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AIG

American International Group, Inc.
Credit Risk Committee
Minutes

Tuesday, October 23, 2007

DATE: November 11, 2007

PRESENT: R.L. Finch, R. Gender, M. Lagoutte, K. McGinn, M. McWalters, J. Wibel and B. Livanou

GUESTS: C. Bonaparte, E. Diaz-Perez, D. Ensor, A. Halikias, D. McHugh, D. Wing and J. Zung

1. Minutes to the September 25, 2007 meeting. Approved. The Countrywide exposure has been reduced to $812 million, as $100 million of short-term exposure matured in mid-October. Similarly, the Residential Capital Corp. exposure has been managed down to $134 million. Moody's downgraded three major homebuilders (Pulte, Lennar and Centex) to Ba1/Negative in view of their earnings erosion. Moody's does not expect the homebuilding sector to recover before 2009 at the earliest. AIGI has confirmed that the Northern Rock exposure totals $146 million, including $38 million of Tier 2 securities. AGF's 60-day plus delinquency rate for its real estate portfolio is expected to increase from 1.97%-2.22% in 3Q07 to 3.00%-3.50% in 2008 as the subprime fallout worsens. CRM is following up with AGF senior management on a series of real estate portfolio concentration caps proposed by CRM as part of AIG's program to enhance risk management processes. UGC is in the process of re-engineering their second lien business, which is experiencing the overwhelming majority of the losses.

2. Review of Recent CRC Approvals. Recently approved transactions were reviewed (see attached credit log). K. McGinn informed the Committee that a number of bank limits were approved to accommodate Treasury's significantly increased liquidity needs with respect to the AIG Securities Lending pools. In addition, K. McGinn updated the CRC on the AIG-FP Super-Senior CDS deal flow. About $50 billion of such trades were booked in the third quarter, almost entirely in the corporate loan-mapped segment. The following transactions were highlighted at the meeting:

AIG Financial Products:

Archer Portfolio

This regulatory capital relief transaction involves AIG-FP selling credit default protection on a portfolio of 155 corporate obligors in an aggregate principal amount of $5 billion. As with previous similar transactions with Barclays, AIG-FP will provide protection in respect of 100% of losses arising from the portfolio, and a fixed payment mechanism will result in AIG-FP recouping from Barclays amounts sufficient to cover all losses expected based on a model-defined, worst-case scenario, making the portfolio risk equivalent to super senior risk notwithstanding the absence of a traditional first loss tranche. The term of the transaction is 15 years, five months, but Barclays has the option to terminate the transaction at any time after the first anniversary, providing there are no outstanding losses in respect of which AIG-FP has made payment and for which it has not been repaid via the fixed payment mechanism. All five outstanding transactions are performing strongly, with no credit events to date, and no material deterioration to any of the portfolios. This transaction when aggregated with the concurrent approval request for the Marlin portfolio, will take the total notional amount of corporate loans on which we provide credit default protection to Barclays to an aggregate amount equivalent to $5.24 billion. House Limit Excess approved by R. Lewis, Senior VP and Chief Risk Officer.

Atlas V Portfolio

Pursuant to this regulatory capital management transaction, AIG-FP is providing second loss credit default protection on a static portfolio of 250 investment grade obligors in an aggregate principal amount of $8.44 billion. Each obligor represents no more than 1.28% of the total portfolio. Banque AIG is proposing to provide protection for the second 88% of losses arising in respect of the portfolio, representing an aggregate exposure of $7.43 billion. This is the second regulatory capital relief transaction closed with Societe Generale. The first transaction, Atlas IV, was closed in June 2006. No credit events have occurred to date. House Limit Excess approved by R. Lewis, Senior VP and Chief Risk Officer.

