Risk Management

I. Government Assistance

The Government has provided approximately $130 billion of government assistance to AIG and has committed to provide up to $182 billion.

II. Sullivan and Cassano Represented that AIG Had Strong Risk Management

- During the 12/5/07 Investor Conference Day, Mr. Sullivan said that the risk AIG took in the U.S. residential housing sector was "risk supported by sound analysis and a risk management structure that allows AIG to put our capital at work in an efficient manner" and that AIG "had a centralized risk management function that oversees the market, credit and operational management of each of our businesses as well as at the parent company."[1]

- During the same Investor Day Conference, Mr. Cassano said that AIGFP performed "thorough due diligence" on each CDS trade and that it was a "very selective process" with "rigorous modeling assumptions."[2]

III. AIGFP Triples the Notional Amount of the SSCDS Book in 2005 to $54 Billion

- The outstanding notional amount of the super senior credit default swap ("SSCDS") book increased from $17.9 billion at 12/31/04 to $54.3 billion as of 12/31/05. The SSCDS contracts required collateral posting based on declines in the market value of the underlying bonds.

- The super senior tranches of the CDOs on which AIGFP wrote CDS were comprised primarily of RMBS and a significant portion of the RMBS were subprime RMBS. (See attached chart)

- Sample reviews by FCIC staff of the "prime" RMBS and home equity line ("HEL") RMBS included in the SSCDS book revealed they included subprime, Alt-A, interest-only, and payment option adjustable rate mortgages.

- Mr. Sullivan and Mr. Bensinger told FCIC staff that they did not know in 2005 about the tripling of the SSCDS book because they were focused on the restatement, internal control problems and government investigations.[3]

- Many current and former AIG executives – including Sullivan, Bensinger, Lewis and Habayeb - stated they did not know the contracts required collateral posting based on declines in the market value of the underlying bonds.

- CEO Sullivan said that to the best of his knowledge, he learned about the mark-to-market terms in the SSCDS contracts in the collateral calls in the summer of 2007.[4]

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[1] 12/5/07 Transcript at 4-5.
[2] 12/5/07 Transcript at 7.
[3] Sullivan & Bensinger Interviews.
[4] Interview of Martin Sullivan.

- CFO Bensinger told FCIC staff that he first became aware that the CDS contracts included terms requiring AIGFP to post collateral if the fair value of the underlying collateral declined or if AIG's long term debt was downgraded during 3Q07.[5]

- CRO Lewis told FCIC staff that he did not know the CDS contracts included collateral call provisions until after Goldman made its first margin call on 7/27/07. When asked if the provisions caused consternation within the company, Lewis said "I would say that's an understatement."[6]

- AIG Financial Services Division CFO Elias Habayeb told FCIC staff that he did not know about the collateral call provisions until sometime after first Goldman collateral call came in on July 27, 2007.[7]

- AIG Chief Credit Officer Kevin McGinn told FCIC staff that he did not know that the SSCDS contracts included terms that required AIGFP to post collateral if there was a decline in the market value of the underlying collateral or if AIG was downgraded.[8] He said that he first learned of these terms in the summer of 2007 after the first collateral call and that Mr. Diaz-Perez told him that he did also not know.[9]

- Gene Park, a managing director in AIGFP's structured credit group, stated that he was surprised to hear AIG had to post collateral on the multi-sector CDS contracts based on mark-to-market moves in the value of the underlying assets, rather than actual economic losses.[10] He called his former colleagues after hearing about the collateral calls and they told him that they also did not know declines in market value would trigger the collateral call provisions.[11] Park said that it was "rule Number 1 at AIG-FP"[12] not to agree to post collateral.

- However, Mr. Cassano, Andrew Forster, Alan Frost and Jake Sun of AIGFP knew the contracts contained these terms.[13]

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[5] Interview of Steven Bensinger.
[6] Interview of Bob Lewis.
[7] Interview of Elias Habayeb.
[8] Interview of Kevin McGinn.
[9] Interview of Kevin McGinn
[10] Interview of Gene Park.
[11] Interview of Gene Park.
[12] Interview of Gene Park.
[13] Interviews of Cassano, Forster, Frost and Sun

IV. AIGFP Indicated that it Decided to Stop Writing CDS on Subprime CDOs in early 2006 Due to Concerns about Subprime; AIGFP Does not Reduce or Hedge the $78 Billion Portfolio and other AIG Businesses Increase their Exposure to Subprime.

AIGFP indicated that it decided to stop writing CDS on super senior tranches of subprime CDOs in late 2005/early 2006 but did not reduce or hedge the SSCDS book and other divisions of AIG, including the securities lending business managed by AIG Investments, increased their exposure to subprime. PWC and AIG's Chief Credit Officer, Kevin McGinn, believed these circumstances constituted failures in risk management.

