AIG

**AMERICAN INTERNATIONAL GROUP, INC.**
**CREDIT RISK COMMITTEE**

Approved by AIG
Credit Risk Committee

Kevin B. McGinn 12/20/2005

Kevin B. McGinn
Chairman
Credit Risk Committee

**To:** Credit Risk Committee

**From:** Kevin B. McGinn

**Date:** December 20, 2005

**Subject:** **AIGGIG Global Securities Lending (GSL) Cash Collateral Investment Policy**

After due consideration and extensive discussion with AIGGIG management, we seek your approval of the attached revised AIGGIG GSL Cash Collateral Investment Policy. This policy pertains to the investment of cash received as part of the GSL lending program. Please note that all exposures under the policy are counted against the general account CRC-approved or duly delegated credit limits.

Significant changes to the existing policy include:

1. Authority to invest in derivative structures up to 10% of the portfolio subject to the rating in the policy.
2. Authority to invest cash received in Euro and sterling in investments of the same currency or US dollars.
3. The introduction of an aggregate portfolio limitation of 10% in any issuer (subject to CRC general account limits).
4. Clarifies that any AIG subsidiary or affiliate securities lending clients may not be counterparties for cash investments.
5. Permits up to 75% of the portfolio to be invested in asset-backed securities (ABS), up from 60%.
6. Permits a new limit of up to 10% of the portfolio to be invested in money market instruments of ORR 4- rated issuers if they have at least one A-1/P-1 rating.
7. Permits a new limit of up to 10% of the portfolio to be invested in corporate issuers rated ORR 3 or better and A3/A- or better.
8. Permits a new limit of up to 5% of the portfolio to be invested in ABS rated ORR 2 and Aa3/AA- or better provided average life does not exceed five years and expected final does not exceed six years.
9. Permits unrated (by the agencies) investments, provided they are rated ORR 3 or better, no single investment exceeds 2% of the portfolio, the total of such investments does not exceed 10% of the portfolio and their maturity does not exceed 397 days.
10. Provides that the AIGGIG Chief Credit Officer must approve any investment with a remaining maturity over 60 days that is not longer permissible because of a rating adjustment or other action.

The changes are reasonable and do not expose the portfolio to any significant high degree of risk. In addition, AIGGIG has agreed to submit to CRM for review a quarterly report on the holdings in this portfolio.

Therefore, we support the revisions and recommend your approval.

## AIG GLOBAL SECURITIES LENDING CASH COLLATERAL INVESTMENT POLICY

### I. INVESTMENT OBJECTIVE

The primary objective is to protect principal value of cash collateral received and maintain adequate liquidity. Secondarily, it is to provide incremental income to the portfolio of all AIG Global Securities Lending (GSL) clients through prudent and risk-controlled investment practices.

### II. INVESTMENT LIMITATIONS & RESTRICTIONS

**A. Derivatives**

1. All derivative structures, defined as any financial instrument traded on or off an exchange, the price of which is directly dependent upon (i.e., "derived from") the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments or any agreed upon pricing index or arrangement, must be approved in advance by AIG Derivatives Committee.
2. All derivative structures will be via funded investment structures, which may be in the form of a credit-linked note, a trust certificate relating to a specific tranche or series or similar type structure.
3. No more than 10% of the market value of the Portfolio may be invested in derivative structures.

**B. Foreign Exchange**

1. USD cash is acceptable collateral for all loans;
2. Euro and Sterling cash collateral are acceptable in those cases where the lent security is either denominated in the same currency as the cash collateral that is taken, or in USD.
3. In all cases, minimum initial collateral levels will be 102% when the lent security is denominated in the same currency as the cash collateral and 105% when they are different.

**C. Interest Rate Exposure**

1. Gap risk is defined as the aggregate difference between the interest rate reset date of the investment securities (maturity date for a fixed rate security) and the interest rate reset date of the loans for the Portfolio. The gap for the investment/loan Portfolio may not exceed 45 days. A report detailing the gap for each sub-Portfolio will be provided to AIG Market Risk Management monthly.
2. Basis risk is defined as the risk associated with an investment having a different reset index than that of a loan. In order to minimize basis risk to the Portfolio, only indices based on Federal Funds or LIBOR are permitted.
3. Any security with a remaining maturity in excess of 180 days must be floating rate.

**D. Commingling of Collateral**

Cash collateral investments will not be held in a commingled account with any other client's cash collateral investments, unless all such clients have consented to such commingling in writing in advance.

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**E. Borrowing**

The Portfolio may not borrow money.

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**F. Rehypothecation**

Securities purchased with cash held by the Portfolio may not be lent, mortgaged, pledged, hypothecated, rehypothecated or in any manner transferred as security for indebtedness.

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**G. Aggregate Investment**
Except for U.S. Treasury or Agency securities and reverse repurchase agreements, the Portfolio may not purchase securities of any Approved Issuer if, as a result of such purchase, more than 10% of the total assets of the Portfolio would be invested in the securities of such Issuer.

**H. Affiliate Investments**
1. GSL has made, and anticipates continuing to make, loans to majority-owned affiliates of American International Group, Inc. (AIG). Any such loans have been, and will continue to be made, in compliance with GSL's cash collateral investment policies applicable at the time the loan was or will be made. Historically, such loans were made to and guaranteed by entities not rated by any Nationally Recognized Statistical Rating Organizations (NRSROs). If such affiliate loans are made in the future, they may be made to and guaranteed by entities not rated by any NRSROs.
2. Acceptable NRSROs are Standard & Poor's, Moody's Investors Service and Fitch Ratings.
3. Under no circumstances may any current lending client of AIG Global Securities Lending also be a counterparty to an affiliate loan by the Portfolio.