Chesham Finance LLC and Chesham Finance Ltd.	The transaction involves a $500 million investment in 1 to 30 day USD or EUR denominated commercial paper issued by either Chesham Finance Ltd. (Euro cp issuer) or Chesham Finance Ltd. (USD cp issuer). Chesham is a bankruptcy remote asset backed commercial paper issuer rated A-1+/P-1 and a conduit well-known to AIG-FP. This transaction will enable AIG-FP to expand its short-term investment options especially in light of the current environment where more traditional money market investments result in negative carry. Condition: AIG-FP must seek re-approval if Chesham's investment strategy changes at all.
Marlin Portfolio	This regulatory capital relief transaction involves AIG-FP selling credit default protection on a portfolio of 411 corporate obligors in an aggregate principal amount of $12 billion. AIG-FP will provide protection is respect of 100% of losses arising from the portfolio, and a fixed payment mechanism will result in AIG-FP recouping from Barclays amounts sufficient to cover all losses expected based on a model-defined, worst–case scenario, making the portfolio risk equivalent to super-senior risk notwithstanding the absence of a traditional first-loss tranche. Although the term of the transaction is 10 years, 10 months, Barclays has the option to terminate the transaction at any time after the first anniversary, providing there are no outstanding losses in respect of which AIG-FP has made payment and for which it has not been repaid via the fixed payment mechanism. House Limit Excess approved by R. Lewis, Senior VP and Chief Risk Officer.
New Cheyne Plc	Pursuant to the transaction, AIG-FP will purchase $3.72 billion of super senior notes with an expected weighted average life of 2.3 years issued by New Cheyne, a proposed new structured investment vehicle. The notes represent the second 40% of losses arising in respect of a static pool of 298 asset-backed securities, with a Moody's weighted average rating factor of Aa1 and an expected weighted average life of 3.3 years. The portfolio is fully ramped up and is held by Cheyne Finance plc, a structured investment vehicle currently under Administration, following the occurrence of a Market Value Enforcement Event in August 2007. Morgan Stanley acted as the original advisor and placement agent to Cheyne Finance in 2005 and has submitted a restructuring plan to the Administrator. Although there are competing plans, AIG-FP and Morgan Stanley believe that the Morgan Stanley plan is preferred by the Administrator and will ultimately be approved, subject to AIG-FP's commitment to purchase the super senior notes.
Sedna Finance Corp.	The transaction involves the purchase of $400 million of debt of Sedna Finance Corp., a Citibank-managed, structured investment vehicle. Citibank (Citi) is expected to issue senior debt to AIG-FP that will be paid from a first claim on the assets of Sedna, with an expected maturity of four months (ending January 2008). Citibank has committed to purchase $4.5 billion of longer dated debt at the same time as the AIG-FP investment to show their alignment of interest. Citi's objective is to fully fund Sedna through to the New Year. It is the condition that the majority of this funding will have been achieved prior to executing the AIG-FP investment.
Smart 2007-1 Portfolio	The transaction involves selling senior credit default protection to Deutsche Bank (DB) on a static portfolio of corporate small and medium enterprise obligations with an aggregate principal amount of EUR 3.96 billion. AIG-FP proposes to provide credit default protection in the amount of EUR 3.27 billion, which represents the second 82.5% of losses arising in respect of the portfolio for a term of 6.3 years. DB will initially retain the lower tranches of the portfolio, but may sell this risk in the future. Within one month of the trade date of the

transaction, DB will provide a rating letter with confirmation from Moody's of a "Aaa" rating on a tranche that is junior to the proposed AIG-FP super senior tranche of 17.5%.