- In a 7/05 email to Gary Gorton and Alan Frost, Mr. Forster wrote that AIGFP "was taking on a huge amount of sub-prime mortgage exposure here and it is clearly a fast evolving market," and that "everyone we have talked to says they are worried about deals with huge amounts of IO [interest only] exposure yet I regularly see deals with 80% IO concentrations currently."[14]

- Gene Park told FCIC staff that he also became concerned about the amount of subprime assets in the CDOs on which AIGFP wrote SSCDS in mid 2005 and after reviewing the SSCDS book said "my God, we should shut this down."[15]

- In 1/06, however, AIGFP wrote a $433.5 million CDS on the super senior tranche of the RFC III CDO where the underlying collateral pool was 93% subprime RMBS and 7% HEL. The 7% of HEL RMBS included mezzanine (i.e., BBB-rated) RMBS backed by subprime mortgages.

- Documents and interviews indicate that the decision was made to stop writing CDS on subprime CDOs in late 2005/early 2006 and on 2/28/06, Mr. Park sent an email to Cassano in which he wrote the message AIGFP planned on delivering to dealers, i.e., that AIGFP would no longer write CDS on super senior tranches of subprime CDOs.[16] The balance of the SSCDS book increased to $78 billion as of 12/31/07.

- AIGFP did not reduce or hedge the SSCDS book which was approximately $78 billion by 12/31/07.

- The AIG securities lending program involved AIG insurance subsidiaries loaning bonds to counterparties and receiving cash collateral generally equal to 102% of the fair value of the loaned bond.[17] AIG reinvested a significant amount of the cash in RMBS and ABS securities which totaled $49.5 billion, or 65% of the $75.7 billion portfolio by the end of 2007.[18] The dollar amount of the securities lending business increased from $69.3 billion as of 12/31/06 to $88 billion as of 9/30/07 and a majority of the investments were in RMBS and ABS.[19]

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[14] AIG-FCIC00145574.
[15] Interview of Gene Park.
[16] AIG-FCIC00109490.
[17] 2007 Form 10-K at 108.
[18] 2007 Form 10-K at 108.
[19] Source: AIG SEC FORM 10K and 10Q.

- AIG's Investment policy was modified on 12/20/05 – the same time AIGFP decided to stop writing CDS on subprime CDOs - and increased the portfolio investment thresholds for asset-backed securities (RMBS) to 75% versus the previously high level of 60%.[20] The policy only required the ABS to be rated AAA/Aaa, with a sub-limit of up to 5% of ABS permitted to be rated no worse than AA-/Aa3.[21]

- Other than temporary impairment losses on AIG securities were approximately $55 billion in 2007 and 2008.

The documents produced by PWC and AIG indicate that AIG Investments increasing exposure to subprime while AIGFP was reducing its exposure to subprime reflected an internal control breakdown and poor risk management.

- On 11/29/07, PwC told AIG management: "the fact that FP and AGF in late 2005 were reducing their exposure to subprime while AIG Investment and UGC were increasing theirs – seemed to show a lack of cross AIG evaluation of risk exposure to a sector" and combined with other items "raised control concerns around risk management which could be a material weakness."[22]

- On 11/19/07, Paul Narayanan emailed Kevin McGinn and stated that in the subprime crisis, "some parts of our organization were cognizant of the emerging risks and were able to avoid them whereas some others were not made aware of it and so did [not (sic)] avoid the risk."[23] McGinn disagreed, and said that "all units were apprised regularly of our concerns about the housing market;" that "some listened and responded; others simply chose not to listen and then, to add insult to injury, [did] not spot the manifest signs" and that this was akin to "nero playing the fiddle while Rome burned."[24]

- McGinn told FCIC staff that the Securities Lending business was one of the divisions at AIG that "chose not to listen" and "played the fiddle while Rome burned."[25]

- CEO Sullivan told FCIC staff that he did not agree with PWC conclusions and did not see this as a risk management failure.[26]

- CFO Bensinger told FCIC staff that it was Enterprise Risk Management's (Lewis's) responsibility.[27]

- CRO Lewis told FCUC staff that "I wouldn't say we were comfortable, but comfort and discomfort is a balancing act between risk and return."[28]

[20] AIG-FCIC00550171-75.
[21] AIG-FCIC00550174-75.
[22] PWC notes of 11/29/07 Meeting, PWC-FCIC 000381-383.
[23] 11/19-20/07 email (AIG-SEC9422058-60) at 059.
[24] 11/19-20/07 email (AIG-SEC9422058-60) at 059.
[25] Interview of Kevin McGinn.
[26] Interview of Martin Sullivan.
[27] Interview of Steven Bensinger.

V. PWC finds material weaknesses with risk management and internal controls

PwC found numerous weaknesses in AIG's risk management and internal controls. On 2/6/08, PwC (Tim Ryan and Bob Sullivan) met with AIG Board Chairman Robert Willumstad to discuss the status of the material weakness in the SSCDS valuation process and the remediation steps AIG should consider.[29] PWC communicated numerous problems that needed to be addressed, including:

- Ensuring people have skills, including leadership, execution, and change-management skills; the ability to hold people accountable; and experience in dealing with large-scale improvement and change efforts.

- The need to make sure that Martin Sullivan was truly committed to changing the way AIG was run and managed from an internal control perspective if the Board chose to keep Mr. Sullivan as CEO;

- The need to make sure that CFO Bensinger compensated for the CEO's weaknesses and that some of Mr. Sullivan's weaknesses included "a difficulty in holding people accountable for internal control related matters, making difficult decisions, experience with large scale change, and lacking in execution skills."

