Listfield, Amanda

From: Jakobishvili, Nugzari
Sent: Tuesday, September 09, 2008 1:14 AM
To: 'Schreiber, Brian'
Cc: 'McGinn, Kevin'; 'alan.pryor@aig.com'; 'elias.habayeb@aig.com'; 'Alan.Frost@aigfpc.com'; 'Adam.Budnick@aigfpc.com'; 'Eduardo.Diaz-Perez@aigfpc.com'; 'fewings@aigfpc.com'; Hallac, Charles; Phillips, Craig ; Paltrowitz, Mark; Villacorta, Roland; Wiedman, Mark; Krull, Andrew; Jajow, Martin
Subject: Updated Super Senior CDS portfolio analysis

Brian,

Thanks for hosting us at your offices today - we enjoyed the discussion and look forward to more conversations.

Attached you'll find our updated cash flow analysis of the Super Senior CDS portfolio, which we do not expect to change materially from this point as we near the end of our QC. As opposed to the presentation we sent last night, this updated analysis includes cash flows from Project Max (thus, all 109 CDOs).

We expect to deliver all the CDS cash flows within a day or so, and we'll provide a final version of this presentation with that delivery.

Best,
-Nugi

090808 DRAFT AIG SSCDS Cash...

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Review of Cash Flow Projections for AIG-FP Super Senior CDS Portfolio

September 9, 2008

Executive Summary

AIG engaged BlackRock Solutions to provide cash flow projections on a portfolio of credit default swaps (CDS*) on super senior tranches of 109 CDOs in the AIG-FP portfolio. Our key conclusions follow:

- The portfolio is projected to incur significant negative cash flows resulting from over thirty credit events in the first five years. During that period, we project net cash flows of ($12.0) billion in the base case and ($18.8) billion in the stressed case
- After the first five years, positive cash flows from subsequent interest recovery and premiums exceed ongoing negative cash flows from credit events
- Projected net cash flows over the entire life of the portfolio total ($7.3) billion (base case) / ($15.2) billion (stressed case)
    - At AIG's request, BlackRock has produced additional cash flow projections under an alternative credit event assumption for the CDS, which assumes that acceleration under a CDO results directly in a credit event under the related CDS (This analysis is included herein)
- The majority of the CDS require market value collateralization, which will significantly increase financing requirements by AIG. At AIG's direction, we have not incorporated these market value provisions in our cash flow modeling

The assignment was limited to cash flow projections and was not intended to incorporate portfolio valuation or disposition recommendations. Additional analysis might explore:

- Alternative discounting methodologies for fundings and recovery cash flows
- Segmentation of the CDS portfolio by underlying CDO collateral stratifications
- Pricing analysis for future CDO cash flows
- Mark-down / tear-up analysis

Important notes: In completing this cash flow analysis, BlackRock has relied upon third parties (e.g., AIG-FP, Intex, Weil Gotshal) for key portfolio data and modeling assumptions. BlackRock has not pursued independent verification of these data sources or assumptions.

**CDS includes credit default swaps, 2a-7 liqudity puts, total return swaps, and bespoke transactions*

BlackRock: The Global Leader in Analyzing and Managing Distressed Asset Portfolios

The Financial Markets Advisory Group has managed or advised on distressed structured finance portfolios totaling $250+ billion since mid-2007

Prominent examples[1] of BlackRock-led assignments

- Federal Reserve for $30 billion facility related to JP Morgan / Bear Stearns merger
- UBS $15 billion RMBS fund
- Restructuring of non-bank asset-backed CP in Canada
- Appointed as lead manager for “superconduit” / Master Liquidity Enhancement Conduit in the US and UK

Our clients – investment banks, insurers, and global banks – have chosen BlackRock given our:

- Exceptional depth in managing fixed income assets
  - $131 billion in RMBS
  - $30 billion in ABS
- World-class risk management / analytics within BlackRock Solutions®
  - Risk-manage $7 trillion, including $1 trillion in mortgages
- Deep experience in creating and administering structured finance vehicles
  - 46 CDOs since 1998

BlackRock Value Proposition

- Global Structured Finance and Fixed Income Expertise
- BlackRock Solutions Platform and Risk Analytics
- Fiduciary Culture
- Dedicated Financial Markets Advisory Group

As of 30 June 2008

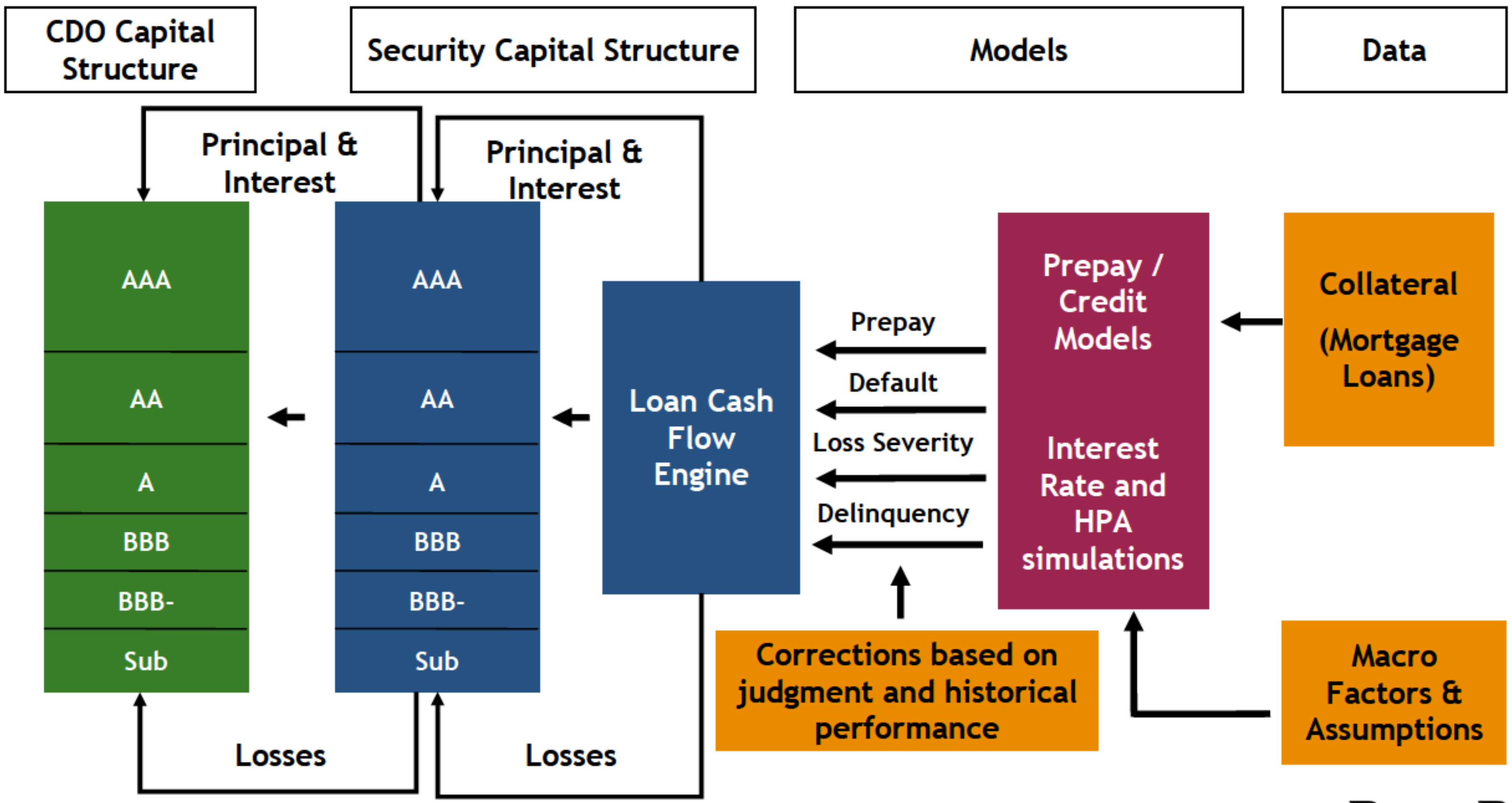
[1]The list of clients is a representative sampling based upon mandate, client type and geographic location that allow their names to be publicly disclosed as of 30 June 2008. Disclosure does not indicate approval or disapproval by such client of BlackRock or of the services provided.