Soundbeach Portfolio	This transaction involves providing regulatory capital relief to Deutsche Bank in respect of a portfolio of leveraged loan obligations (441 loans to 248 obligors) with an aggregate principal amount of $11.85 billion. AIG-FP is proposing to provide credit default protection on the second 60% of losses arising in respect of the portfolio. Although the legal term of the transaction is 10 years, 7 months, DB has the option to terminate the transaction in January 2008 or any time thereafter for regulatory reasons and in March 2008 for any reason. House Limit Excess approved by R. Lewis, Senior VP and Chief Risk Officer.
AIG Global Trade and Political Risk: VTB Bank	The approval of a $125 million gross/$68.4 million net, five-year limit for the Russian Bank for Foreign Trade (VTB Bank) will accommodate both a 180-day $20 million limit for American Express Bank and a one-year $35 million letter of credit in favor of Cargill Financial Services. VTB Bank is the second largest bank in Russia. It is 77.5% owned by the Russian Federation, following an IPO of 22.5% of the bank's shares in May 2007. The bank's financial fundamentals continue to improve as evidenced by increased profitability and declining loan concentrations. Condition: Subject to annual review.
AIG Investments-Fixed Income: Local Limits	Limits were approved for various financial institutions. Genworth Financial's limit was decreased from $1 billion to $800 million due to increased financial stress on the mortgage insurance sector. Nevertheless, Genworth's good revenue diversification (Life: 54%; domestic mortgage insurance: 20%; and International: 36% of GAAP net income) has helped to counter the higher losses emanating from its mortgage insurance business.
AIG Investments – Non-Japan Asia: Philippine Long Distance Telephone Company	The limit increase reflects PLDT's position as the largest telecom in the Philippines (58% market share of cellular telephony and 63% share of fixed line service), as well as its improving financial metrics.
AIG Reinsurance Services Division: GMAC	The limit approval of $95 million is restricted to Motors Insurance Corp., which continues to perform well. Its combined ratio has averaged below 97% over the past several years and was 95.6% for 2Q07.
AIG Treasury Division: Bank Limits	Short-term bank limits for well-rated Australian, Canadian, European and Japanese banks were approved to accommodate Treasury's short-term liquidity management needs. The largest limit approvals were for the GSL Pools.
AIG, Inc.: Total One Obligor Limits	The House limit approvals largely reflect Treasury's increased bank capacity needs. The largest approval was for Citigroup ($11 billion renewal). In addition, the House limit for BT, the second largest telecom exposure, was maintained at $1.6 billion.
Domestic Surety: Quanta Services Inc.	The limit increase reflects Quanta Services' improved financial performance. On September 5, 2007, S&P upgraded the obligor's debt rating from BB- positive credit watch to BB. Similarly, Moody's upgraded the company's rating from B1 to Ba3. The upgrade, post the InfraSource merger, reflects their expectation of

improved operating results due to geographic and service capability diversification. In addition, the earnings contribution from InfraSource should lower EBITDA to Debt to below 2.5X.

3. Report of the October 2, 2007 CRC Portfolio Review of AIG Global Securities Lending. The AIG Securities Lending business is one of the largest non-custodian operations in the financial services industry. Securities Lending: As of September 28, 2007, the on-loan balance totaled $91.6 billion, up from $72.5 billion as of August 31, 2006. About $3.1 billion of balances represent trades with AIG companies, mostly with AIG-FP. Open and term trades accounted for 15.9% and 84.1%, respectively, of the on-loan balances. The absolute balance of open trades has decreased from over $17.5 billion at August 1, 2007 to slightly over $14 billion as of September 28, 2007 because of the ongoing credit crunch. Open trades pose liquidity risks, since counterparties may ask to liquidate balances in a short period of time. The top six borrowers accounted for 54.3% and 57.5% of the on-loan balances as of June 30, 2007 and September 19, 2007, respectively. As of September 19, 2007, the distribution was as follows: Barclays, 13.7%; Credit Suisse, 10.5%; Deutsche Bank, 10.2%; UBS, 9.5%; Merrill Lynch, 6.9%; and Goldman Sachs, 6.7%. The distribution remained stable despite heightened market volatility. P. Adamczyk commented that the top borrowers were able to accommodate Securities Lending with increased term trade balances and longer tenors both for relationship purposes and because of AIG's high creditworthiness. Heightened market volatility has not resulted in increased borrower concentration. Calyon and Rabobank have been added to the borrower list since the September 26, 2006 portfolio review. The Countrywide Securities limit was terminated, since they withdrew all their balances in early August. Bear Stearns is currently a small scale borrower. General collateral continues to account for the vast majority of securities loaned with very little specials activity. The majority of assets on loan are DTC-eligible bonds (51%), CMOs (16%), Euroclear-eligible bonds (11%) and MBS (7%). Equities and high-yield bonds each account for less than 1% of assets on loan. Borrowers have become more selective in the securities they are borrowing and have recently returned Countrywide Financial securities and private label CMOs. Cash Collateral Investment: Because of the increased market volatility, the cash collateral investment pool has been shifted towards highly liquid investments. Collateral pool cash on hand accounted for 15% of the overall pool as of September 19, 2007. It currently stands at 19% and is projected to reach 20% in the near future. The absolute level of overnight cash investments increased from over $2 billion at August 1, 2007 to $18 billion as of September 28, 2007. The breakdown of the cash collateral investment pool by asset class as of September 26, 2007 versus June 30, 2007 was as follows: asset-backed, 65.8% (72%); corporate debt, 29% (26.3%); and money market, 9.69% (1.7%). The ABS exposure is further broken down as: subprime RMBS, 24.7%; Alt-A RMBS, 17.2%; other ABS (credit cards etc); 4.95%; CMBS 3.9%; Jumbo RMBS, 3.69%; Foreign RMBS, 3.07%; and Heloc and second liens, 3.78%. P. Adamczyk reported that money market investments were 100% invested in overnight cash as of September 19, 2007, but they included investments with maturities ranging from 1 week to 30 days as of June 30, 2007. The breakdown of the cash collateral investment pool by rating as of September 26, 2007 was as follows: AAA, 68.27%; AA, 16.48%; A, 5.23%; BBB, 0.32%; BB, 0.02%; and A1 (short-term), 9.69%. Follow-up Issues: (1) CRM will review the Cantor Fitzgerald and Jefferies limits. Securities Lending will request Cantor Fitzgerald's latest audited financial statements and their FOCUS reports. (CRM subsequently reviewed Cantor Fitzgerald's financials and terminated the company's limit.); and (2) Securities Lending must implement a credit-equivalent exposure methodology in the near-term. Currently exposures, which are collateralized at 102% levels (105% for cross-currency exposures) and subject to daily margining, are counted at zero against AIGI obligor limits. In June 2007 CRM and Securities Lending had discussed implementing the Basel II capital standards as applied to repo-style transactions. M. Vassilakis will e-mail his excerpt of Basel II repo capital standards again to P. Adamczyk as well as to R. Scott and D. McHugh (completed). An interim solution of some modest percentage, 2-5% of the notional limit, may be proposed to the CRC, if the Basel standard cannot be adopted in the near term.