- CFO Bensinger not compensating for Sullivan's weaknesses and that a significant contributing factor for the current situation regarding the super senior credit default swaps [was] a lack of leadership, unwillingness to make difficult decisions regarding FP in the past and inexperience in dealing with these complex matters."

- Not being sure that CRO Bob Lewis had the skill sets to run ERM – the ability to understand, assess and evaluate risk and the ability to build an infrastructure to manage and monitor risk throughout a company like AIG.

- Concern with Lewis' willingness to speak up as was evidenced by Willumstad's questions at the December audit committee meeting where Lewis was clearly uncomfortable discussing his reporting lines.

- The need to address the reporting lines for ERM, the lack of access that ERM had into units like AIG Investments and others and that Lewis had not aggressively addressed these issues in the past.

- Cassano's influence. PWC stated that "the decision on Joe is that of the Boards but from our perspective the culture at AIGFP had to change."

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[28] Interview of Bob Lewis.
[29] Notes of 2/6/08 meeting produced by PWC (PWC-FCIC 000384-386).

- The lack of leadership and involvement by the AIGFP CFO in the valuation process and the need for Habayeb to be on top of the AIGFP CFO until her true capabilities were understood.
- Sullivan and Bensinger having too much control and workload indicating the need for a COO and maybe a CAO.
- The need for the Board to ensure Roemer (internal audit) knows he has their support given that he was a key control but under relatively high pressure from senior management.
- The need for AIG to "define its overall risk appetite" and to "review risk, transaction and other limits across the company."
- The need to "consider separate compensation programs for control functions (ERM and Finance) that are non stock and non EPS driven."
- The need to ensure that business units were incented on internal controls and adjusting compensation programs as appropriate.
- The need to revise the AIGFP compensation program to incent investments in internal controls.
- The need to form a senior risk committee.