The Foundation of Our Cash Flow Projections: Bottoms-Up Analysis

We employ a unique approach for structured securities / derivatives

- Proprietary loan-level econometric model
- Basic approach in use for 10 years

BlackRock models every security from the bottom up, using individual loan/credit modeling and a full "look-through" approach



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Granular Approach to Subprime and Alt-A Modeling

Loan Level Data

Supply Intex with Validated Loan Level Data

- Borrower Credit Metric
- Property Valuation Metric
- Loan Characteristics

Macroeconomic Factors & Assumptions

Granular Data

Econometric Model Forecast Vectors

- Prepayment
- Delinquency
- Default
- Loss Severity

Output

Customized Projections by Loan Type

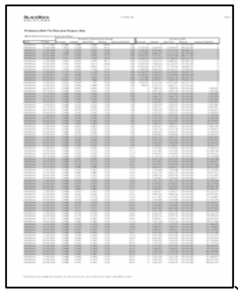
- 2/28 ARM
- 3/27 ARM
- 30 Year Fixed
- 15 Year Fixed
- 2nd Lien
- Manufactured Housing
- Alt-A

CDS Cash Flow Modeling

CDS cash flow modeling utilizes several inputs that are unique to AIG's portfolio. Key inputs include: 1) Projected CDO cash flows from the reference obligations (e.g., principal paydown, interest shortfalls); 2) Original transaction documents; and 3) Attorney summaries of key swap provisions.

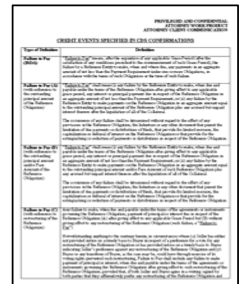
Inputs:

CDO cash flows

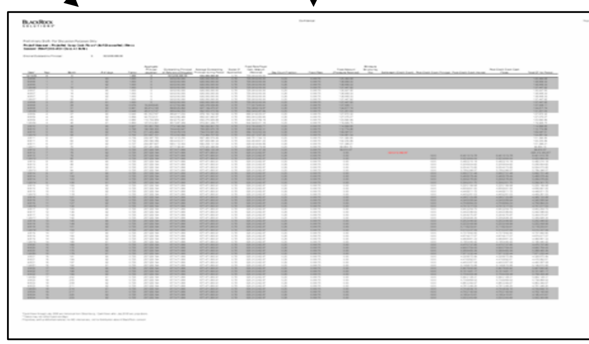


AIG-FP CDS confirmations

Weil Gotshal Attorney Summaries



Swap Cash flows:

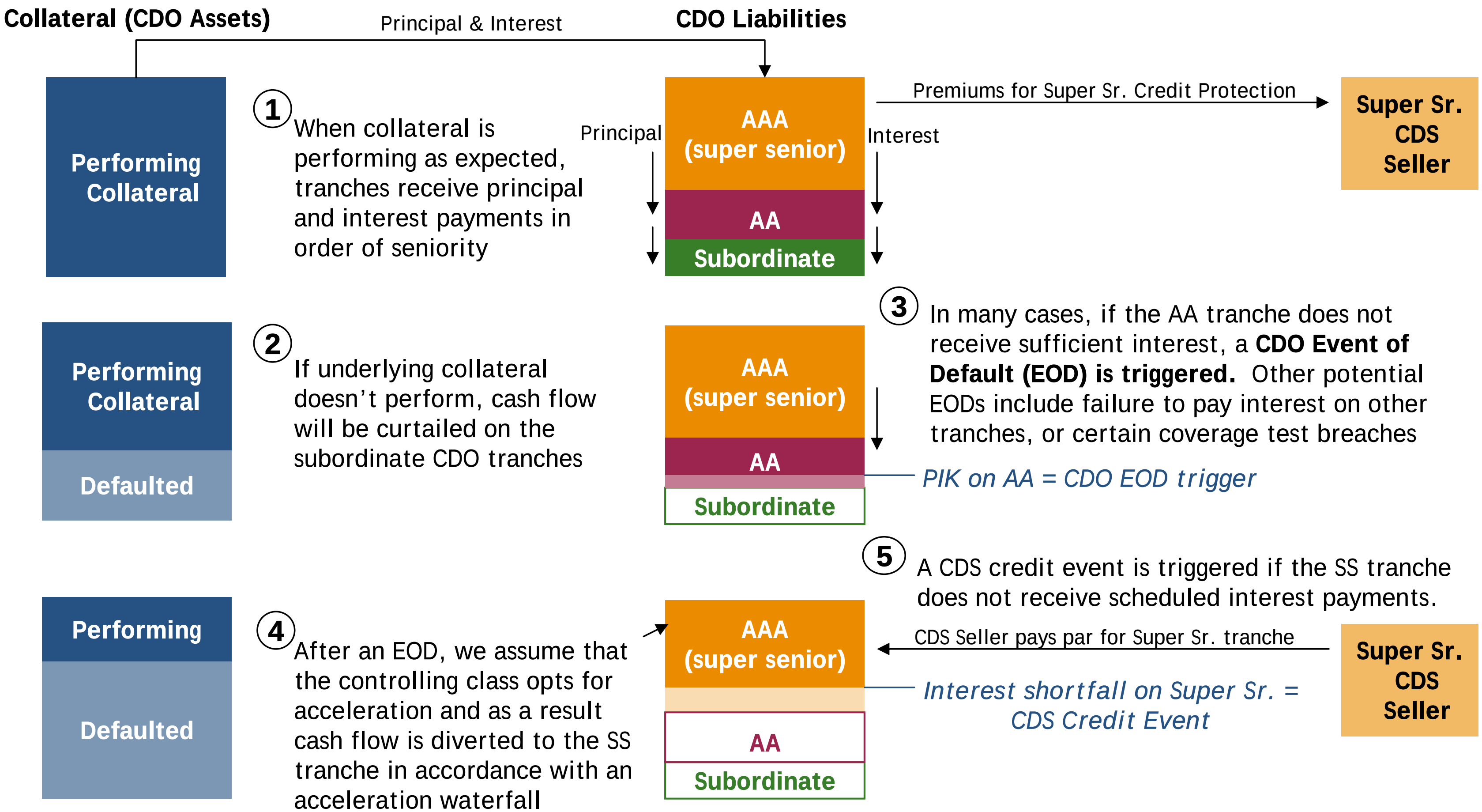


Other inputs and reliances by BlackRock include:

- Assumptions agreed upon with AIG assuming acceleration and the exercise of liquidity puts
- Intex data and structuring for the reference CDOs
- AIG's instructions to disregard market value collateral posting provisions in swap documents
- Indicative portfolio information, 2a-7 liquidity put schedules, summaries and other data provided by AIG-FP

Typical Steps Preceding a CDS Credit Event

Individual CDO and CDS transactions differ considerably. This illustration presents one typical progression from a performing CDO deal to a credit event on the super senior tranche



At AIG's request, we also provide analysis that assumes that acceleration of the defaulted CDO immediately results in a credit event under the super senior swap.

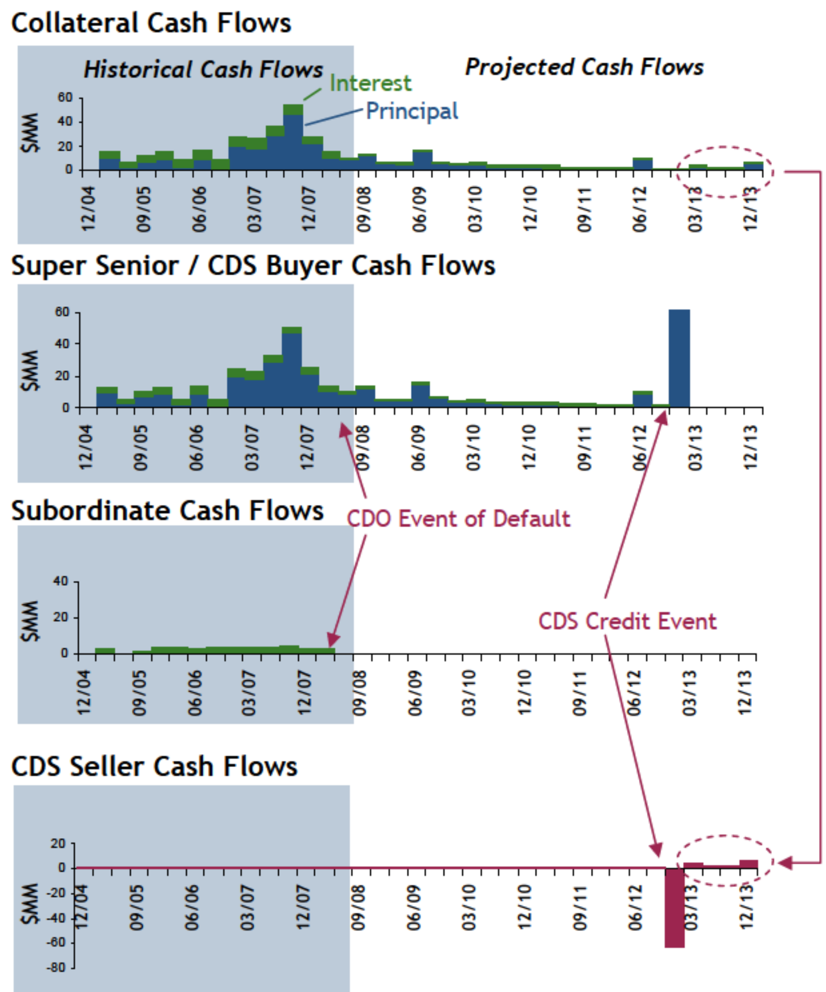
Illustration of Cash Flow Dynamics on a Sample Transaction

In the given example, an event of default occurs in early 2008, which diverts cash flows to the super senior tranche upon an acceleration.

- For a few years after the event of default, collateral cash flows are projected to be sufficient to pay interest to the super senior tranche
- During 2011, collateral cash flows taper off significantly

An interest shortfall on the super senior tranche is projected to take place in 2012, constituting a credit event under the CDS

After the credit event, the CDS seller (e.g. AIG) pays par to the counterparty under the swap, and from that point any cash flows distributed on the senior CDO tranche are directed to AIG, which now owns the super senior tranche as a cash position.



At AIG's request, we also provide analysis that assumes that acceleration of the defaulted CDO immediately results in a credit event under the super senior swap. In this case, the negative cash flows from AIG occur concurrently with the CDO Event of Default.