4. Approval of Updated CRC Corporate Alert List. The CRC approved the revised Corporate Alert List. Additions: Brightpoint, Inc. (ORR 6: concentration); Chrysler Holdings, LLC (ORR 6-: credit quality); Circuit City Stores, Inc. (ORR 6: credit quality); Dillard's Inc. (ORR 6+: credit quality); Impregilo SpA (ORR 7: credit quality); PTT Public Company Ltd. (ORR 4: concentration); Taiwan Semiconductor (ORR 3: concentration); and Telesat Canada Inc. (ORR 6-: concentration). Deletions: DaimlerChrysler AG (ORR 4: improved credit quality); and Tenet Healthcare Corp. (ORR 6-: reduced exposure).

5. Report of Updated CRC Financial Institution Alert List. The CRC approved the revised Financial Institution Alert List. Additions: Alliance Leicester (ORR 3: contagion risk); Astoria Financial Corp. (ORR 5+: housing market downturn); Australia and New Zealand Banking Group Limited (ORR 2-: concentration); Bank of New York Mellon Corp. (ORR 2-: concentration); Bradford & Bingley plc (ORR 4: contagion); Citizens Republic Bancorp, Inc. (ORR 5: negative developments); First American Corp. (ORR 5: housing market downturn); Kazakh Banks (ORR 5+-8: negative developments); and Northern Rock (ORR 4: negative developments). Deletions: Enterprise Bank of Hualien (ORR 8: acquired); Industrial and Commercial Bank of China (ORR 3-: improved credit quality); Taishin Financial Holdings Co., Ltd. (ORR 6: minimal exposure); and Taitung Business Bank (ORR 9: acquired).