Sample of CDOs on which AIG wrote CDS

AIG - CDS Protection	Start	CDO	Portfolio Concentrations % Existing Portfolio														
Multi-Sector CDO	Date	Assets	Subprime B/C[1]		ALT-A		Midprime[2]		Prime/RMBS A[3]		HEL[4]		Bates Number		Housing[1]	Collateral with Residential Exposure	Non-Housing[2]
Lakeside II CDO	3/31/04	$259	$133.9	51.6%					$24.6	9.5%	$10.3	3.9%	AIG-FCIC00068788		65.0%	$ 168.67	35.00%
Iona CDO I Ltd	8/24/04	$1,301	$546.6	42.0%					$168.7	13.0%	$57.9	4.0%	AIG-FCIC00522344		59.00%	$ 767.84	41.00%
Jupiter HG CDO	11/16/04	$445	$149.9	33.7%					$60.8	13.6%	$153.5	34.2%	AIG-FCIC00522434		81.50%	$ 363.06	18.50%
Abacus 2004-2	6/8/05	$1,000	$371.0	37.1%							$105.0	10.6%	AIG-FCIC00522318		47.70%	$ 477.00	52.30%
Indpendence VI	6/30/05	$747	$343.0	45.9%					$296.0	39.6%	$23.0	3.1%	AIG-FCIC00522303		88.60%	$ 662.09	11.40%
Neptune CDO II	7/26/05	$218	$143.3	65.7%					$45.4	20.8%	$11.2	5.1%	AIG-FCIC00522284		91.60%	$ 199.85	8.40%
Abacus 2005-3	7/28/05	$2,000	$1,376.0	68.8%									AIG-FCIC00522358		68.80%	$ 1,376.00	31.20%
Khaleej II CDO	9/22/05	$666	$315.7	47.4%					$159.7	24.0%	$153.6	23.1%	AIG-FCIC00066337		94.40%	$ 629.13	5.60%
Davis Square 2005-5	9/30/05	$1,961							$497.8	25.4%	$1,369.4	69.8%	AIG-FCIC00135499		95.2%	$ 1,866.50	4.80%
G Street Finance	10/20/05	$1,504							$507.7	33.8%	$812.4	54.0%	AIG-FCIC00065571		87.80%	$ 1,320.37	12.20%
Lexington Capital	10/25/05	$440	$219.0	49.8%			$136.0	30.8%	$35.6	8.1%			AIG-FCIC00522423		88.70%	$ 390.07	11.30%
Orient Point CDO	10/25/05	$857	$483.8	56.5%					$58.7	6.9%	$225.4	26.3%	AIG-FCIC00052675		89.60%	$ 767.91	10.40%
Abacus 2005-2	10/28/05	$1,250	$587.5	47.0%							$100.0	8.0%	AIG-FCIC00093691		55%	$ 687.50	45.00%
Verde	10/28/05	$770	$492.5	64.0%	$183.4	24.0%					$27.5	4.0%	AIG-FCIC00522294		92.00%	$ 707.97	8.00%
Altius II Funding	11/10/05	$1,382	$452.2	32.7%					$849.8	61.5%	$39.6	2.9%	AIG-FCIC00227972		97.10%	$ 1,341.95	2.90%
Adirondack 2005-2	11/15/05	$1,514	$526.7	34.8%					$399.8	25.9%	$413.4	26.8%	AIG-FCIC00102473		87.40%	$ 1,322.80	12.60%
Pine Mountain 2005-A	11/22/05	$402	$155.0	38.6%					$41.0	10.2%	$151.0	37.6%	AIG-FCIC00131043		86.4%	$ 346.94	13.60%
Mercury CDO II	12/1/05	$861	$292.9	34.0%	$298.9	32.1%			$185.7	20.0%			AIG-FCIC00522617		86.10%	$ 741.73	13.90%
Abacus 2005-CB1	12/7/05	$750	$570.0	76.0%									AIG-FCIC00099548		76%	$ 570.00	24%
MKP V	12/8/05	$634	$273.1	43.1%					$142.2	22.4%	$167.3	26.4%	AIG-FCIC00077946		91.90%	$ 582.99	8.10%
Broderick 2005	12/13/05	$935	$179.6	19.2%					$346.0	36.9%	$234.4	25.0%	AIG-FCIC00098118		81.10%	$ 758.62	18.90%
Skybox 2005-1	12/13/05	$800	$360.0	45.0%					$10.0	1.3%	$265.0	33.0%	AIG-FCIC00036815		79.30%	$ 634.40	20.70%
Sherwood 2005-1	12/15/05	$441	$91.1	20.6%			$145.2	32.9%	$158.4	35.9%			AIG-FCIC00220946		89.40%	$ 394.42	10.60%
SummerStreet 2005 HG1	12/15/05	$962	$432.8	45.0%					$393.9	41.0%			AIG-FCIC00522593		86.00%	$ 827.13	14.00%
Kieros 2006-1	1/10/06	$933	$256.6	27.5%			$311.1	33.4%	$232.8	25.0%			AIG-FCIC00384073		85.80%	$ 800.59	14.20%
Static Residential 2005-C	1/20/06	$500	$236.5	47.3%			$214.0	42.8%	$50.0	10.0%			AIG-FCIC00384139		100%	$ 500.00	0%
Southcoast Funding VIII	1/25/06	$448	$246.8	55.1%	$43.2	9.6%			$7.9	1.8%	$113.7	25.4%	AIG-FCIC00384131		91.90%	$ 411.33	8.10%
TABS 2005-4	1/26/06	$362	$108.2	29.9%			$158.0	43.8%	$27.7	6.0%			AIG-FCIC00384151		79.70%	$ 288.41	20.30%
RFC III	1/26/06	$638	$592.5	92.9%							$45.0	7.1%	AIG-FCIC00384122		100%	$ 637.78	0%
BFC Genesee	2/28/06	$232	$85.2	36.7%			$75.5	32.6%	$27.1	11.7%			AIG-FCIC00384011		80.90%	$ 187.76	19.10%
Montauk Point	2/28/06	$293	$159.6	54.5%			$98.4	33.6%	$6.7	2.3%			AIG-FCIC00384098		90.40%	$ 264.73	9.60%
Ischus 2006 HG1	3/6/06	$1,188	$599.2	50.5%					$298.8	25.2%	$175.2	14.8%	AIG-FCIC00384060		90.40%	$ 1,073.69	9.60%
LongHill 2006-1	3/7/06	$774	$411.1	53.1%					$148.7	19.2%	$181.9	23.5%	AIG-FCIC00384085		95.80%	$ 741.68	4.20%
Fortius 2006-1	3/20/06	$600	$456.6	76.1%	$41.4	6.9%			$22.7	3.8%			AIG-FCIC00384034		86.80%	$ 520.80	13.20%
Hout Bay 2006-1	3/30/06	$1,500	$658.2	43.9%	$404.1	26.9%			$43.5	2.9%			AIG-FCIC00384051		73.70%	$ 1,105.50	26.30%
Beroulli HG CDO	3/30/06	$1,189	$278.0	23.4%			$223.9	18.4%	$267.3	22.5%			AIG-FCIC00384000		64.30%	$ 764.56	35.70%
Westcoast Fund 2006-1	7/26/06	$2,675			$536.9	20.1%			$1,933.6	72.3%			AIG-FCIC00384175		92.30%	$ 2,469.15	7.70%
Triaxx Prime 2006-1	9/7/06	$1,518							$1,518.0	100.0%			AIG-FCIC00384158		100%	$ 1,518.00	0%
Triaxx Prime 2006-2	12/14/06	$812							$812.0	100.0%			AIG-FCIC00384164		100%	$ 812.00	0%
Proventus 2007-1	3/30/07	$1,867	$224.0	12.0%					$429.0	23.0%			AIG-FCIC00384106		35%	$ 653.33	65%
TOTAL			$12,808.1		$1,507.9		$1,362.1		$10,207.5		$4,835.6			**TOTAL/(AVERAGE)**	**83.3%**	**$ 30,654.28**	**16.69%**
														2004 Average	**68.50%**		**31.50%**
														2005 Average	**83.80%**		**16.20%**
														2006 Average	**88.80%**		**11.20%**
1 - Housing Column composed of Subprime, Alt A, Mid-Prime, Prime, and HEL. 2 - Non-Housing - remainder of non-housing securitities														**Total Weighted Avg.**		**81.5%**	
														Weighted Avg. 2004		**64.8%**	
														Weighted Avg. 2005		**82.6%**	
														Weighted Avg. 2006		**88.5%**	
														Portfolio 2004 Exposure to Res		**$ 1,299.47**	
														Portfolio 2005 Exposure to Res		**$ 16,605.38**	
														Portfolio 2006 Exposure to Res		**$ 12,096.00**	
														Total 2004 Deal Size		**$ 2,006.39**	
														Total 2005 Deal Size		**$ 20,094.01**	
														Total 2006 Deal Size		**$ 13,661.37**	

