The 12/5/07 Representation that there was a $1.5 billion Estimated Unrealized Valuation Loss on the SSCDS Portfolio

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

During AIG's 12/5/07 Investor Day Conference, Cassano reported that there was an estimated $1.5 billion unrealized valuation loss on the SSCDS portfolio.[1] One of the model calculations on which that estimate was based included (1) a $3.6 billion "negative basis" adjustment which reflected the difference between the value of the "synthetic" super senior credit default swap ("SSCDS") and the underlying "cash" bond that was being valued and (2) a $732 million "structural mitigant" adjustment. Without these adjustments, the estimated unrealized valuation loss on the SSCDS portfolio would have been $5.9 billion. Those adjustments were not disclosed during the 12/5/07 Investor Day Conference or in the Form 8-K filed on 12/5/07.[2]

On 2/11/08, AIG issued a Form 8-K in which it reported the adjustments that were not disclosed on 12/5/07. In addition, AIG reported in the 2/11/08 Form 8-K that it expected to include the "structural mitigant" adjustment in its SSCDS unrealized valuation loss estimate as of 12/31/07 but would not include the "negative basis" adjustment because it could not reliably quantify the adjustment. AIG also reported that PWC had concluded that AIG had a material weakness in its internal control over financial reporting and oversight relating to the fair valuation of the AIGFP SSCDS portfolio.

After the 2/11/08 Form 8-K was filed, AIG's stock price declined 11.7% from $50.68 to $44.74. The estimate provided on 12/5/07 was the subject of the SEC and DOJ investigations and one of the focuses of the investigations. It was written in a PWC workpaper from the 2007 audit that "during and, in large part, as a result of our audit, it was later determined that the $1.5 billion estimate used was net of structural benefits of $700 million and a negative basis adjustment of $3.6 billion which was, apparently not known by Enterprise Risk Management ("ERM") or senior management until early February 2008."[3] Mr. Sullivan told FCIC staff that he did not learn of the adjustment until 2/08.[4] Mr. Habayeb said he learned of the adjustment in late 1/08 when he reviewed a spreadsheet attached to an email.[5] Mr. Bensinger

[1] 12/5/07 Transcript at 21-22, 24.
[2] 2/11/08 Form 8K.
[3] PWC-FCIC000008
[4] Interview of Martin Sullivan.
[5] Interview of Elias Habayeb.

said he did not learn of the adjustment until late 1/08 and that he learned it from Mr. Habayeb.[6] Mr. Cassano, however, said the "negative basis" adjustment was disclosed to all of these executives and PWC before the 12/5/07 Investor Day Conference and several documents corroborate his contention.[7]

But it is undisputed that the negative basis adjustment was not disclosed on 12/5/07 and that shareholders suffered losses when the adjustment was disclosed on 2/11/08. Moreover, on 2/28/08, AIG reported the SSCDS unrealized valuation loss had increased from the $1.5 billion estimate provided on 12/5/07 to $11.1 billion. That multi-billion dollar increase caused AIG to report a $5.3 billion net loss in 4Q07.

The documents supporting Mr. Cassano's contention that the negative basis adjustment was disclosed to PWC and AIG executives before the 12/5/07 call include:

- Typed notes (prepared by PWC) of a 11/29/07 meeting between PWC and executives of AIG and AIGFP (including Sullivan, Bensinger, Lewis, Cassano and others). According to these notes, Cassano said the valuation of the SSCDS book included "the need to quantify CDS spread to the cash and could be as much as 10% but this is subject to review/change."[8]

- These typed notes also reveal that if AIG used Goldman's values to value the SSCDS book that there "could be an impact of $5bn for the quarter."[9] CEO Sullivan said "this would eliminate the quarter's profits."[10] Mr. Forster, who was at this meeting, told FCIC staff that CEO Sullivan responded to the $5 billion comment by saying he was going to have a "heart attack."[11] But Mr. Sullivan told FCIC staff that he does not remember this part of the meeting. However, he told FCIC staff he does remember a later part of the meeting that did not include AIGFP executives.[12]

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6 Interview of Steven Bensinger.
7 Interview of Elias Habayeb.
8 PWC-FCIC 000381-383 at 381
9 FCIC 000381-383 at 382.
10 *Id.*
11 Interview of Andrew Forster.
12 Interview of Martin Sullivan.

