

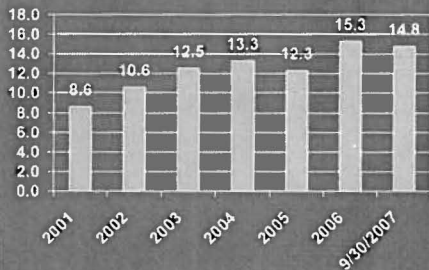


Enterprise Risk Management

AIG Has No Appetite for Undue Concentrations of Risk

AIG's earnings are resilient to major industry wide systematic risks. AIG's corporate philosophy is built around effective enterprise risk management – proof is in results, with returns approaching/exceeding Cost of Capital in every major crisis period.

Return on Equity (%), GAAP Basis



Despite Crisis Ridden Industry Shocks:

- September 11, 2001
- 2001-02 Credit Crises
- 2001-02 Equity Markets Disruption
- 1997-01 U.S. Casualty Loss Reserve Development
- 2004 U.S. Hurricanes
- 2005 KRW – Worst Ever Insurance Loss



What Differentiates AIG?

- Underwrites as a principal.
- Emphasizes own risk analysis and assessment.
- Invests to match policyholder liabilities, avoiding having to sell into illiquid markets.
- Avoids inappropriate risk concentrations across businesses and portfolios.
- Supports culture of integrated risk management at all levels.



Multi-Layered Approach

AIG's corporate philosophy has always encouraged full profit center accountability for risk management – ERM has built on this risk culture.

Credit Risk Management

Market Risk Management

Gen Ins. Risk Management

Life Ins. Risk Management

Op. Risk Management

Liquidity Risk Management

- AIG has both a centralized and decentralized risk management process that fits the business model.
- ERM focuses on systematic (non-diversifiable) risks.
- Regional ERM hubs located in North America, Asia and Europe.
- Corporate-level risk governance structure since early 1990's.
- ERM complements profit center RM disciplines.
- ERM manages concentration risks across all segments by risk category and by the inter-relationships of risk.



ERM Governance and Reporting

Enterprise Risk Management

▪ Credit Risk

▪ Market Risk

▪ Insurance Risk

▪ Economic Capital

▪ Liquidity Risk

▪ Operational Risk

▪ SOX

▪ Remediation

▪ CSFT

Senior Management Committees

- Credit Risk
- Cross-Border Exposure
- Country Rating Review

- Financial Risk
- Foreign Exchange
- Derivatives

- L&RS RM
- General Insurance RM
- CEO Approval Process

- Capital Management
- Economic Capital

- ORM Forums

- Remediation Steering

- Complex Structured Fin. Trans. (CSFT)

Board of Directors

Finance Committee

Audit Committee



Credit Control Process for All AIG Businesses

- AIG controls all company-wide credit exposures, under the oversight of the Credit Risk Committee (CRC) supported by ERM's Credit Risk Management Department (CRM).
- The CRC approves all AIG business unit credit policies and guidelines and the delegation of all credit authorities throughout the organization.
- CRM approves all credit limits and transactions above authorities delegated to credit officers in the business units.
- CRC reviews regularly AIG's largest corporate, financial institution, sovereign and industry credit risk concentrations and recommends to the CEO changes in AIG's House Limits.
- CRM maintains AIG's risk rating system.
- CRC conducts regular and comprehensive portfolio credit reviews with business unit management.



AIGFP "Super Senior" (SS) Credit Default Swaps (CDS)

- CRC approval required for virtually all SS CDS exposures (above \$250 million), including SS CDS for multi-sector CDOs.
- SS CDS net notional exposures above \$5 billion also require the approval of AIG's CFO or CRO.
- CRC supplements AIGFP's analysis with its own independent review of exposures in the underlying portfolios.
- For residential mortgage SS exposures, CRM reviews the quality of the originators; mortgage vintages; CLTVs; investor, second home and condo concentrations; fixed vs. floating rate composition, low documentation; and other major assumptions.
- For multi-sector CDOs, CRM reviews the diversity, asset types and ratings of the collateral securities; RMBS vintages; mortgage originators; manager quality; replenishment rights; over-collateralization and interest coverage tests; constant-prepayment-rate assumptions; and subordination levels.
- CRM challenges AIGFP's stress assumptions, where appropriate.
- CRM reviews quarterly the portfolio of SS CDS exposures, including the multi-sector CDOs, with regard to original and current subordination levels, realized and expected loss estimates, and updated Worst Case Value-at-Risk (W-VaR) model results.
- CRM reviews with AIGFP management any exposures that evolve over time to below "Super Senior" credit quality to determine appropriate actions, including executing further portfolio hedges.



AIG Insurance Investment Portfolios

- CRC conducts an annual portfolio review of residential mortgage-backed securities (RMBS), CDOs and other structured product exposures.
- The RMBS review encompasses agency, prime jumbo, Alt-A, sub-prime and second-lien RMBS exposures, including foreign RMBS.
- Quarterly, CRM supplements the CRC review with an examination of mortgage and RMBS portfolio trends and other noteworthy characteristics.
- AIG's CCO must approve all credit-related, other-than-temporary decline (OTTD) impairments.



Mortgage Guaranty

- CRC conducts an annual portfolio review of UGC's first-lien, second-lien and international mortgage insurance exposures.
- CRM supplements this review with a quarterly review of UGC portfolio trends, delinquencies and claims for all three divisions.
- CRC approves portfolio limits for UGC's first-lien business, including limits on sub-prime, Alt-A, option ARMs, no documentation, affordable housing, state and lender mortgage concentrations.
- CRM must approve all domestic and international bulk mortgage insurance transactions.
- CRM must also approve all new international mortgage insurance platforms.
- AIG's CCO, the CFO of the Domestic Brokerage Group (DBG) and the SVP for Casualty Actuary jointly approve UGC's claims reserves.



Consumer Finance

- CRC conducts an annual portfolio review of all segments of AGF's credit portfolio, including delinquencies, charge-offs, recoveries, loan re-writes and real estate owned (REO).
- CRM reviews quarterly AGF's residential mortgage exposures, examining trends and reviewing concentrations in high CLTV, interest-only, low documentation, sub-prime and Alt-A mortgages.
- The CCO and the CFO of AIG's Financial Services Division must approve each quarter the adequacy of the loan loss reserve for all AGF portfolios.
- CRC also reviews AGF's credit underwriting practices.

Summary

- All mortgage-related exposures are monitored by CRM, an approval and review body independent from the business units.
- CRM is staffed with highly experienced credit professionals who have been through many business and consumer credit cycles.
- CRC approves policies, procedures, limits and certain transactions for the mortgage businesses.
- CRM regularly reviews mortgage-related exposures and coordinates adjustments to portfolios with business unit management.
- The AIG CCO approves all loan loss reserves for these businesses.
- The centralized credit control process through the CRC is a valuable check and balance for the organization.