AIG-FCIC00145574

From: Forster, Andrew
Sent: 07/21/2005 06:48:31 AM
To: Fewings, Tom; Teasel, Sheridan; Budnick, Adam; Gorton, Gary; Frost, Alan
Subject: Topics to Discuss

In advance of our 2pm/9am call I thought I would put down some very quick questions just to give us a starting point for discussion, its by no means all inclusive but simply some of the issues that have been raised of late in one form or another.

I guess the basic premise for the discussion is how effective is our modelling and what exposures are we taking on: To that end:

- Are the loss/trading triggers effective enough - since ABS can take an age to get downgraded to CCC type levels can we have masses of migration before anything gets triggered?
- Are we imposing strict enough haircuts on collateral for OC trigger purposes. I note for example that some deals do not call for collateral to get haircut until it is CCC and in some deals (eg very recent Monroe deal they start haircutting collateral at BBB)
- We are taking on a huge amount of sub prime mortgage exposure here and it is clearly a fast evolving market. Should we be trying to impose some quality tests on the underlying servicers/managers/deals? For example everyone we have talked to says they are worried about deals with huge amounts of IO exposure and yet I regularly see deals with 80% IO concentrations currently. Are these really the same risk as other deals? Similarly managers can pick up spread by buying deals more biased to low FICO scores, or with new collateral types such as option ARMs, or with heavy geographic concentration. Are we happy that the agencies have it right and that we should be treating everything the same in our model?
- What are we doing about interest rate risk? We have heard from several guys that one arb people are using to get spread is to buy deals with a lot of fixed rate loans since they pay high nominal coupons. The coupon of course comes from the fact that there is a huge amount of interest rate risk embedded in the deal and if you correctly hedged this the coupon would be much much lower. In a Cdo structure the ability or desire to hedge effectively may not be there so are we taking a lot of rate risk in deals?
- Do we have a consistent and informed view on other asset types? It seems that we are encouraging guys to remain focused on sub prime RMBS and we exclude many "other" asset types. Is there a benefit to allowing managers to invest in a more diversified pool? Does it depend on manager? Are there still some assets we want to exclude (eg Healthcare)
- Given we know the agencies differ on the ratings of several deals are we confident we are not allowing a lot of single rated assets into the pools we cover?
- Do we know enough about each manager to decide whether they are not just out to create the biggest arb possible and that they know enough to select a decent pool of assets even if the deal is static?

Just some ideas to get the juices flowing…..

AIG-FCIC00109490

From: Park, Gene
Sent: 02/28/2006 08:54:29 AM
To: Cassano, Joseph
CC: Forster, Andrew; Frost, Alan; Gorton, Gary; Teasel, Sheridan; Fewings, Tom; Budnick, Adam
Subject: CDO of ABS Approach Going Forward - Message to the Dealer Community

Joe,

Below summarizes the message we plan on delivering to dealers later this week with regard to our approach to the CDO of ABS super senior business going forward:

We feel that the CDO of ABS market has increasingly become less diverse over the last year or so and is currently at a state where deals are almost totally reliant on subprime/non prime residential mortgage collateral. Given current trends in the housing market, our perception of deteriorating underwriting standards, and the potential for higher rates we are no longer as comfortable taking such concentrated exposure to certain parts of the non prime mortgage securitisations. On the deals that we participate on we would like to see a significant change in the composition of these deals going forward - i.e. more diversification into other non-correlated asset classes.

As a result of our ongoing due diligence we are not comfortable with the mezzanine layers (namely BBB and single A tranches) of this asset class. As a result of changing our internal stresses on this collateral therefore we will no longer be competitive in our ability to write protection on deals which incorporate such a large proportion of mezzanine tranches of subprime deals/non prime deals. Given some of our concerns over correlation in this sector our stressing of exposure below Aa3/AA- is also applied to exposure taken via a CDO and as such we also do not feel that we can currently be competitive where the deals include large percentages of CDO product that themselves reference sub Aa3 rated non prime mortgage collateral. We are still comfortable with our current modelling of tranches rated Aa3/AA- or higher on non prime mortgage deals tranches rated however we are keen to encourage some more diversity in the overall CDO's and as such would like to limit the non-prime residential mortgage bucket on High Grade deals to a maximum of 12.5% and the overall residential mortgage bucket (prime & non-prime) to a maximum of 25.0% (such exposure being taken either directly or via 3rd party CDO's).