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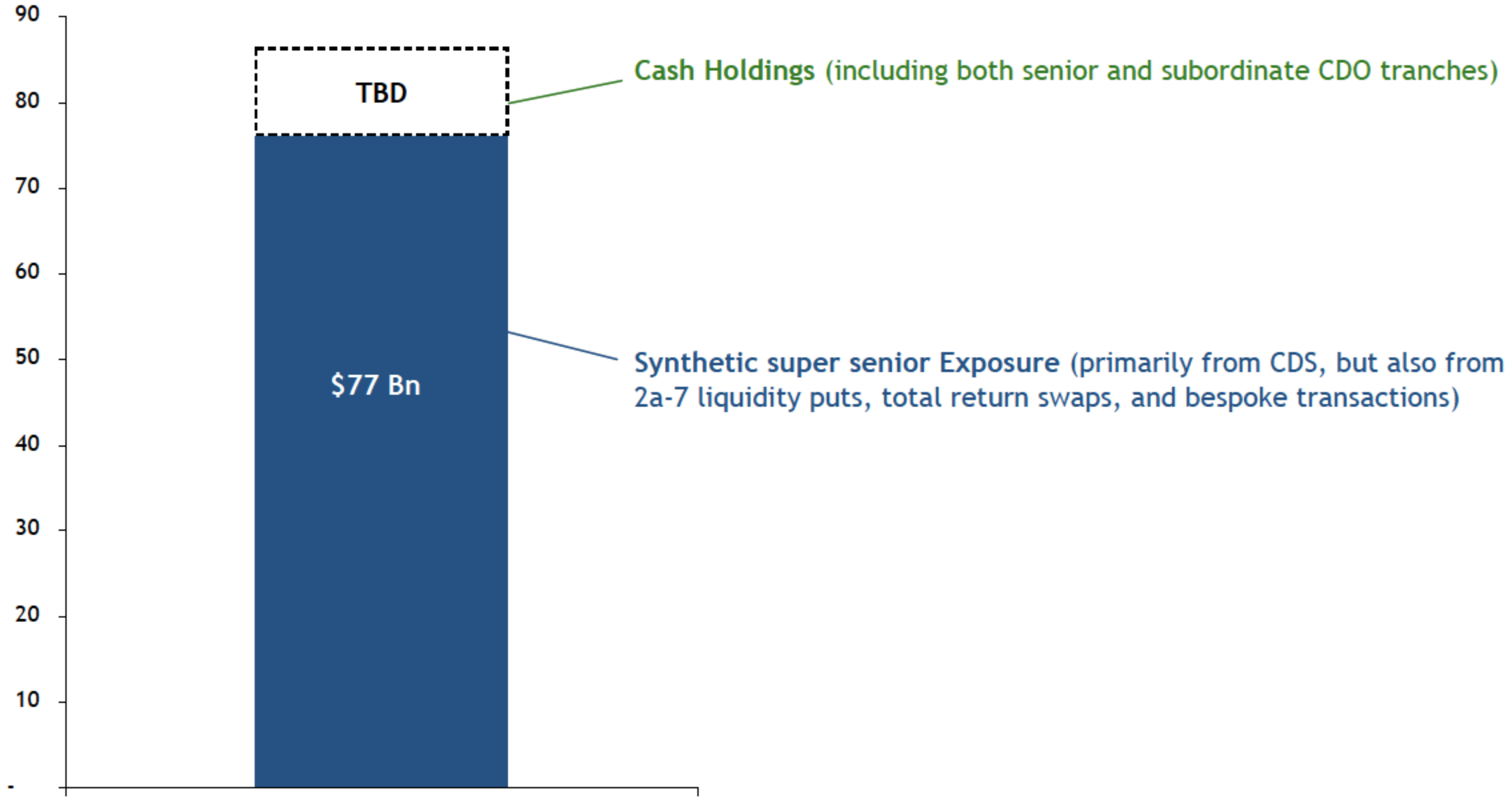
Overview of super senior CDS Portfolio

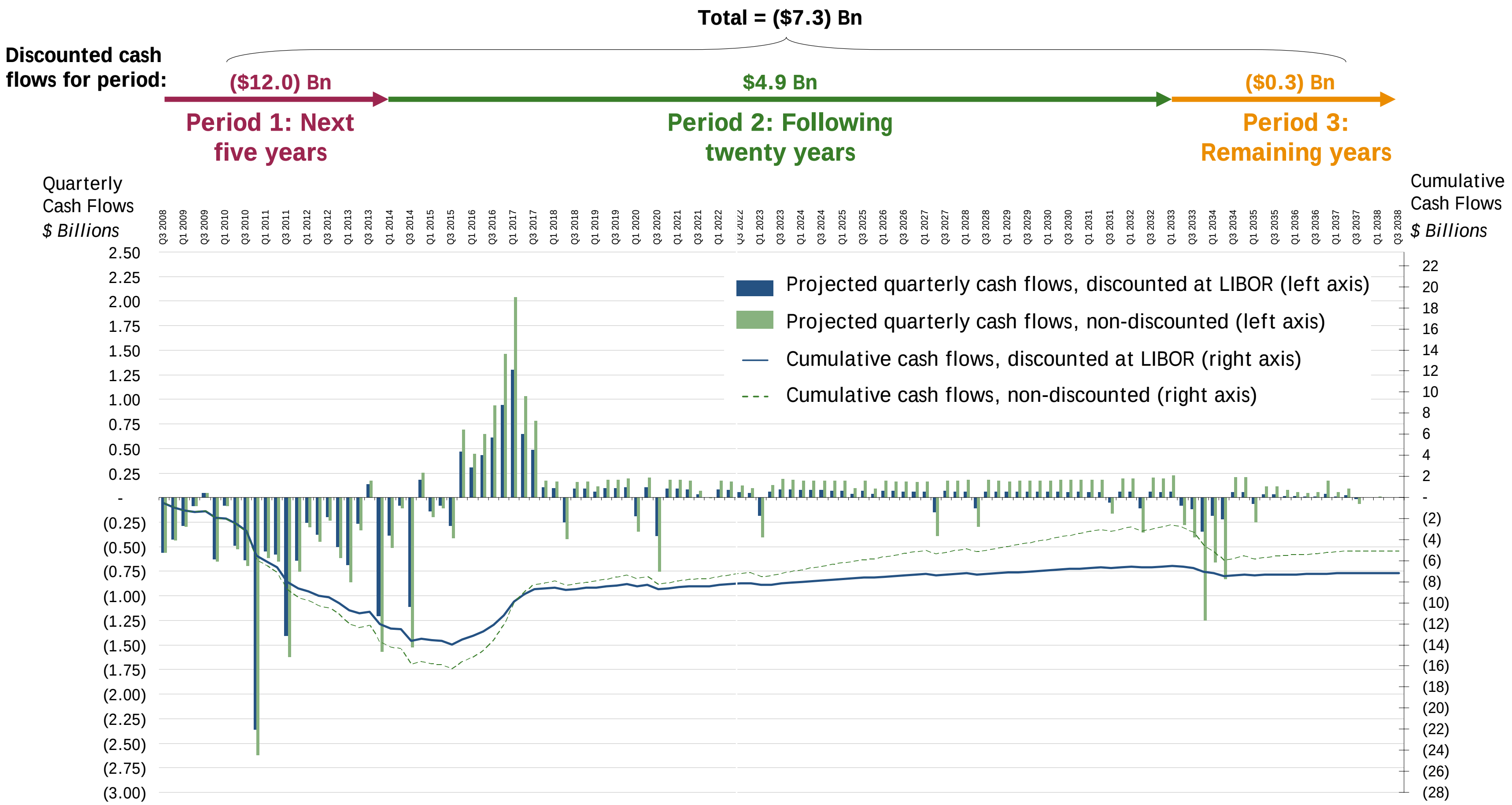
The synthetic exposures in the AIG-FP portfolio reviewed by BlackRock Solutions total $77 Bn*