- PWC partner Henry Daubeney's handwritten notes from the 11/29/07 meeting include a notation that Cassano said "need to quantify CDS spread to the cash. Could be 10% but subject to change."[13]

- During the 11/29/07 meeting, a spreadsheet reflecting Goldman's marks was discussed. PWC Partner Bob Sullivan's notes on the spreadsheet include a notation that there could be an adjustment of "10 points on $75 Billion" that would result in a $3.5 billion gain.[14]

- After the 11/29/07 meeting AIG Internal Auditor Michael Roemer wrote in an email to Cassano that "After end of call, PwC reiterated positive comments on where you have taken the valuation process. Appreciate your time and effort in preparing."[15]

- On 12/1/10, Cassano sent an email to Habayeb, Dooley, Bensinger, Lewis, Herzog and McGinn re the SSCDS valuation in which he wrote that "we make an adjustment for cash vs. cds we derive from the market" and that this adjustment was discussed with PWC and CEO Sullivan.[16]

- On 12/5/07, Cassano was provided with a list of questions/procedures from PWC regarding the valuation of the SSCDS book that included a procedure to "evaluate existence of CDS vs Cash spread differentials."[17]

4811-9327-6422, v. 2

[13] PWC-FCIC000473-476, at 221.
[14] PWC-FCIC000477.
[15] AIGSEC12689327-29.
[16] AIG-SEC5981397-99.
[17] AIG-SEC0005621-23.

power game. You can go through and you can figure out what you think our losses might be or what you see from information in the market and you can go through this. But it does come back to us as saying that we believe this is a money good book and money good assets.

Now before James goes through the accounting methodology, I just want to spend a few minutes and talk about a bit of the issues that are involved for us in doing all this. And again, I know this is quite topical. The accounting rules demand that we assess a fair value to the series of transactions. For me, when I look at these transactions, I actually think of these transactions as being more akin to an insurance contract. They have many more attributes than similarities to insurance than they do to market driven derivative contracts.

You know when you look at it there's no liquidity. The transactions that we do are very one sided, we provide protection to a Super Senior segment. There's no two-way market in these transactions, they're too customized, they're constructed as the team has demonstrated from the ground up and it is really difficult, if not impossible to get another side to this transaction. You're only called upon in certain fortuitous events, a default of some kind, a series of defaults, where they could eat into the underlying contract.

And so again like an insurance contract, it's really a fortuitous event that calls your performance into action. We do write them, though, on these is the based contracts and the accounting profession has decided that these are derivative contracts and that they should have an accounting valuation. So we follow the rules. But there are many challenges to obtaining market pricing or comparables, due to the highly customized nature of these transactions.

There's no defined market standards. We started the presentation by saying there's no standards of the Super Senior concept. Many of the questions we have are always about why did the other guy call this trade a Super Senior trade? I don't know and I can't answer that. And so it's difficult then to find trading comparisons because of the variety of attachment points, the underwriting standards and the procedures that we use and implement to create our Super Senior transaction.

So in order to build a fair value assessment we need to look at the underlying components of these obligations and we need to attempt to impute pricing for each reference obligation. But since our contract is a deep out of the money synthetic default option, that's the nature of these, there's no cash involved in these transactions, we must also take into account the difference between the cash price for the underlying reference obligation and the pricing of the synthetic credit derivative.

So seeking price discovery for the reference obligations is, at the current time, due to the complete illiquidity in the market, is nearly impossible. There is at times no a longer, at all, a readily available market and this is further complicated by the fact that many of the underlying reference obligations have non-standard features which must be accounted for when developing either an analogous or a comparative price from some other instrument.

Take for example our multi-sector book. 20,000 separate obligations exists within our multi-sector CDO book. Many of these obligations did not trade even in the best of market conditions. And if they did trade, it was infrequently and it was by appointment and whether you want to call that trading or somebody was buying or selling at different times, but there was not really a discernible market then. And so you can imagine the difficulties now.

So how do we handle it and how do we handle this lack of market information? Well we have a scale of procedures we go through. Where we can we try and use direct market information. We may get it from Andy and his team in trading some of our cash book and we'll be able to see what goes on. It maybe come in from other aspects of the AIG family of companies where Richard and Win and their team are trading and selling certain of the bonds that they have and we can use that as price discovery. It comes from our third-party counterparts where we investigate where they think pricing is.

We then try and draw on analogous information that's out there and try and draw similar attributes to some of the instruments that we have. We then get all this information and generally it's information we're accumulating from a variety of third-party agents, all bonafide people in the market, but it never fills out the entire spectrum for us. And so we then need to use our management judgment, and there is a good part of management judgment that we use to interpret the data and be able to create an overall matrix for which we can price up all of these underlying obligations. So it's quite, in many ways, a daunting task because of all the underlying instruments that exist here.

Now why do we use a model? And James will speak at greater length and more clearly on this than I will, but the bottom line is we use a model because of all the variables involved in determining how the pricing should work, how the defaults should work, how do you impute a loss given probability of default against the thousands and thousands of reference obligations we have. So we attempt to do this but it ends up with for us is a real disconnect, as I said earlier, between the economics and the reality of these transactions and what the accounting valuation is. And I'm just going to spend one minute and give you a piece of anecdotal information from the market last Friday.