We realize that this is likely to take us out of the CDO of ABS market for the time being given the arbitrage in subprime collateral. However, we remain committed to working with underwriters and managers in developing the CDO of ABS market to hopefully become more diversified from a collateral perspective. With that in mind, we will be open to including new asset classes to these structures or increasing allocations to others such as CLOs and EM CDOs.

PWC-FCIC 000381-383

Notes of a meeting to discuss Super Senior valuations and collateral disputes 11/29/07 at 8.30 am.

Attendees: M Sullivan; S Bensinger; M Roemer; Bob Lewis; Staisha Kelly; E Habayeb; Bill Dooley; D Herzog; K Shannon. By Phone J Casssano; A Foster; P Miccolis all of AIG. Auditor 1(A1); Auditor 2(A2); Auditor 3(A3)

A1 explained that the purpose of the meeting was to discuss the impact of the collateral and understand their interactions with the AIGFP SS valuation.

A spreadsheet was handed out summarizing the latest position with Goldman Sachs (GS)

JC - The current market segment is in chaos and there is a major dislocation. This are not exchange traded hence no values that way. Also he said that they was no formal dispute with anybody but GS they were still in discussions with other counterparties over their valuations.

MS confirmed there were disagreements and not disputes with other counterparties.

JC noted the GS issues are around the data - where can you get representative marks. As the market is so dislocated and in a state of panic it was very difficult to get marks for the underlying collateral. FP had 22,000 separate bonds that needed valuing. GS had priced internally (generically priced and rolled back via a model to arrive at a price.) FP did not have the data to dispute GS' value and hence reached a standstill agreement - it was agreed to disagree however FP placed $1.95bn in cash with GS and FP will come back to GS with their view of value.

Currently getting market prices for ever collateral item from the CDO managers. Eg for Dunhill managed by Vanderbilt - prices are obtained from the trustees of the underlying bond. (Latter get market price).

PM they went to the legal confirms to get the data - hence the prices are for cash items not CDS (ie MV of reference obligations). Need to reflect that there is some difference between bond and CDS prices due to cost of cash. When markets are stressed the differences generally increases. Do not have ABS evidence, but look at the auto sector could get a 150-200bp differences.

JC need to model underlying obligors and assess the impact. One of the key inputs is to look for prices and hence assumptions for spreads. Need to quantify CDS spread to the cash and could be as much as 10% but this is subject to review/change. Theoretically you could lock in a gain by hedging the position by purchasing the cash security at the lower price than the CDS.

A2 noted that we are seeing convergence in the market to undertake a detailed and granular analysis of what is happening and using this for the valuation of the positions.

JC FP are "going to ground" rebuilding everything to come up with a value for the SS but an issue is around the integrity of the inputs - for example the head of CDO trading at JPMC said they did not do a single trade in this month (November).

A1 pointed out this was a major management judgment and will be based upon all the securities and the ability to get and calibrate market data. Clearly the collateral calls were a major data point in this process and their impact on the FP valuation will need to be fully understood.

JC Collateral calls are part of business. There are standard terms of ISDA CSA. Valuing SS is much harder than a 2yr IRS hence the dialogue about where the valuation is - working with counterparts to resolve - JC does not see this as a material issue with GS or any of the other counterparts.

JC noted if we agreed to GS values could be an impact of $5bn for the quarter.

MS noted this would eliminate the quarter's profits, SB agreed. JC noted this was not what he was proposing but illustrative of a worse case scenario.

SB what are we going to say about additional write down? JC could be another $2.5bn - ie value of $3.5bn and $1bn already disclosed but this is before any structural or basis benefits have been factored in and the number is still subject to review so too early to say. (10/7 $500m: 11/5 $1bn: 12/7 $1bn) pure high level estimate.

A1 re-iterated the need to ensure the impact of the collateral dispute and disagreements be factored into FP's valuation and that management should ensure they did all in the powers to gain as much market information as possible about how there counterparts were undertaking their valuations.

The meeting ended.

After the meeting there was a separate meeting between SB MS and MR of AIG and A1, A2, and A3 of PwC.

A1 explained that as a result of a number of issues that PwC had identified over the last 6 months he wanted to raise a concern that he had around the roles and responsibilities over risk management. He wanted management to be aware of his concerns as soon as they had arisen as he wanted to ensure there were no surprises late in the processes.

Specifically the following issues have arisen:

The late adjustment by FP to their SS valuation in Q3 as well as the posting of the $2bn of collateral without an active involvement of ERM and senior management. Also the way in which AIGFP have been "managing" the SS valuation process - saying PwC will not get any more information until after the investor day presentation.

Secondly the issues in AIG Investment around the securities lending and the fact that if the exposure had been known prior to the q2 10Q being issued it is highly likely that the disclosures would have been changed.

Thirdly the independence of the UGC risk and finance functions and the $1bn error identified in their exposure disclosures in the analyst presentations.

Fourthly the fact that a trader in Nan Shan entered into a $1bn trade in a single company on one day.