- The reference and cash CDOs are backed almost exclusively by residential and commercial mortgage collateral
- Our analysis focuses primarily on the synthetic exposures of the portfolio



*Source: Intex, as of July 31, 2008

Base Case Cash Flows / Assumes Acceleration ≠ Automatic Credit Event



*Projected cash flows do not reflect any market value-based adjustments or collateral posting provisions that are part of many of AIG's credit default swaps on the super seniors

**Analysis assumes that all 2a7 liquidity puts that may be exercised prior to July 31, 2008 are exercised in Period 1, and that all liquidity puts that may be exercised after July 31, 2008 are exercised in the first period in which such puts become active.

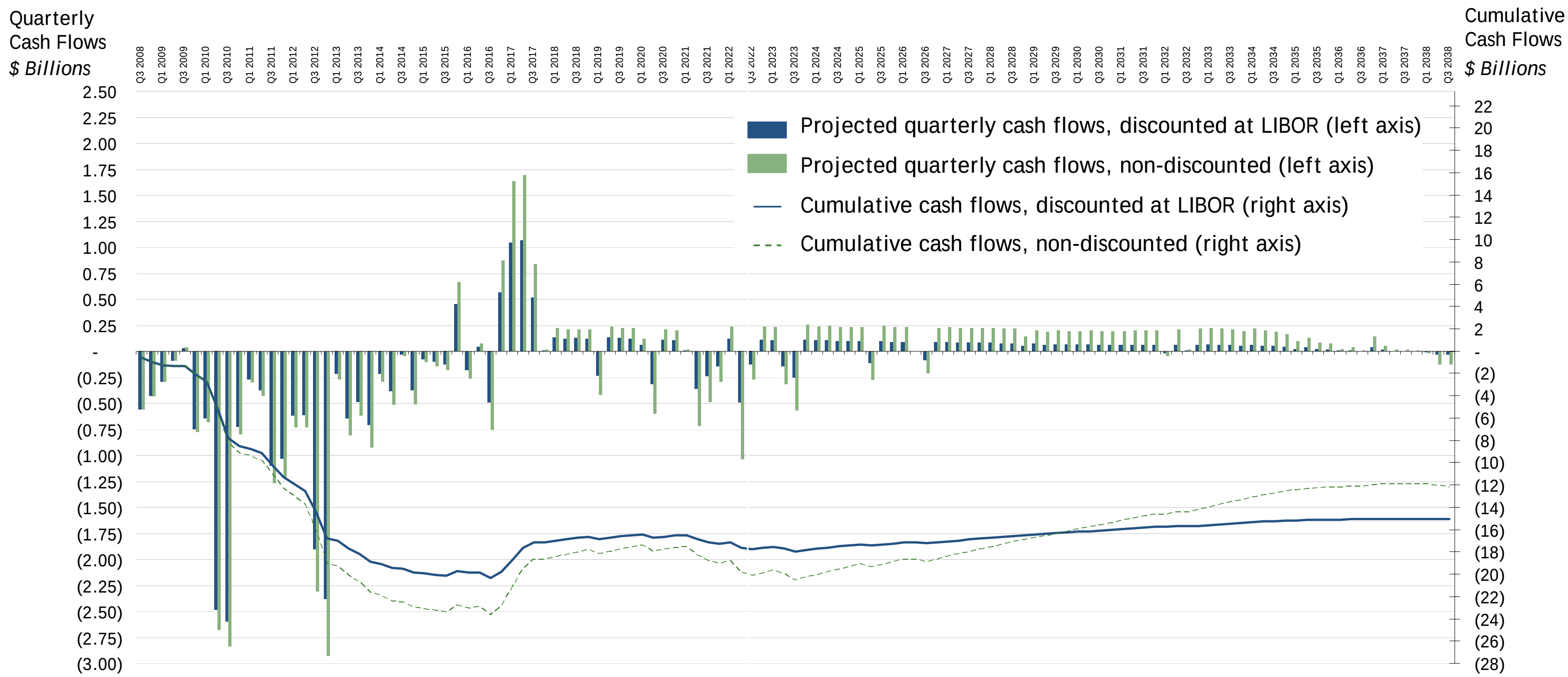
***Non-discounted cash flow totals equal ($13.7) Bn for Period 1, $9.1 Bn for Period 2, and ($1.0) Bn for Period 3, totaling ($5.6) Bn for all periods.

Stressed Case Cash Flows / Assumes Acceleration ≠ Automatic Credit Event

Total = ($15.2) Bn

Discounted cash flows for period:

($18.8) Bn	$3.4 Bn	$0.2Bn
Period 1: Next five years	Period 2: Following twenty years	Period 3: Remaining years

