis  
Title: Senior Vice President & Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
SUNAMERICA LIFE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011, by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and SunAmerica Life Insurance Company, a corporation organized under the laws of the State of Arizona (the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of the State of Arizona (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the

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Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the

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extraordinary dividend provisions of Section §20-481.19 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the

Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal

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quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and

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any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.

7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.
9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this

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Agreement; *provided, however*, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply



with this Agreement within sixty (60) days after such notice is given; and, *provided, further*, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

SunAmerica Life Insurance Company  
c/o SunAmerica Life Insurance Companies  
21650 Oxnard Street, MS 6-9

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Woodland Hills, CA 91367  
Attention: Scott Gillis

with a copy (which shall not constitute notice) to:

SAFG Retirement Services, Inc.  
1 SunAmerica Center, 37th Floor  
Los Angeles, CA 90067  
Attention: General Counsel

12. On April 24, 2011, this Agreement shall supersede and replace that certain agreement, dated January 4, 1999, by and between AIG and the Company regarding capital maintenance without the need for any action.
13. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
14. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona, without giving effect to the principles of conflict of laws.
15. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.
16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
17. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber

Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

SUNAMERICA LIFE INSURANCE COMPANY

By: /s/ N. Scott Gillis  
Name: N. Scott Gillis  
Title: Senior Vice President & Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
THE VARIABLE ANNUITY LIFE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011 by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and The Variable Annuity Life Insurance Company, a corporation organized under the laws of the Texas(the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Texas (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with

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applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 823.107 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the

Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date

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of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.
7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the

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Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.

9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; provided, however, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, provided, further, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).

10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

The Variable Annuity Life Insurance Company  
2929 Allen Parkway  
Houston, TX 77019  
Attention: Secretary

with a copy (which shall not constitute notice) to:

The Variable Annuity Life Insurance Company  
2929 Allen Parkway  
Houston, TX 77019  
Attention: General Counsel

12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of Texas without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and

all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.

15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender  
Name: Robert A. Gender

Title: Senior Vice President and Treasurer

THE VARIABLE ANNUITY LIFE INSURANCE COMPANY

By: /s/ N. Scott Gillis  
Name: N. Scott Gillis  
Title: Senior Vice President and Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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UNCONDITIONAL CAPITAL MAINTENANCE AGREEMENT  
BETWEEN  
AMERICAN INTERNATIONAL GROUP, INC.  
AND  
WESTERN NATIONAL LIFE INSURANCE COMPANY

This Unconditional Capital Maintenance Agreement (this "Agreement"), is made, entered into and effective as of March 30, 2011 by and between American International Group, Inc., a corporation organized under the laws of the State of Delaware ("AIG"), and Western National Life Insurance Company, a corporation organized under the laws of the Texas(the "Company").

WITNESSETH:

WHEREAS, the Company is a life insurer subject to certain capital requirements of the insurance laws and regulations of Texas (the "Domiciliary State");

WHEREAS, the Company is an indirect wholly owned subsidiary of AIG; and

WHEREAS, AIG has an interest in unconditionally maintaining and enhancing the Company's financial condition:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. In the event that the Company's Total Adjusted Capital for each of the Company's first and third fiscal quarters (as determined based on the Company's first and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) falls below the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first and third fiscal quarters, as the case may be), AIG shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and in compliance with applicable law, provide to the Company cash, cash equivalents, securities or other instruments that qualify (as admitted assets) for purposes of calculating the Company's Total Adjusted Capital, as a contribution and not as a loan, in an amount such that the Company's Total Adjusted Capital as of the end of each of the Company's second and fourth fiscal quarter, as the case may be, will be projected to be at least equal to the Specified Minimum Percentage of the Company's Company Action Level RBC. Notwithstanding the foregoing, AIG may, at any time as it deems necessary in its sole discretion and in compliance with

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applicable law, make a contribution to the Company in such amount as is required for the Company's Total Adjusted Capital to equal a percentage of its Company Action Level RBC determined to be appropriate by the Company and AIG.