So last Friday was month end for November and it was an interesting week. We all heard that Vice Chairman Kohn came out in the middle part of the week and gave a public speech in which it was interpreted that he was beginning to think that we needed to have a Fed cut. Then on Thursday night Chairman Bernanke gave a speech in Charlotte where he could be interpreted that he was thinking that maybe there's too much roiling in the markets and that maybe there needs to be a Fed cut.

And when we came into work on Friday morning in London, the press reports all had stories about Secretary Paulson and Congress working towards this new plan of theirs in order to freeze some of the rollovers and be able to help people survive the sticker shock of some of the subprime mortgages. So this all had an amazing affect on an instrument that many of you have asked me in your conversations why we don't price against the ABX. But I'm going to use this ABX and what went on in the price periods on Friday as an example of why it is difficult to see into this market and the realities of what the market is telling us right now.

Why don't we use the ABX? I think the short answer is the ABX is not at all in any way representative of our portfolio. And I think many of you now know the story of the ABX, it consists of 20 bonds, its cohort is somewhat limited and it's been selected in a certain fashion. It doesn't have the granularity or the diversity of what our portfolios are but we don't ignore it. It's information in the market, it's information about changes that go on in the market, it's information about changes in value and it informs some of the management information that we need to use when creating our valuations for accounting purposes.

Now let me go back to the Friday story. So now there are these three stories sitting out there and on Friday morning the 2006-1, which would be the mortgage pools looking back at the last half of 2005 and the A rated category. So on Friday morning, from the previous close to that morning it gaps up 13 points. That's a 22% gap in pricing. So you look and say well maybe that's good news. Then a couple of trades go through. The aggregation of these two trades -- of these few trades is not greater than $100 million and within a couple of hours of this press taking gap up of 22%, the ABX 2006-1A comes back flying down 10% and closes the day only up 1%.

The amazing thing about this is it was the most volatile day, according to different firms we talked to, of the ABX and no trades practically went through. And you look at it and you say well how can you get any transparency from this market information? And this is what people talk to us about as the most liquid instrument. So no trading, huge volatility, tremendous unease. And I think this is very, very illustrative of either a frothy market, I actually guess it's not frothy because it's the bottom part of a market, the marmite section of the market.

And it gives you a window to the challenges that we're facing when trying to give these valuations. And you know I've seen a lot of people write and lot of people talk about things about well why is there a number of this and why is there a number of that. I can tell you, we're doing our best job to give you the proper valuations, but I don't think they're grounded in the reality of our portfolios. But I know that you want a number. And as much as I sit here and tell you that it's not grounded in reality, people are seeking a number for us.

Now we have run our numbers or actually are running our numbers for November. And it's a complicated process in some of the ways we've laid it out, but what I can tell you, and I want you to walk away with this as an estimate, and my best estimate at this point in time with the information I have is that I think we will have, or my estimate is we will have a further write-down from the October number of somewhere between $500 million and $600 million. I love it, everybody wrote that number down, after everything I've been saying today.

And just for clarity's sake, we gave you a posting in October of $550 million, again we're telling you somewhere between $500 million and $600 million and we're saying that's an estimate right now. And as Charlene said at the very beginning of the meeting, this will change and it will be informed as things change during the market. Now I gave you a number as of Friday, we've all seen the rallies that have taken place, I've also given you information that says you can't believe the rallies because of what's going on. So it's still a bit in flux.

The other question people ask is well where do you see this going and where do you and your team see it all going? I have no idea. I am looking at the fundamental basis of our transactions and I'm comfortable with the fundamental parameters of our transactions. I do know that between now and the end of the first quarter market pricing is going to be dynamic, but that's all I can give you about the market.

I know it's going to be volatile, I know it's going to be dynamic and we're going to be in this phase for quite a while and at least through the end of the quarter. But I think the best way for you all to think about this portfolio is based upon the information that Andy and Gary have given you today in the fundamental analysis of the business. So now I'll turn it over to James and he can tell you why he also finds the accounting issues challenging.

James Bridgwater - *American International Group - EVP - Qualitative Solutions*

Thank you, Joe. So I'm going to take a couple of minutes just to go into a little bit more detail about a couple of things Joe was just saying and in particular I'm going to try and answer two questions. First of all why do we use a model and the second one, why do we choose this particular model? So as Joe said, under U.S. GAAP we need to record our transactions at fair value. The real question here is how do we determine that fair value in a dislocated market?

We always try to use market prices to the extent of that they're available but unfortunately, for the sort of remote risk, highly customized transactions that we typically transact, there is no readily available market. We can usually but not always get market prices for most of the collateral, most of the reference obligations that make up the collateral pool. To the extent we have market prices we use them, to the extent we can't get them we use the best available proxy.