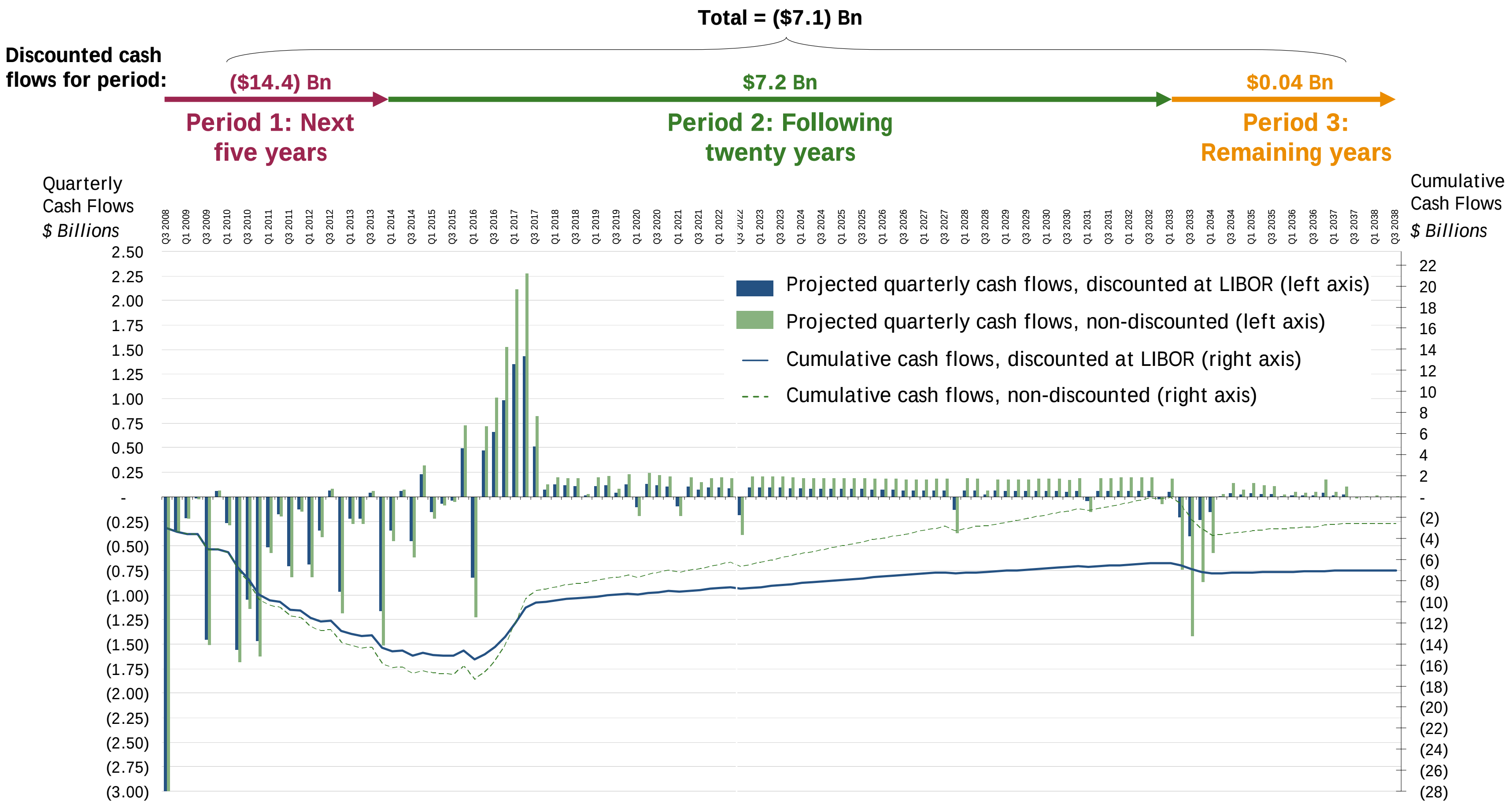


*Projected cash flows do not reflect any market value-based adjustments or collateral posting provisions that are part of many of AIG's credit default swaps on the super seniors

**Analysis assumes that all 2a7 liquidity puts that may be exercised prior to July 31, 2008 are exercised in Period 1, and that all liquidity puts that may be exercised after July 31, 2008 are exercised in the first period in which such puts become active.

***Non-discounted cash flow totals equal ($21.6) Bn for Period 1, $8.2 Bn for Period 2, and $0.5 Bn for Period 3, totaling ($12.9) Bn for all periods.

Base Case Cash Flows / Assumes Acceleration = Automatic Credit Event



*Projected cash flows do not reflect any market value-based adjustments or collateral posting provisions that are part of many of AIG's credit default swaps on the super seniors

**Analysis assumes that all 2a7 liquidity puts that may be exercised prior to July 31, 2008 are exercised in Period 1, and that all liquidity puts that may be exercised after July 31, 2008 are exercised in the first period in which such puts become active.

***Non-discounted cash flow totals equal ($15.9) Bn for Period 1, $12.8 Bn for Period 2, and $0.1 Bn for Period 3, totaling ($3.0) Bn for all periods.

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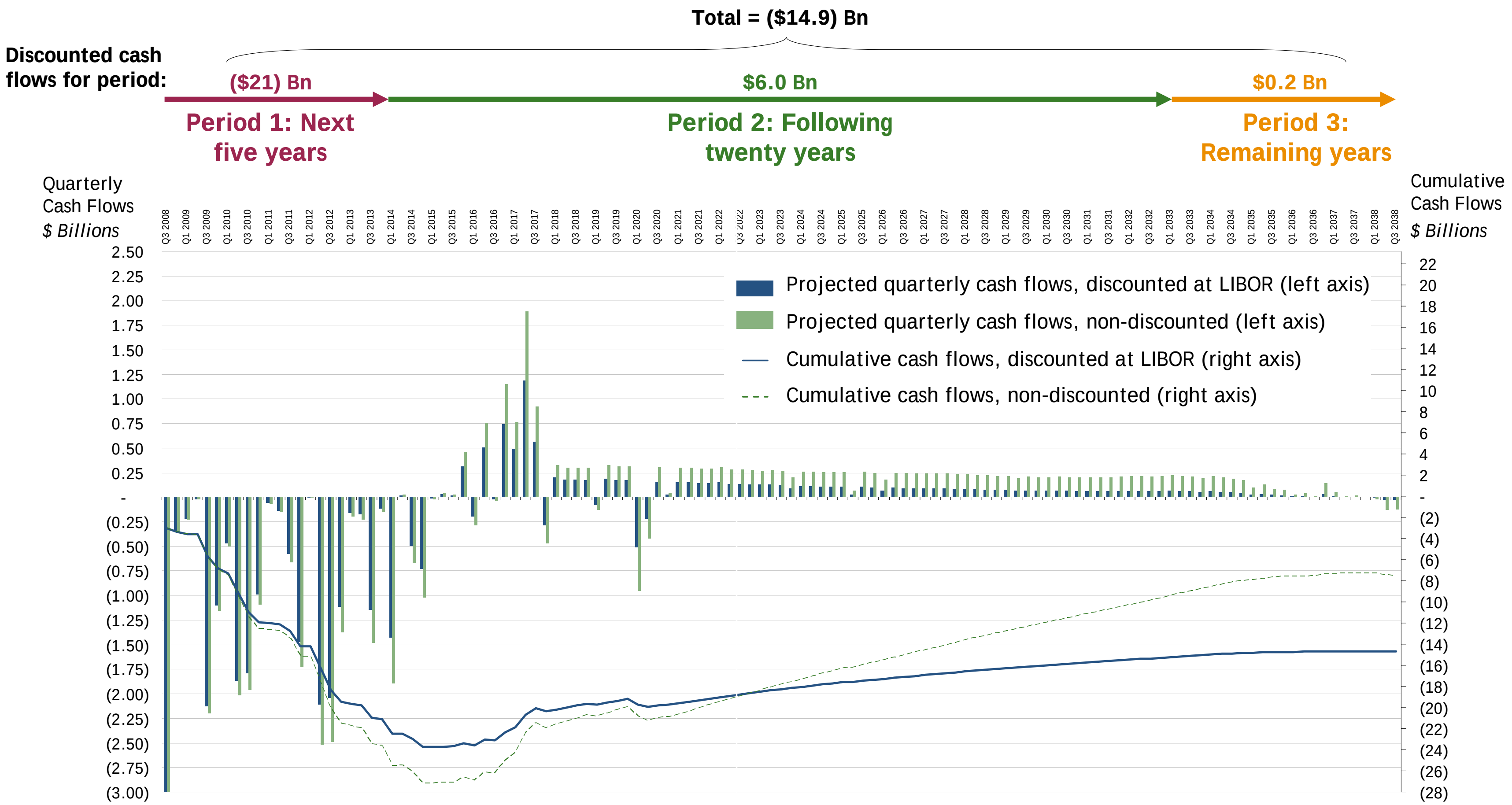
Stressed Case Cash Flows / Assumes Acceleration = Automatic Credit Event