2. In the event that the Company's Total Adjusted Capital (a) for each of the Company's first, second and third fiscal quarters (as determined based on the Company's first, second and third fiscal quarterly filed statutory financial statements, respectively, subject to any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's projected Company Action Level RBC (in each case as estimated by the Company as of the end of each such first, second and third fiscal quarters, as the case may be) or (b) as of each fiscal year end (as shown in the Company's fiscal year-end filed statutory financial statements, together with any adjustments or modifications thereto required by the Domiciliary State's insurance department or the Company's independent auditors) is in excess of the Specified Minimum Percentage of the Company's Company Action Level RBC (as shown in such fiscal year-end statutory financial statements), the Company shall, within the respective time periods set forth under paragraph 4, in accordance with paragraph 5 and subject to approval by the Company's board of directors as required by the laws of the Domiciliary State, declare and pay dividends ratably to its equity holders in an aggregate amount equal to the lesser of (i) the amount necessary to reduce the Company's projected or actual Total Adjusted Capital as of each of the end of the Company's fiscal quarter or fiscal year, as the case may be, to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC or (ii) the maximum amount permitted by the Domiciliary State's law to be paid as an ordinary dividend less an amount that the Company and AIG agree is appropriate to protect the Company from exceeding such maximum amount allowed by such Domiciliary State's law as a result of potential audit adjustments or adjustments to the projections on which such dividend amount is based. For the avoidance of doubt, this paragraph shall only require the Company to pay ordinary dividends; under no circumstances shall the Company be required to pay any dividend which would trigger the extraordinary dividend provisions of Section 823.107 of the Insurance Law of the Domiciliary State or that is otherwise prohibited by the Domiciliary State. Notwithstanding the foregoing, this Agreement does not prohibit the payment of extraordinary dividends to reduce the Company's projected or actual Total Adjusted Capital to a level equal to or not materially greater than the Specified Minimum Percentage of the Company's Company Action Level RBC.

3. For the avoidance of doubt, the terms "Total Adjusted Capital", "Company Action Level RBC", and "Surplus to Policyholders" shall have the meanings ascribed thereto under the insurance laws and regulations of the Domiciliary State, or, with respect to "Total Adjusted Capital" and "Company Action Level RBC", if not defined therein, shall have the meanings ascribed thereto in the risk-based capital ("RBC") instructions promulgated by the National Association of Insurance Commissioners ("NAIC"). The term "Specified Minimum Percentage" shall be equal to the percentage set forth on Schedule 1 attached hereto, which shall be agreed to by AIG and the Company at least once every year beginning upon the date of the filing of the Company's 2010 Annual Statement with the Domiciliary State's insurance department and following review against the capital adequacy standards and criteria ("Agency Criteria") of each of Standard & Poor's Corp. ("S&P"), Moody's Investors Service ("Moody's") and A.M. Best Company ("A.M. Best"). Notwithstanding the obligation of the Company and AIG to review the Specified Minimum Percentage on an annual basis, the parties hereto agree to review and revise the

Specified Minimum Percentage on a more frequent basis, if the parties agree it is appropriate, to take into account (a) any material changes after the date hereof to any Agency Criteria adopted by any of S&P, Moody's or A.M. Best, on the one hand, or to the law of the Domiciliary State or NAIC RBC rules or instructions, on the other hand, which causes the results under the Agency Criteria to diverge from that under the law of the Domiciliary State or NAIC RBC rules or instructions, (b) the Company completes a material transaction that is treated materially differently by the Agency Criteria, on the one hand, and the NAIC RBC rules or instructions, on the other hand, or (c) any other material development or circumstance affecting the Company which AIG and the Company agree merits a reevaluation of the Specified Minimum Percentage then in effect.

4. The Company and AIG agree that any contribution to be made under paragraph 1 will take place within the following two time periods per year, as applicable: (a) during the time beginning on the first business day after the filing of the Company's first fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's second fiscal quarter; and (b) during the time beginning on the first business day after the filing of the Company's third fiscal quarterly statutory financial statements and ending on the last business day prior to the end of the Company's fourth fiscal quarter. Notwithstanding the foregoing, in compliance with applicable law, any capital contribution provided for under paragraph 1 may be made by AIG after the close of any fiscal quarter or fiscal year of the Company but prior to the filing by the Company of its statutory financial statements for such fiscal quarter or fiscal year, respectively, and contributions of this nature shall be recognized as capital contributions receivable as of the balance sheet date

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of the yet to be filed quarterly or annual financial statement (as the case may be), pursuant to paragraph 8 of Statement of Statutory Accounting Principles No. 72, to the extent approved by the Domiciliary State. The Company and AIG further agree that any dividends to be made under paragraph 2 will take place as soon as practicable after the filing by the Company of the relevant fiscal quarter-end or fiscal year-end statutory financial statements or such earlier time as may be agreed by the Company and AIG.