The next stage is to recognize the market ascribes a difference in valuation to cash securities versus synthetic. There are a number of different reasons for this but one important reason is the liquidity needed to fund a cash position, particularly in the current market environment. In other words, even if we have prices for all of the reference bonds making up the collateral pool, this is an important factor in determining a valuation for our transactions but it is not enough to determine entirely the valuation.

Furthermore, our transactions have specific structural supports that provide us with additional protection in adverse circumstances and Andy has referred to these, for example cash flow diversion triggers. In order to ascribe a fair value to these transactions we need a model to incorporate all of these different factors.

So let me talk a little bit about the specific model that we actually use. The Binomial Expansion Technique, or BET model, was originally developed by Moody's back in '96 with the goal of providing a tool for generating expected losses for portfolio credit derivative transactions. This model has been extensively studied and documented and continues to be widely used in CDO analysis. The basic methodology is simple and transparent. It relies on a measure of diversification called the Diversity Score to encapsulate the degree of correlation between defaults and securities in the underlying collateral pool.

The main point here is that the higher correlation translates into a lower Diversity Score and I'll talk a little bit more about that on the next slide. The Diversity Score is calculated and reported by most of the trustees in transactions that we have, so we have access to independently derived Diversity Scores for the majority of our transactions. And this speaks to the great advantage of a BET model.

All of the main model parameters can be derived from independent market sources. We do not need to make assumptions, for example, about the market price of correlation, which is not an observable parameter for the senior tranches of multi-sector CDOs that are we trying to value. And I've listed at the bottom of the slide the main model parameters that we need in order to achieve a valuation.

So let me finally go into a little bit more detail on a couple of these points. We use market credit spreads wherever possible to imply a probability of loss for each underlying reference security. And that means the 20,000 reference securities that Joe was referring to. We do not use agency ratings to imply our lost distributions. The key to the BET model is that we replace a large and diverse pool of securities with a hypothetical, much simpler homogeneous pool of uncorrelated securities. The size of this hypothetical pool is given by the Diversity Score.

We have made a few enhancements to the original BET model to help us capture the specific features of our transactions. For example, we look at the loss distribution through time rather than just the loss distribution at maturity. We also use Monte Carlo simulation to enable us to incorporate and to value the specific structural features that are present in each of our transactions. Thank you. Back to you, Joe.

Joe Cassano - *American International Group - President, CEO - AIG Financial Products*

Great thanks, James. So just to sum up before the Q&A, we believe this is a money good portfolio. You've heard us talk about all our trades combine the strength and careful asset due diligence, selection and review with the rigors and frameworks provided by our bespoke modeling.

But each and everyone of our transactions, as Andy said earlier, passes through the same careful process, we don't have any shortcuts, including, and we haven't spent a lot of time on this but Bob will talk about this with Kevin I'm sure during his presentation, the approval of the AIG Head Office Enterprise Risk or the Credit Risk Group at AIG. So there's always two eyes, two teams reviewing our business. There is not one dollar of this business that's been done that hasn't gone through that double review check.

As Gary said, the models we use are simple, they're specific and they're highly conservative. And other than the accounting methodology model, they're all in-house models. And we actually went outside to draw down a model that was publicly available for accounting valuations because it was easy for others then to look and understand what we're doing, because that's the whole essence of the fair value is let others see into your business.

It's also important to know that we construct and stress to our worst case assumptions, as Gary has pointed out. And one of the things that's helping us through was the decision we made in 2005 and the limited exposure that we have to the problematic vintages of '06 and '07. And now we'd be more than happy to take your questions. Tom?

QUESTIONS AND ANSWERS

Tom Cholnoky - *Goldman Sachs - Analyst*

Tom Cholnoky, Goldman. Joe, just to go back to your estimate of the mark-to-market I guess --

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Joe Cassano - *American International Group - President, CEO - AIG Financial Products*

I warned you about this.

Tom Cholnoky - *Goldman Sachs - Analyst*

I just want to make sure I fully understand, I know this is kind of like second grade for me going through this. But just so I just so I understand, to the extent that you've now quarter to date had roughly a $1.1 billion or so of potential or mark-to-market --.

Joe Cassano - *American International Group - President, CEO - AIG Financial Products*

Or mark-to-model loss.

Tom Cholnoky - *Goldman Sachs - Analyst*

Mark-to-model, just to make sure, you don't actually expect these to actually generate economic loss for you. This is an indication that, if you were to sell your portfolio today or sell these securities, you would have to recognize that loss. But to the extent that you have the ability to ride out the duration of the contract, these would ultimately reverse these charges, just to understand that. Is that correct?