Finally the fact the FP and AGF in late 2005 were reducing their exposure to sub prime while AIG Investment and UGC were increasing theirs - seemed to show a lack of cross AIG evaluation of risk exposure to a sector.

While clearly no conclusions had been reached and A1 wanted MS and SB to be aware that we believe that these items together raised control concerns around risk management which could be a material weaknesses.

SB did not agree that these were necessarily 404 issues and also disputed a material weakness.

A1 reiterated PwC were in the early stages of their analysis and was raising the issue in the spirit of transparency and no surprises. Clearly we would need to discuss the issue in more detail but wanted management to be aware of our concerns.

MS was surprised but appreciate the early raising of the issue - he felt there had been much progress and felt FP and AGF had done a good job. However he was keen to avoid an MW and committed to do whatever had to be done to do that. He wanted A1 to work with his team to fully understand the issue and implement whatever compensating controls were needed to avoid an MW

A1 committed to doing that and acknowledge these were initially thoughts but felt he had a responsibility to management to share them so there were no surprise.

As a final point he also highlighted what a significant judgment the SS valuation is going to be and FP and AIG need to get as much corroborating information as possible including from the collateral counterparties.

A3

PWC-FCIC 000384-386

(45)

American International Group, Inc.
Meeting Notes
February 6, 2008
Auditor 2 (A2) and Auditor 1(A1)

On February 6th, 2008 A2 and A1 met with Bob W. to discuss the status of our material weakness consideration and our views as to remediation steps that the Company might want to consider. Below is a summary of the topics discussed.

We informed Bob that we had thought over nite about whether steps that AIG might take between today (Feb 6th) and the filing of the 10K might change our MW views and concluded that while steps that AIG might take during that time period will be helpful to the ultimate remediation, that implementing these steps at this point would not be enough to remediate the material weakness that exists at December 31, 2007. Bob understood this answer and indicated that AIG the necessary remediation steps regardless of the MW or not.

Bob then asked for our views as to possible remediation steps. We indicated that we had gathered our thoughts into two buckets - non people changes and people considerations. Below are the items that we shared with Bob.

Non People Changes

1. We indicated that the Board and the Company needed to address the reporting lines for ERM
2. ERM's interaction with the Finance Committee and how the Committee will oversee ERM needs to be addressed at to date, the primary focus of the Finance committee has not been on ERM, despite its charter
3. We indicated that the Company needed to review risk, transaction and other limits across the Company
4. We indicated that the Company should consider direct reporting (versus the dual reporting that has not been working consistently across the company) in ERM and Finance - we discussed that dual reporting - done substantively could be an alternative and agreed that this path should not necessarily be closed.
5. We indicated that the Board and management should consider separate compensation programs for control functions (ERM and Finance) that are non stock and non EPS driven
6. The Company should ensure that business units should also be incented on internal controls and compensation programs should be adjusted as appropriate.
7. We indicated that the FP compensation plan should be revisted to incent investments in internal controls.
8. We indicated that the Company needs to define its overall risk appetite
9. We suggested that the Company should form a operations and control committee across the Company and consider folding in the Comprehensive Program into this Committee
10. We suggested that the Company form a senior risk committee of the company

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11. We suggested that the Company form a valuation control group in ERM that monitored valuation across the enterprise
12. We suggested that the outstanding issue with the ILFC CFO and controller be addressed
13. We indicated that the urgency and rigor with respect to remediating the remaining SD's needs to be increased.

People Considerations

As it relates to people, we indicated that among the skill sets that AIG needs include leadership, execution skills, change management skills, the ability to hold people accountable and experience in dealing with large scale improvement and change efforts.

1. On the topic of Martin.Sullivan - we indicated that it is the Boards decision in terms of what to do with Martin, we indicated that if the Board chooses to stay with Martin that they needed to be assured that he was truly committed to changing the way the Company is run and managed from an internal control perspective.
2. On the topic of Bensinger, we indicated that we viewed it as important that a CFO - particularly one with Steve's responsibilities (ie effectively the number two person in the company) compensate the CEO's weaknesses. We indicated that we viewed some of Martin's weaknesses to be a difficulty in holding people accountable for internal control related matters, making difficult decisions, experience with large scale change, and lacking in execution skills. We indicated that Steve does not compensate these weaknesses (i.e. these are among Steve's weaknesses as well). We indicated that as an example a significant contributing factor for the current situation regarding the super senior credit default swaps is because of the lack of leadership, unwillingness to make difficult decisions regarding FP in the past and in experience in dealing with these complex matters.
3. As it relates to ERM we indicated that there are two key skill sets that we would expect and ERM head to have - the first being the ability to understand, assess and evaluate risk (ie risk appetite) and second the ability to build an infrastructure to manage and monitor risk throughout a company like AIG. We commented that we were not sure that Bob Lewis had these skills. We also raised concern with his willingness to speak up as was evidenced by Willumstad's questions that he asked Lewis at the Dec AC meeting where Lewis was clearly uncomfortable discussing his reporting lines. Similarly, we pointed to the lack of access that ERM has into units like AIG Investments and others and that this arose thru the MW/SD discussions and that Lewis had not aggressively addressed these issues in the past.
4. We discussed Cassano. We indicated that the decision on Joe is that of the Boards but that from our perspective the culture at AIGFP had to change.
5. We indicated that the lack of leadership and involvement by the AIG FP CFO in the valuation process was concerning and that this should be

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reviewed and - at a minimum the Company needs someone like Elias on top of the AIGFP CFO until her true capabilities are understood..