**I. Interpretation of Policy**
1. All limitations and restrictions in this Investment Policy shall apply at the time of settlement only.
2. Failure to comply with any specific guideline or restriction contained herein because of events outside of the Advisor's control will not be deemed a breach of this Policy.

## III. INVESTMENT POLICIES

**A. Permissible Investments**
The Portfolio may invest in the following types of instruments:
1. *Money Market Instruments*
    a. Obligations of financial institutions, such as certificates of deposit, bankers' acceptances and time deposits;
    b. Money market funds;
    c. Asset-backed commercial paper;
    d. Corporate obligations, including commercial paper, notes and bonds;
    e. Securities issued or guaranteed by governments, agencies and instrumentalities thereof.
2. *Reverse Repurchase Agreements*
    a. Maximum maturity of 90 days.
    b. Only with counterparties approved by AIG's Credit Risk Management Department
    c. Collateralized at a minimum level of 102%.
    d. Acceptable collateral is any security which conforms to all criteria as set out in this Policy without limit on maturity.
3. *Government Obligations*, defined as U.S. Treasury and Agency debt as well as supra-national and sovereign debt which conforms to all criteria set out in this Policy.
    a. The remaining maturity of all Government Obligations may not exceed 5 years, except that;
    b. Up to 10% of the market value of the Portfolio may be invested in Government Obligations with remaining final maturities not to exceed 10 years.

  c. Any security with a remaining maturity in excess of 180 days must be floating rate.

4. *Corporate Obligations*, defined as all unsecured debt, whether public or 144A, issued on behalf of a corporation or financial institution.
   a. The remaining maturity of all Corporate Obligations may not exceed 5 years, except that
   b. Up to 10% of the Portfolio may be invested in Corporate Obligations with remaining final maturities not to exceed 10 years.
   c. Any security with a remaining maturity in excess of 180 days must be floating rate.
5. *Asset Backed Securities* (ABS), defined as all debt, whether public or 144A, issued on behalf of an Agency or Corporation which is secured by assets.
   a. The expected average life of an ABS may not exceed 5 years and its expected final maturity may not exceed 6 years, except that;
   b. Up to 10% of the Portfolio may be invested in ABS having an expected average life not to exceed 10 years and an expected final maturity not to exceed 12 years, according to the discretion of the Adviser.
   c. Any security with a remaining maturity in excess of 180 days must be floating rate.

**B. Credit Quality and Concentration**

1. *Money Market Instruments*
   a. Up to 100% of the Portfolio's short-term investments may be in securities of Issuers rated AIG's Obligor Risk Rating (ORR) 3 or better and rated at least A-1/P-1 or equivalent by two NRSROs.
   b. Up to 10% of the Portfolio may be invested in securities of Issuers rated ORR 4 or better and rated at least A-1/P-1 or equivalent by one NRSRO and rated at least A-2/P-2 or equivalent by another NRSRO.
2. *Reverse Repurchase Agreements*

   Up to 100% of the Portfolio may be invested in reverse repurchase agreements.
3. *Government Obligations*
   a. Must be at least ORR 2 and must be rated at least AA-/Aa3 or equivalent by two NRSRO's.
   b. The Portfolio may be comprised of up to 100% Government Obligations, except that
   c. The Portfolio may not invest more than 50% of its total assets in securities issued or guaranteed by governments, agencies and instrumentalities other than U.S. Government securities.
4. *Corporate Obligations*
   a. Must be at least ORR 2 and must be rated at least AA-/Aa3 or equivalent by one NRSRO, except that:
   b. Up to 10% of the market value of the Portfolio may be invested in Corporate Obligations rated ORR 3 or better and rated A-/A3 or equivalent by one NRSRO.
   c. The remaining maturity of any ORR 3 Corporate Obligations may not exceed 3 years.
   d. The Portfolio may be comprised of no more than 50% Corporate Obligations.
5. *Asset Backed Securities (ABS)*
   a. Must be ORR 1 and must be rated AAA/Aaa or equivalent by two NRSROs, except that

b. Up to 5% of the market value of the Portfolio may be invested in ABS rated ORR 2 or better and rated AA-/Aa3 or equivalent by two NRSROs.
c. The expected average life of any ORR 2 ABS may not exceed 5 years and its expected final maturity may not exceed 6 years.
d. The Portfolio may be comprised of no more than 75% ABS.

**C. Downgrades and Unrated Investments**

1. In the event a Permissible Investment becomes no longer permissible, whether because of a rating downgrade or other action the following action plan will take effect:,
   a. If the remaining maturity of the investment is 60 days or less, the investment can then be held until maturity or sold, at the discretion of the Adviser, but will not be eligible for new investment;
   b. If the remaining maturity of the investment is greater than 60 days, the investment must be submitted to AIGGIG's Chief Credit Officer for approval.
2. Investments which are not rated by a NRSRO may be purchased by the Adviser if the Adviser determines they are of comparable credit quality to the guidelines contained herein, provided that
   a. Investments must be rated ORR 3 or better. Where an ORR has not been assigned by CRC, the AIGGIG ARR may be used and will serve as a provisional ORR until CRC confirms the ORR.
   b. No single such investment may exceed 2% of the market value of the Portfolio.
   c. The aggregate total of such investments may not exceed 10% of the market value of the Portfolio.
   d. The remaining maturity of all such investments must be no greater than 397 days, provided that such investments are subject to renewal or extension in the Adviser's sole discretion for a term not to exceed 397 days, provided that the Issuer is not in default at the time of such renewal or extension.
   e. Any unrated security with a remaining maturity in excess of 180 days must be floating rate.