5. At the time that any contribution is due under paragraph 4, AIG agrees that it will either (a) make such contribution to the Company's direct parent and cause such direct parent to then contribute such funds, securities or instruments so contributed by AIG to the Company, or (b) make such contribution directly to the Company without receiving any capital stock or other ownership interest in exchange therefor, subject in either case to any required regulatory approvals. At any time any dividends are due under paragraph 4, the Company agrees that it will make such dividend to the Company's direct parent and will use its best efforts to cause such direct parent to then dividend or otherwise provide such funds to AIG. All contributions and dividends contemplated under this Agreement shall be approved, declared and made, as applicable, in compliance with applicable law, including, without limitation, approval by the board of directors of each applicable entity (including the Company) and any prior notice requirements specified under applicable rules and regulations of the Domiciliary State.
6. Subject to the requirements of applicable law and the approval, to the extent required, by any or all of the Company's senior management, relevant management committees, board of directors, and of any insurance regulator, the Company hereby acknowledges that, in a manner consistent with past practice and any other reasonable requirements of AIG, it will comply with all financial and budgetary planning, risk mitigation, derisking or pricing, corporate governance, investment, informational and procedural requirements set forth by AIG.
7. AIG hereby waives any failure or delay on the part of the Company in asserting or enforcing any of its rights or in making any claims or demands hereunder.
8. Unless earlier terminated in accordance with this paragraph 8, this Agreement shall continue indefinitely. AIG shall have the absolute right to terminate this Agreement upon thirty (30) days' prior written notice to the Company, which notice shall state the effective date of termination (the "Termination Date"); *provided, however*, that AIG agrees not to terminate this Agreement unless (a) AIG significantly modifies the corporate structure or ownership of the Company, or (b) AIG sells the

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Company to an acquirer (i) having a rating from at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, that is at least equal to the lower of (x) AIG's then-current rating from such agency or (y) the Company's then-current rating as supported by this Agreement from such agency; or (ii) such that, immediately on the effective date of the sale by AIG of the Company, the Company's capitalization is consistent with the minimum capital adequacy standards and criteria of at least one of S&P, Moody's, A.M. Best or a substitute agency, which is a nationally recognized statistical rating organization, for a rating that is equal to or better than the Company's then-current rating on the date immediately preceding such sale. To the extent not terminated previously by AIG pursuant to the foregoing, this Agreement will terminate automatically one year after the closing of any sale of the Company by AIG, and all provisions hereof will be of no further force and effect. For the avoidance of doubt, the termination of this Agreement pursuant to this paragraph 8 shall not relieve either party of any obligation it may owe to the other party hereunder that existed prior to, and remains outstanding as of, the Termination Date.

9. Any policyholder holding a policy issued by the Company prior to the termination of this Agreement shall have the right to demand that the Company enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement, and, if the Company fails or refuses to take timely action to enforce such rights or the Company defaults in any claim or other payment owed to any such policyholder when due, such policyholder may proceed directly against AIG to enforce the Company's rights under paragraphs 1, 4 and 5 of this Agreement; provided, however, that no policyholder of the Company may take any action authorized under this paragraph 9 unless and until (a) such policyholder has given AIG written notice of its intent to enforce the terms of this Agreement as provided in this paragraph 9, which notice shall specify in reasonable detail the nature of and basis for the policyholder's complaint and (b) AIG has failed to comply with this Agreement within sixty (60) days after such notice is given; and, provided, further, that upon termination of this Agreement in accordance with paragraph 8 hereof, the rights of any policyholder as provided for under this paragraph 9 shall terminate effective as of the Termination Date, except with respect to the obligation of AIG (if any) to make capital contributions to the Company pursuant to paragraphs 1, 4 and 5 of this Agreement solely to the extent such obligation arose prior to, and remained unsatisfied as of, the Termination Date (it being understood that upon AIG's satisfaction of all such obligations after the Termination Date, no such policyholder shall have any rights against the Company or AIG, as the case may be, under this paragraph 9).