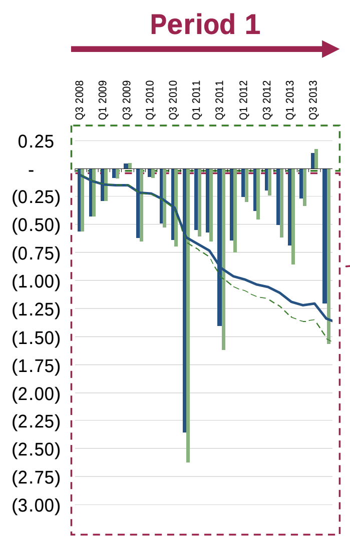
*Projected cash flows do not reflect any market value-based adjustments or collateral posting provisions that are part of many of AIG's credit default swaps on the super seniors

**Analysis assumes that all 2a7 liquidity puts that may be exercised prior to July 31, 2008 are exercised in Period 1, and that all liquidity puts that may be exercised after July 31, 2008 are exercised in the first period in which such puts become active.

***Non-discounted cash flow totals equal ($23.5) Bn for Period 1, $14.7 Bn for Period 2, and $0.5 Bn for Period 3, totaling ($8.3) Bn for all periods.

Projected Cash Flows - Period 1 (Next Five Years) - Base Case

Period 1 is projected to contain a concentration of large credit events, contributing the bulk of negative cash flows to the overall timeline



Positive cash flows consist of CDS premiums and post-credit event cash flows (i.e., any principal and interest from underlying bonds after physical settlement of CDS agreements)

Large negative cash flows stem from a number of CDS which are projected to experience credit events (e.g., interest shortfall on the super senior tranche)

- Negative cash flows from credit events during Period 1 are projected to total ($12.8) billion vs. positive cash flows of $0.9 billion, netting to ($12.0) billion (all numbers discounted at LIBOR)
- From the 109 CDOs reviewed, over 30 associated CDS experience credit events during Period 1

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Projected Cash Flows - Periods 2 & 3 - Base Case

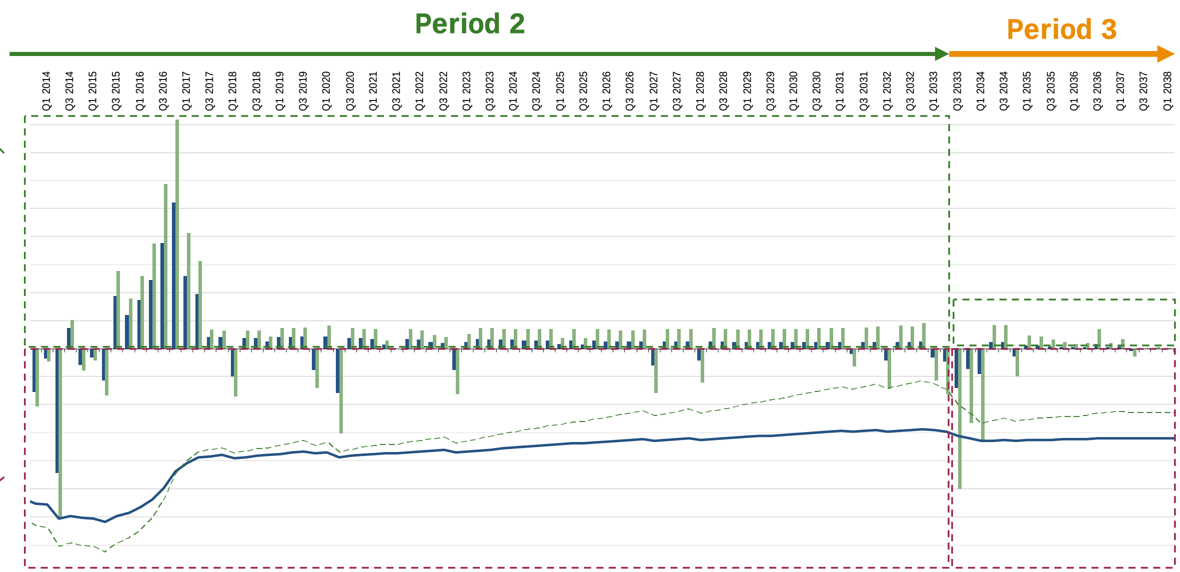
Periods 2 is projected to be cash flow positive because cash generated from underlying CDOs exceeds projected credit events, while Period 3 cash flows are slightly negative

Once CDS are settled from credit events in Period 1, positive cash from underlying CDOs augment the CDS premiums

- On average, CDS premiums are ~12bps
- The weighted-average coupon for the underlying super senior tranches is ~LIBOR+20bps

Period 2 credit events are projected to be less frequent than in Period 1

- Over the twenty year period, total projected negative cash flows amount to ($5.4) billion, while positive cash flows total $10.4 billion, netting to $4.9 billion (all numbers discounted at LIBOR)



Cash flows in Period 3 are projected to be slightly negative overall because of credit events that occur at the end of the CDO life cycle

- Lessened impact from these credit events because underlying CDO tranches are projected to pay down significantly and because of discounting
- A number of credit events result from CDO tranches that have significant subordination, which absorb losses for years before the super senior tranche experiences an interest shortfall

The CDOs are Backed by High-Grade, Seasoned RMBS and CMBS collateral

59% of the CDO portfolio is backed by 2004 – 2006 Subprime, Alt-A, and CMBS collateral