Joe Cassano - *American International Group - President, CEO - AIG Financial Products*

That's absolutely correct. Now let me just, what Tom is saying is absolutely correct. We see the $1.1 billion, and we should add to it the $350 million from the third quarter of last year right, the end of the September numbers, so the approximately $1.5 billion as a mark that someone might make us pay to take on these liabilities in this aberrant market conditions. But we don't have to sell, they're all synthetic, there's nothing that compels us to sell these trades. Our fundamental analysis says this is a money good asset. We would not be doing the shareholders any benefit by exiting this right now and taking that loss. And over the average lives that you see us post for the maturity of these transactions, these losses will come back and these are money good instruments that we have.

Tom Cholnoky - *Goldman Sachs - Analyst*

And then just, sorry, one follow up if I can just on the Paulson proposals in Washington. I you can just go into a little bit more depth of, a little more detail of how potentially that could impact your various positions. For instance there's some thought that BBBs might get pushed ahead of you and whatnot, but if you could give us a little bit more detail.

Joe Cassano - *American International Group - President, CEO - AIG Financial Products*

Right. It's a good question, Tom, because it's so timely, there are a lot of questions about the Paulson plan. I actually am very happy that Secretary Paulson is taking a strong view at that end of the spectrum, how do we solve the mortgage problem in the United States at the pointy end of the mortgage problem where the individuals are. I think that's an important aspect to it. Whether his plan comes to final completion we don't know because you're all listening to the same pundits that I do.

The way to look at it is, if his plan came to fruition, what he would be saying then is, okay you who may have defaulted you no longer will default because you're going to get a better rate than you would have through the market and your mortgage will continue. That's the essence of his plan.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8−K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): February 11, 2008

AMERICAN INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**1−8787**	**13−2592361**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

70 Pine Street
New York, New York 10270
(Address of principal executive offices)
Registrant's telephone number, including area code: **(212) 770−7000**
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8−K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a−12 under the Exchange Act (17 CFR 240.14a−12)
- ☐ Pre−commencement communications pursuant to Rule 14d−2(b) under the Exchange Act (17 CFR 240.14d−2(b))
- ☐ Pre−commencement communications pursuant to Rule 13e4(c) under the Exchange Act (17 CFR 240.13e−4(c))

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Section 8 — Other Events
Item 8.01. Other Events.

In connection with the preparation of its 2007 financial reports, American International Group, Inc. (“AIG”) has recently concluded that AIG should clarify and expand its prior disclosures relating to the methodology and data inputs used to determine the fair values of the super senior credit default swap portfolio in respect of multi−sector collateralized debt obligations (“CDOs”) of AIG Financial Products Corp. and AIG Trading Group Inc., including their respective subsidiaries (collectively, “AIGFP”).

As disclosed in AIG’s Quarterly Report on Form 10−Q for the quarter ended September 30, 2007 (the “Form 10−Q”), AIGFP values its super senior credit default swaps using internal methodologies that utilize available market observable information and incorporate management estimates and judgments when information is not available. In doing so, it employs a modified Binomial Expansion Technique (“BET”) model that currently utilizes, among other data inputs, market prices obtained from independent sources, from which it derives credit spreads for the securities constituting the collateral pools underlying the related CDOs. The modified BET model derives default probabilities and expected losses from market prices, not credit ratings. The initial implementation of the BET model did not adequately quantify, and thus did not give effect to, the benefit of certain structural mitigants, such as triggers that accelerate amortization of the more senior CDO tranches.

As disclosed in the Form 10−Q, AIG did not give effect to these structural mitigants (“cash flow diversion features”) in determining the fair value of AIGFP’s super senior credit default swap portfolio for the three months ended September 30, 2007. Similarly, these features were not taken into account in the estimate of the decline in fair value of the super senior credit default swap portfolio through October 31, 2007 that was also included in the Form 10−Q because AIG was not able to reliably estimate the value of these features at that time. Subsequent to the filing of the Form 10−Q, through development and use of a second implementation of the BET model using Monte Carlo simulation, AIGFP was able to reliably estimate the value of these features. Therefore, AIG gave effect to the benefit of these features in determining the cumulative decline in the fair value of AIGFP’s super senior credit default swap portfolio for the period from September 30, 2007 to November 30, 2007 that was disclosed in AIG’s Current Report on Form 8−K/A, dated December 5, 2007 (the “Form 8−K/A”) filed after AIG’s December 5, 2007 Investor Conference.

In addition, during AIG’s December 5 Investor Conference, representatives of AIGFP indicated that the estimate of the decline in fair value of AIGFP’s super senior credit default swap portfolio during November was then being determined on the basis of cash bond prices for securities in the underlying collateral pools, with valuation adjustments made not only for the cash flow diversion features referred to above but also for “negative basis”, to reflect the amount attributable to the difference (the “spread differential”) between spreads implied from cash CDO prices and credit spreads implied from the pricing of credit default swaps on the CDOs.