10. This Agreement is not, and nothing herein contained and nothing done pursuant hereto by AIG shall constitute or be construed or deemed to constitute, an evidence of indebtedness or an obligation or liability of AIG as guarantor, endorser, surety or otherwise in respect of any obligation, indebtedness or liability, of any kind whatsoever, of the Company. This Agreement does not provide, and is not intended to be construed or deemed to provide, any policyholder of the Company with recourse to or against any of the assets of AIG.
11. Any notice, instruction, request, consent, demand or other communication required or contemplated by this Agreement shall be in writing, shall be given or made or communicated by United States first class mail, addressed as follows:

If to AIG:

American International Group, Inc.  
180 Maiden Lane  
New York, New York 10038  
Attention: Secretary

If to the Company:

Western National Life Insurance Company  
2929 Allen Parkway  
Houston, TX 77019  
Attention: Secretary

with a copy (which shall not constitute notice) to:

Western National Life Insurance Company  
2929 Allen Parkway  
Houston, TX 77019  
Attention: General Counsel

12. The covenants, representations, warranties and agreements herein set forth shall be mutually binding upon and inure to the mutual benefit of AIG and its successors and the Company and its successors.
13. This Agreement shall be governed by and construed in accordance with the laws of Texas, without giving effect to the principles of conflict of laws.
14. If any provision of this Agreement shall be declared null, void or unenforceable in whole or in part by any court, arbitrator or governmental agency, said provision shall survive to the extent it is not so declared and

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all the other provisions of this Agreement shall remain in full force and effect unless, in each case, such declaration shall serve to deprive any of the parties hereto of the fundamental benefits of or rights under this Agreement.

15. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussion, whether oral or written, of the parties. This Agreement may be amended at any time by written agreement or instrument signed by the parties hereto.
16. This Agreement may be signed by the parties in one or more counterparts which together shall constitute one and the same agreement among the parties.

[signature page follows]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Brian T. Schreiber  
Name: Brian T. Schreiber  
Title: Executive Vice President

By: /s/ Robert A. Gender

Name: Robert A. Gender  
Title: Senior Vice President and Treasurer

WESTERN NATIONAL LIFE INSURANCE COMPANY

By: /s/ N. Scott Gillis  
Name: N. Scott Gillis  
Title: Senior Vice President and Chief Financial Officer

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SCHEDULE 1

The Specified Minimum Percentage shall initially equal 350% of the Company's Company Action Level RBC.

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## Computation of Ratios of Earnings to Fixed Charges

<b>Three Months Ended March 31, (in millions, except ratios)</b>	<b>2011</b>	<b>2010</b>
<b>Earnings:</b>		
Pre-tax income (loss) <sup>(a)</sup> :	\$ (1,387)	\$ 1,640
Add – Fixed charges	1,249	1,980
Adjusted Pre-tax income	(138)	3,620
<b>Fixed charges:</b>		
Interest expense	\$ 990	\$ 1,695
Portion of rent expense representing interest	49	61
Interest credited to policy and contract holders	210	224
Total fixed charges	\$ 1,249	\$ 1,980
Total fixed charges, excluding interest credited to policy and contract holders	\$ 1,039	\$ 1,756
<b>Ratio of earnings to fixed charges:</b>		
Ratio	n/a	1.83
Coverage deficiency	(1,387)	n/a
<b>Ratio of earnings to fixed charges, excluding interest credited to policy and contract holders<sup>(b)</sup>:</b>		
Ratio	n/a	2.06
Coverage deficiency	(1,177)	n/a

(a) From continuing operations, excluding undistributed earnings (loss) from equity method investments and capitalized interest.

(b) The Ratio of earnings to fixed charges excluding interest credited to policy and contract holders removes interest credited to guaranteed investment contract (GIC) policyholders and guaranteed investment agreement (GIA) contract holders. Such interest amounts are also removed from earnings used in this calculation. GICs and GIAs are entered into by AIG's subsidiaries. The proceeds from GICs and GIAs are invested in a diversified portfolio of securities, primarily investment grade bonds. When these investments yield rates greater than the rates on the related policyholders obligation or contract, a profit is earned from the spread.



### CERTIFICATIONS

I, Robert H. Benmosche, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ ROBERT H. BENMOSCHE

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Robert H. Benmosche  
President and Chief Executive Officer

## CERTIFICATIONS

I, David L. Herzog, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ DAVID L. HERZOG

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David L. Herzog  
Executive Vice President  
and Chief Financial Officer



**CERTIFICATION**

In connection with this Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert H. Benmosche, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2011

/s/ ROBERT H. BENMOSCHE

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Robert H. Benmosche  
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.



### CERTIFICATION

In connection with this Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Herzog, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2011

/s/ DAVID L. HERZOG

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David L. Herzog  
Executive Vice President and  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

QuickLinks

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