6. We indicated that it continues to be our view that the span of control and workload that Steve and Martin have is too great and that AIG needs a fulltime CFO without many of the responsibilities that are currently under the CFO. Bob agreed with both points and indicated that while Martin may not be amenable to a COO, that a CAO might be necessary.
7. We indicated that Jerry De S tPierre was struggling to get traction in the Company and that his effectiveness should be reviewed.
8. We indicated that Roemer was a key control but that the pressure lately has been relatively high from senior management (ie super senior valuation process, material weakness related to super seniors, mw/sd discussions related to access and roles and responsibilities of key control functions and other matters) and that the Board should ensure that Roemer knows he has their support.

We indicated that we would continue to think of other potential steps. Bob indicated that he was going to review these matters with Martin.

No other significant items were discussed.

A1

February 13, 2008

AIG-FCIC00550171-00550175

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 ... olicy**

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.

E. Borrowing

The Portfolio may not borrow money.

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.

Approved by AIG
Credit Risk Committee

12/20/2005

Kevin B. McGinn
Chairman
Credit Risk Committee

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.

AIG-SEC9422058-9422060

From: McGinn, Kevin
Sent: 11/20/2007 05:58:16 PM
To: Narayanan, Paul
BCC: Shamieh, Charlie
Subject: RE: A Credit Perspective for the CFO.

Paul:

I take issue with your first statement. All units were apprised regularly of our concerns about the housing market. Some listened and responded; others simply chose not to listen and then, to add insult to injury, not to spot the manifest signs. "Nero playing the fiddle while Rome burns" is my assessment of that.

As to your forum suggestion, I am not clear it would add a lot, but am not closed to the idea either. We continuously outline concerns on products; cover the country angle at the CRRC with written minutes that get distributed to a wide audience; and share concerns on asset types and specific credits with all the company presidents and investment heads through my regular monthly and quarterly updates, through the Alert List, the CRC meetings and at the CRC Portfolio Reviews. The question is whether people are listening and responding.

Second, at Bob's suggestion, I am starting a company-wide monthly conference call among all the credit officers to reinforce CRC concerns.

Third, I do usually prepare a list of my concerns for AIGGIG every year for their credit conference and other units when I address them publicly. I am happy to work something like that into a more formal document to share with Steve. Top of my list right at present is the recession risk, and all units are aware of my concern there. It is not shared totally by Jacob Frankel, although he is starting to worry more, and Markus Schomer; and I think they are wrong. We have to prepare the company for that risk. Other issues that are on top of everyone's list with wide agreement are the mortgage markets in Spain and the UK.

Lastly, in the same spirit you are referring to, Bob has asked me to start pointedly sharing my concerns on credit issues in writing. Perhaps Charlie's slides would help there. The reason for this is that we can only do so much with the limit control system and using ORRs to force down risky exposures is a crude instrument. You only had to hear my heated exchange with Richard this morning on Rescap to understand that point.

Kevin

From: Narayanan, Paul
Sent: Monday, November 19, 2007 12:30 PM
To: McGinn, Kevin
Subject: A Credit Perspective for the CFO.

Kevin,

As I had discussed with you in a recent update meeting, Charlie Shamieh is developing a short "hot issues memo" format (I paraphrase here) that will be provided to the CFO / Senior management on a recurring basis so that this information can be used to influence the direction taken by the organization. As you might recall, the desire for such a reporting mechanism was presumably instigated by the subprime crisis where some parts of our orgranization were cognizant of the emerging risks and were able to avoid them whereas some others were not made ware of it and so did avoid the risk. I had also mentioned to you that I disagreed with this assessment since we do have a forum where these concerns are transmitted to those concerned (e.g. the portfolio reviewsand the various other forums).

Whatever the underlying reasons for starting such a reporting mechanism may be, it would certainly help rather than hurt. Charlie is seeking inputs from the four major sources of risk, insurance, market, credit and operational. I had discussed this with you, and together we'd come up with a list of the subject heading for credit risk.

Charlie has now requested a brief write up for each of the headings; using as a model, the one provided by Jamie Stewart on market risk (I will forward it to you separately). I have some problems with using this as a model because I tend to think that market risk is "for the moment" whereas credit risk viewpoints kind of develop over time. In addition, I feel it would be presumptuous of me to put forth views without knowing what the credit leadership thinks are the issues are. This brings up the reason for this memo. I would like to propose a forum where credit concerns can be aired and then condensed into a few short paragraphs for Steve. The topics would be specific names (this could refer to the alert list), specific asset classes (of which subprime is one example), specific business units, specific product/transaction types, and specific countries.

I am reluctant to prepare something for Charlie just for the sake of complying with his request and would appreciate your inputs/guidence.

Paul