6. Approval of AIG Commercial Equipment Finance, Inc. Franchise Finance Credit Risk Guidelines. The CRC approved the franchise finance credit risk guidelines, which establish lending criteria for borrowers in the Franchise Finance (restaurants and convenient stores only) business of AIG Commercial Equipment Finance (CEF). CEF Franchise Program Overview: CEF has been engaged in the franchise finance business since April 2005. There are 19 obligors in the portfolio split as 58% franchisees ($92.4 million) and 42% franchisor or chain owners ($68.1 million) with a total exposure of $160.5 million (includes $7.8 million of unfunded commitments). The exposure is further broken down between the restaurant sector ($122 million) and the convenience store sector ($38 million). The largest obligor exposures are Mac's Convenience Stores (ORR 5) at $25.3 million; Free IV LLC (Flying J truck stops, ORR 6) at $12.7 million; Briad Restaurant Group (TGI Friday's and Wendy's, ORR 6) at $12.8 million; and Boston Pizza (ORR 6) at $12.8 million. All transactions have been approved by CRM. Summary of Lending Criteria: The guidelines establish requirements with respect to Concept, Borrower, Facility Structure, Portfolio cap and Credit delegation. Concept: Concepts should be well established and in business for 10+ years. Borrower: For franchisees that are single proprietors, the borrower should have at least 10 years of experience and multiple locations. CEF will perform an in-depth background check as part of its due diligence. Borrowers should have audited financial statements. Facility Structure: Credit facilities are generally structured with a revolving credit facility and term loan (sometimes split with A and B structures). The facilities should be cross-collateralized with the borrower's other indebtedness. The Facility Structure section outlines specific parameters in terms of Leverage - Lease-adjusted leverage ratio; Tenor and amortization - To mitigate refinancing risk, credit facilities should have significant amortization depending upon the collateral; Capital expenditures - Limits on annual capital outlays should be incorporated into the terms in order to avoid over-expansion and financial deterioration.); and Distribution - Permitted distributions to owners should be very modest in size (e.g. less than 5% of net income). Portfolio cap: Exposure (funded and unfunded commitments) to this segment is limited to 10% of the total CEF portfolio. Credit Delegation: CEF has the authority to approve transactions up to $5 million and with a minimum collateral coverage of 51% based on an orderly liquidation value (OLF). The authority was delegated to CEF on September 27, 2005. CEF's white paper on the franchise finance business (dated February 2007) was attached for CRC review.

7. Approval of Revised AIG Investments Emerging Market Corporate Credit Guidelines and Authorities. The CRC approved the amended AIG Investments Emerging Market Corporate Credit Guidelines and Authorities. Emerging Market Corporate Portfolio Overview: The Emerging Market Corporate (EMC) portfolio was established in 2002 to consolidate AIG's non-investment grade exposure to EM corporate obligors. The current balance of the portfolio is about $248 million, and its weighted-average ORR is 5.7. The fund is now managed by the AIGI EM Group based in London (in the past it was managed by the AIGI High Yield team in Houston) and invests primarily in corporate and bank issuers in Asia, Africa, Eastern Europe, the Middle East and Latin America. CRM will receive summary portfolio reports monthly, as well as full investment memoranda for any new obligors added to the portfolio, and minutes of all investment committee meetings. The EMC team has also agreed to host a monthly call with CRM credit officers to discuss developments in their portfolio. The primary objective of the portfolio is to seek investments in EM-based companies that are globally competitive, have strong fundamentals and would likely be better rated were it not for their country of domicile. The portfolio will be diversified by country, region and industry, avoiding excessive concentrations in any one particular nation or business sector. Typical investment amounts will range from $10 million to $50 million for any given obligor. There is currently only one position n the portfolio in excess of $25 million. The revised parameters (19 conditions) will provide the AIGI managers with investment flexibility, yet assure an appropriate level of CRM supervision for an asset class that clearly presents some unique and high risks. The top 10 requirements include: (1) All portfolio obligors are subject to availability under CRC-approved cross-border country limits; (2) The country of risk of the obligor will be determined in accordance with the CRC definition of that term, i.e. the country where the preponderance of the assets and/or cash flows is derived; (3) The profile and reputation of the obligor and its ownership group must be checked through with AIG's local managers, AIGI regional officers, CRM or appropriate staff; (4) CRC must approve any incremental exposure to CRC Alert List obligors above established limits previously approved by CRC; (5) CRC must approve any EM exposures to any financial institutions, including any banks, bank holding companies, brokers, finance companies and insurance companies in excess of $25 million, pursuant to the terms and conditions of the CRC-approved Pre-Authorization Policy for AIGI Investment in Financial Institutions dated July 18, 2006. Investment in any reinsurance company obligations is subject to CRC approval; (6) Investments in bonds, loan placement notes (LPNs) and bank loans are permitted. Selective investment in credit default swaps is also permitted. Investment in convertible bonds and warrant may only be made with CRC approval; (7) Obligors rated ORR 7 or better will account for most of the portfolio; (8) A maximum 10% may be invested in distressed debt. Distressed debt investments in the EM portfolio will be subject to the CRC-approved AIGI High Yield Distressed Fund guidelines dated May 22, 2007, including aggregate limit for the at portfolio. Under no circumstances may the combined exposures to an obligor in both the EMC and Distressed Debt portfolios exceed $50 million; (9) Purchases of non-dollar denominated investments are permitted up to 10% of the total portfolio; and (10) No more than 15% of the total portfolio should be invested in obligors in any one industry.