In order to clarify the pricing methodology and data inputs used, the following table reflects the data inputs used in the methodology as of September 30, 2007, October 31, 2007 and November 30, 2007, and quantifies the components of the estimate as of the end of each month:

(in millions) As of	Gross Cumulative Decline in Valuation During 2007	Benefit of Structural Mitigants (Cash Flow Diversion Features)	Cumulative Decline in Valuation Net of Cash Flow Diversion Features	Benefit of Spread Differential (Negative Basis Adjustment)	Cumulative Decline in Valuation As Previously Disclosed
September 30	$ 352(1)	$ 0(2)	$ 352	Not Applicable	$ 352(3)
October 31	$ 899(4)	$ 0(2)	$ 899	Not Applicable	$ 899(5)
November 30	$ 5,964(6)	$ 732(7)	$ 5,232	$ 3,628(8)	$ 1,604(9)

(1) Calculated using BET methodology with generic credit spreads on asset−backed securities provided by a third party.

(2) AIG did not give effect to the benefit of any cash flow diversion features.

(3) As disclosed in the Form 10−Q.

(4) Calculated using BET methodology with generic credit spreads on asset−backed securities provided by a third party and adjusted using inputs derived by management from observed changes in the relevant ABX indices. Calculation on this basis at November 30, 2007 would have resulted in a gross cumulative decline in valuation of $2.551 billion, a benefit of $863 million from cash flow diversion features and a cumulative decline in valuation net of cash flow diversion features of $1.687 billion.

(5) Corresponds to the sum of the cumulative decline as of September 30, 2007 of $352 million and the estimated further decline during October

of $550 million as disclosed in the Form 10−Q and reflects further refinement of data inputs used in the model.

(6) Calculated using BET methodology with cash bond prices provided by the managers of the underlying CDO collateral pools, or, where not provided by the managers, prices derived from a price matrix based on cash bond prices that were provided.

(7) Calculated using Monte Carlo simulation.

(8) Represents amount attributable to the differential between spreads implied from cash CDO prices and credit spreads implied from the pricing of credit default swaps on the CDOs.

(9) Corresponds to the sum of the cumulative decline as of September 30, 2007 of $352 million and the estimated further decline of an aggregate of approximately $1.05 billion to $1.15 billion during October and November as disclosed in the Form 8−K/A, and reflects further refinement of data inputs used in the model.

AIG has not yet determined the amount of the increase in the cumulative decline in fair value of AIGFP's super senior credit default swap portfolio to be included in its December 31, 2007 financial statements. AIG is still accumulating market data in order to update its valuation of the AIGFP super senior credit default swap portfolio. AIG currently expects that the adjustment for cash flow diversion features will be included in determining the fair value of AIGFP's super senior credit default swap portfolio at December 31, 2007. However, as a result of current difficult market conditions, AIG is not able to reliably quantify the differential between spreads implied from cash CDO prices and credit spreads implied from the pricing of credit default swaps on the CDOs, and therefore AIG will not include any adjustment to reflect the spread differential (negative basis adjustment) in determining the fair value of AIGFP's super senior credit default swap portfolio at December 31, 2007. The fair value of the super senior credit default swap portfolio for the year ended December 31, 2007 will reflect continuing refinements, if any, of AIG's valuation methodologies and additional market data.

AIG has been advised by its independent auditors, PricewaterhouseCoopers LLC, that they have concluded that at December 31, 2007, AIG had a material weakness in its internal control over financial reporting and oversight relating to the fair value valuation of the AIGFP super senior credit default swap portfolio. AIG's assessment of its internal controls relating to the fair value valuation of the AIGFP super senior credit default swap portfolio is ongoing, but AIG believes that it currently has in place the necessary compensating controls and procedures to appropriately determine the fair value of AIGFP's super senior credit default swap portfolio for purposes of AIG's year−end financial statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.
(Registrant)

Date: February 11, 2008

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President and Secretary

PWC-FCIC 000008

PRICEWATERHOUSECOOPERS

Redacted

During and, in large part, as a result of our audit, it was later determined that the $1.5 billion estimate used was net of structural benefits of $700 million and a negative basis adjustment of $3.6 billion which was, apparently, not known by ERM or senior management until early February 2008.

Redacted

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-FCIC000220-223

11/9 8/30 SS MS/SG/ME/GL/SK/EH/BD/KS/DH
discussion HD/TR/BD

TR → Purpose to discuss impact of collateral ~~disputes~~ discussions and understand impact on the SS valuation.

JC – current market segment is in chaos and a dislocation
– not exchange traded so not that simple
– no actual dispute with anybody but GS still in discussion with other counterparts over valuation.

MS Disagreement not a dispute with other counterparts

Set up a Halo call to discuss.