Sec Type / Vintage	2001	2002	2003	2004	2005	2006	2007	2008	Total
Subprime	0	0	1	7	15	10	4	0	**38**
CMBS	0	0	1	3	7	4	2	0	**17**
Other Resi (Prime, Agency, etc)	0	0	1	3	6	4	2	0	**16**
Alt-A	0	0	1	3	6	4	2	0	**15**
CDOs (ABS CDO, CLO, etc)	0	0	0	2	4	3	1	0	**11**
ABS (Credit Cards, Student Loans, etc)	0	0	0	0	1	0	0	0	**1**
Bonds	0	0	0	0	0	0	0	0	**1**
Manuf Housing	0	0	0	0	0	0	0	0	**0**
Total	**0**	**1**	**3**	**18**	**39**	**25**	**11**	**1**	**100** %

52% of the CDO portfolio is backed by A1 through Aaa collateral, while 21% of the collateral is below investment grade

Sec Type / Rating	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Below Baa3	Total
Subprime	12	2	3	2	1	2	2	2	2	1	8	**38**
CMBS	5	1	2	1	1	1	1	1	1	1	4	**17**
Other Resi (Prime, Agency, etc)	5	1	1	1	0	1	1	1	1	0	3	**16**
Alt-A	5	1	1	1	0	1	1	1	1	0	3	**15**
CDOs (ABS CDO, CLO, etc)	3	1	1	0	0	1	1	1	1	0	2	**11**
ABS (Credit Cards, Student Loans, etc)	0	0	0	0	0	0	0	0	0	0	0	**1**
Bonds	0	0	0	0	0	0	0	0	0	0	0	**1**
Manuf Housing	0	0	0	0	0	0	0	0	0	0	0	**0**
Total	**31**	**5**	**9**	**4**	**3**	**6**	**6**	**6**	**5**	**3**	**21**	**100** %

Total = 52%

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Appendix

Cumulative Loss Estimates by Vintage

Mortgage Model - Base and Stressed Case

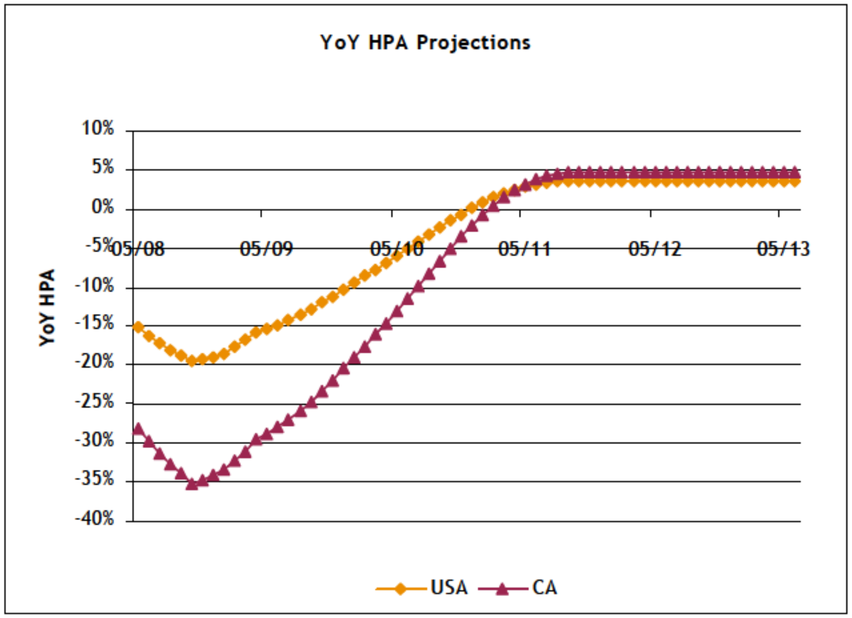
Base Case	*Stressed Case*
HPA Projection:	**HPA Projection:**
36% peak to trough national home price decline (18% actual through March 2008)*	48% peak to trough national home price decline (18% actual through March 2008)*
60% peak to trough California home price decline	68% peak to trough California home price decline
Cumulative loss estimates	**Cumulative loss estimates**
Subprime 2004-1: 5%	Subprime 2004-1: 6%
Subprime 2004-2: 6%	Subprime 2004-2: 8%
Subprime 2005-1: 9%	Subprime 2005-1: 11%
Subprime 2005-2: 13%	Subprime 2005-2: 16%
ABX.06.1: 18%	ABX.06.1: 23%
ABX.06.2: 25%	ABX.06.2: 32%
ABX.07.1: 31%	ABX.07.1: 41%
ABX.07.2: 35%	ABX.07.2: 49%

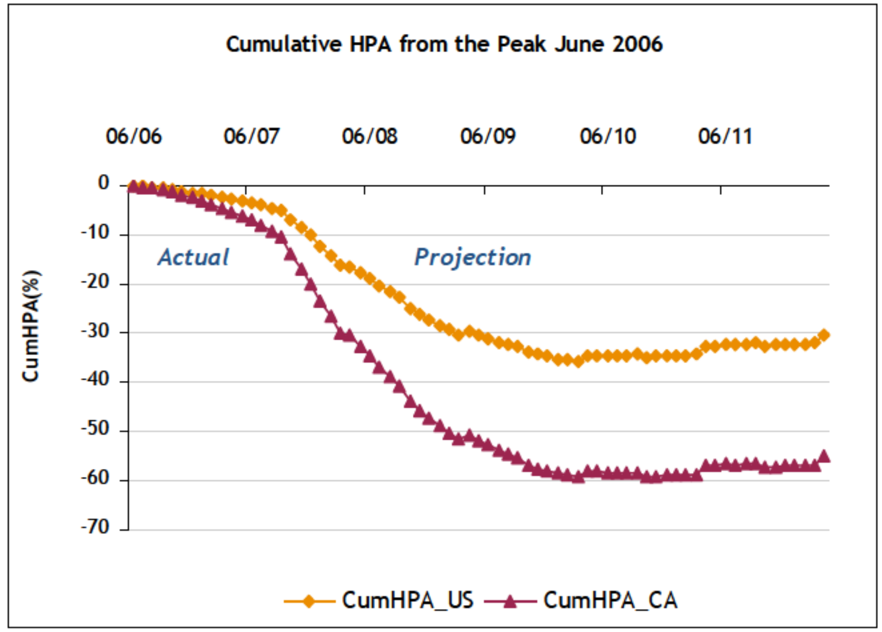
Four of the above subprime indices (2004-1, 2004-2, 2005-1, and 2005-2) were custom synthesized according to the following constraints:

- Deal issued within 6 months prior to the launch date (e.g., the 2004-1 index uses deals issued in the second half of 2003)
- No more than four deals with the same originator
- Rated by Moody's and S&P (the AAA tranche is referenced in the index)

**Source: S&P / Case-Schiller*

National and California Base Case HPA Projections





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