8. Presentation of AIG-FP's Super Senior Credit Default Swap Portfolio. K. McGinn provided the CRC with an update on the status of AIG-FP's super senior credit default swap protection business. About $50 billion of trades were booked in 3Q07, almost entirely in the corporate loan-mapped segment, with much higher attachment points and better pricing than in the past (pricing rose by approximately 3X). AIG-FP has a proposed pipeline of $272 billion of Super Senior (SS) deals, of which $145 billion are corporate loan and $123 billion are European residential mortgage portfolios. Virtually all trades require CRC approval because of size. CRC runs stressed KMV tests to confirm the robustness of AIG-FP's rated corporate loan deals. AIG-FP stresses all deals to post WWII recession levels. W-VaRs are always computed (to 99% confidence levels) and must be under attachment points (subordination). At CRC requests W-VaRs are sometimes re-computed to default certain obligors. W-VaRs are re-run every quarter and compared to attachment points to assure they remain SS. Over the last two years only one trade, a German residential mortgage portfolio, has fallen below SS attachment levels by W-VaR analysis. Its SS position has since been restored. One corporate arbitrage trade may be very slightly below SS levels (still AAA at 9/30/07) because of M&A activity that lowered several pool obligor ratings. The five asset classes that comprise this business are: (1) SS CDS: Rated Corporate Debt/Loan Portfolios (Arbitrage): At 6/30/07 the rated corporate debt/loan portfolio exposure totaled $95.4 billion net (20% of the notional total) of SS CDS against 47 mostly static corporate bond and synthetic portfolios. Reference portfolios are usually comprised of 100 or more, mostly investment grade, publicly rated obligors in the US/EU with a few Asian issuers on occasion. (2) SS CDS: Corporate Loan Bank – Mapped Portfolios: At 6/30/07 bank loan/SME loans mapped exposure was $163 billion (35% of the notional total) and the largest asset class in the AIG-FP SS portfolio. Many of these trades are callable and likely will be called when Basel II fully takes effect. Reference portfolios are comprised of large numbers (often several hundred) of senior loans to obligors, which are a mix of rated and unrated (mapped to agency ratings) names. Deals can be regulatory capital driven or SS tranches to CLOs. Approximately 29 deals totaling $72.5 billion are blind pools; (3) SS CDS: European Residential Mortgages (RM): At 6/30/07 exposure was $127.8 billion (27% of notional) among 38 trades and the second largest asset class in AIG-FP's SS portfolio. 65% of the trades were booked from 2005 and prior. Largest trade is $20.9 billion (16% of RM notional): Danske Danish RM trade with 9.2% attachment approved 1/07. The next largest is $17.6 billion ABN Shield 1 Dutch mortgage transaction with attachment of 17.5% approved 12/05. These two deals account for 30% of segment exposure; (4) SS CS: CDO of Asset-Backed Securities (ABS) – Term Protection: Eighteen deals were written in 2006 totaling $16.5 billion, but only three trades totaling $8.4 billion were written after 1Q06. Most early 2006 trades were based on 2005 mortgage pools. Fifty trades totaling $40.7 billion were booked in 2005, of which a large number were against portfolios with some Alt-A and sub-prime RMBS (other assets in the pools include CMBS, auto loan ABS, credit card ABS, etc), but all have high attachment points. Because of real estate market concerns that AIG-FP identified in late 2005 and confirmed with CRM, they stopped writing protection against CDOs of subprime ARM RMBS portfolios; and (5) SS CDS: ABS 2a-7 Portfolio: At 6/30/07 ABS 2a-7 trades amounted to $6 billion (1.2%of notional total) spread among 17 trades and were booked between 2002-2004. The book is now in a run-off mode.

Minutes were taken by Barbara Livanou