JC – GS [illegible] around data – where are representative marks available. As mkts is so dislocated and pause in markets so v. difficult to get mks for underlying collateral. 22,500 separate names that need to be priced each with unique circumstances.
– GS have priced internally (generically priced and rolled packed via a model to arrive at the model).
Did not have data to dispute. Reached a standstill agreement → agree to exchange place $1.95bn and will come back with GS views.

Getting up an every transaction from the mergers

eg Dunhill merged by Vanderbilt – prices are gone to trustees of all underlying bonds. (latter get price at MMkt price)

PM → went to legal confirms → cash not CDS (i.e. MV of reference obligation)

Contract refers to a security (L602+25) Spread of the contract is 10bp not 25bp hence different at inception of the contraction

Some difference between CDS + bond; cost of cash ++

When mkts are stressed the difference generally increases. Do not have ABS evidence. But if look at auto sector could get 150 - 200 bp differences.

JC Need to model underlying obligors and all the input. One of the key input is to look for prices and hence assumption for spreads.
Need to quantify CDS spread to the cash.
Could be 10% but subject to change.

Is there a gain in this portfolio - i.e. could hedge out with the cash and lock in the position

Bob SB Consequence of the market to moving to more detailed and granular analysis of what is being done.

JC "Going to ground" rebuilding everything to build fair value.
Head of CDO trading at JPM "we did not trade one bond this month".

TR Major management judgment and based on all the sensitivities and ability to get data

Confidential Treatment Requested

JC Hagan Collateral calls part of the business. These are part of ISDA CSAs with everyone. Information is not as clean as in a Lyr 10S. There dialogue about where valuation is. Working with counterparts to resolve - does not see as a material issue with GS or others.

What do you do with collateral calls as an unknowable event?
12 margin have provided data. $3.5bn offset CDS to cash.

SB/JC what are we going to say about winning with dealers
Potential another $2.5bn (Scion 10/4 $1bn 11/[illegible] $1bn 12/9)
Purse high level estimate.

Treatment in Q+K as part of underlying profit and adjustment to the net income line, for adjusted net income.

SB Confidence on the economics

JC $3.5b - $1bn = $2.5bn now need to adjust for bens and structural benefits

Confidential Treatment Requested

PWC-FCIC 000222

11/24/07

- Martin ~~Bob~~
- Stasia ~~Henry~~
- M. Nork ~~Tim~~
- Steve G
- Bill D
- Kelly S • Mari 12/5
- Elias
- Bill L
- Sue C
- David H
- Andy
- Pierre
- Simone D

FC

$3.5
(1) but
$2.5 stocks support buys

FW

→ Sue - memo to Steve <sent to his sec>
→ Go - see it < review annually> 4 hrs
→ 42 not incur revisit Q3

- GIW severally pro on behalf of their securities not 225 bonds
- state stip agreement
- collateral dispute
- because Joe did not have ~~data~~
- when we can show you are wrong

$1B	N
$2B	0

Confidential Treatment Requested

PWC-FCIC 000223

PWC-FCIC000217

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
Deal	GS Value of Collateral	Manager Prices Using 3rd Party Marks	Size of SS Tranche	Goldman Estimate of Leakage	GS Calculated SS Price	GS Prices used for collateral call	AIG Calculated SS Level Using Manager Prices	AIG Calculated Level Using Managers Prices and Adding In GS "Leakage"	Notional with GS	Goldman Collateral Call Amount	AIG Calculated CSA Call	AIG Calculated CSA Call including GS leakage in the SS Price	Value Deterioration Using AIG SS Calculated Prices	Value Deterioration Using AIG SS Calculated Prices Including Leakage
Altius II Funding, Ltd. (A-1)	77.00%	66.86%	64.10%	6.80%	63.30%	67.50%	103.04%	96.04%	1,153,206,443	94,033,549	0			12,589,316.87
Broderick CDO 1 Ltd. (A-1NVA)	66.80%	62.77%	64.00%	8.80%	77.00%	67.50%	98.54%	89.64%	817,000,000	233,129,704	0	30,157,832	11,877,642.04	62,877,790.46
Dunhill ABS CDO, Ltd. (A-1NV)	80.60%	78.03%	63.70%	10.40%	86.90%	78.00%	122.50%	112.10%	371,101,327	36,931,279	0			
Independence V CDO, Ltd. (A-1)	47.90%	80.82%	53.60%	15.10%	73.90%	67.50%	119.81%	103.71%	142,583,117	40,627,836	0			
Jupiter High-Grade CDO III, Ltd. (A-1NV)	71.80%	76.42%	64.80%	8.00%	79.70%	75.00%	90.44%	86.44%	1,253,495,367	393,234,025	88,721,044	132,385,811	118,880,857.79	182,535,825.84
Kleros Preferred Funding II, Ltd. (A-1NV)	77.80%	65.83%	66.90%	8.00%	84.30%	62.50%	98.53%	93.53%	859,602,800	119,046,404	0	21,257,816	17,881,566.05	56,641,735.87
Lexington Capital Funding, Ltd. (A-1ANV)	80.60%	53.84%	66.40%	15.10%	61.40%	80.00%	81.23%	46.13%	189,851,779	89,382,836	29,048,484	66,729,212	36,844,845.15	84,327,213.29
Orient Point CDO, Ltd. (A-1NVA) Delayed	81.30%	66.78%	66.20%	8.00%	86.00%	80.00%	79.77%	74.77%	1,297,000,000	486,820,000	210,829,281	375,378,281	262,408,290.74	327,238,380.74
River North CDO Ltd. (A-1)	58.60%	80.40%	84.80%	18.30%	78.30%	70.00%	124.46%	108.16%	148,790,000	38,806,000	0			
Triaxx Prime CDO, Ltd. 2006-2A	93.80%	84.83%	90.00%	5.00%	95.00%	82.90%	106.09%	100.00%	2,699,700,000	104,946,800	0			
Mercury CDO 2004-1, Ltd. (A-1NV)	72.00%	60.43%	76.40%	8.30%	84.70%	90.00%	105.30%	102.00%	200,894,743	12,058,846	0			
MKP CBO III, Ltd. (A)	75.00%	77.36%	30.00%	0.00%	100.00%	63.75%	257.53%	257.53%	37,867,405	852,017	0			
Reservoir Funding Ltd. (A-1NV)	71.00%	86.82%	71.30%	9.70%	80.00%	80.00%	124.67%	114.67%	316,861,873	50,309,100				
									8,880,034,040	1,860,880,880	388,299,818	666,913,752	442,984,132	798,201,931
Duke Funding VII, Ltd. (I-A2)	87.70%	Do not mark their portfolio	86.70%	8.70%	75.30%	70.00%			129,650,000	33,708,000				
Huntington CDO, Ltd. (A-1A NV)	63.30%	Waiting for	86.30%	9.90%	86.90%	80.00%			408,800,000	65,040,000				
Ischus CDO II Ltd. (A-1A)	53.70%	Do not mark their portfolio	63.90%	13.80%	66.10%	54.00%			383,750,000	106,137,500				
Orchid Structured Finance CDO II, Ltd. (A-	56.00%	Waiting For	64.90%	17.80%	72.90%	65.00%			104,094,872	32,288,441				
Saturn Ventures 2006-1, Ltd. (A-1)	60.80%	Do not mark their portfolio	57.90%	16.50%	63.50%	60.00%			188,736,984	31,477,814				
Sherwood Funding CDO II, Ltd. (A-1)	52.60%	Do not mark their portfolio	64.90%	16.50%	66.30%	60.00%			322,250,000	114,010,000				
South Coast Funding VII Ltd. (A-1ANV)	66.60%	Posted early next week	66.00%	12.70%	73.60%	66.00%			864,086,415	212,086,759				
South Coast Funding VIII Ltd. (A-1NV)	48.10%	Posted early next week	46.10%	13.30%	56.90%	53.00%			338,104,864	137,280,044				
West Coast Funding I, Ltd. (A-1a)	88.10%	Posted early next week	44.00%	5.00%	73.50%	65.00%			2,375,800,000	677,100,000				
									4,817,873,334	1,413,306,565				

Spread on Security
Spread on CDS
— Reasons
Pierre → — Counterparty Risk
— Cost of Cash
— Contractual Terms
— Capital Charges?

25 BP > ~~[illegible]~~ At Time of Contract
10 BP
↳ Hard to Quantify
Could Be 10 Points on
$ 75 Billion — would amount to Gap
(Extrapolation $3.5 Billion)

Fulmination Thanks Hold
Super Senior Derivative Valuation

$ 75 Billion of CDOs
October/November Data

① → Cash/CDS Spread Difference
② → Hard to Model underlying obligors
↳ Hard Average Lives

→ Best Starts with Spreads

AIG-SEC 12689327-12689329

From: Roemer, Michael
Sent: 11/29/2007 12:41:38 PM
To: Cassano, Joseph
Subject: RE: Your Participation is Requested in FP Meeting - Thursday, Nov 29 @ 8:30am

Joe, Thanks for the note. From my side, went very well. You and your team did a great job of explaining a very complex subject. After end of call, PwC reiterated positive comments on where you have taken the valuation process. Appreciate your time and effort in preparing. WIll stay connected throughout, Mike

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From: Cassano, Joseph
Sent: Thursday, November 29, 2007 11:51 AM
To: Roemer, Michael
Subject: RE: Your Participation is Requested in FP Meeting - Thursday, Nov 29 @ 8:30am

Hello Mike ,

I am not sure how the call seemed to go from your side but I want to thank you for having put everyone together for the discussion. It was very helpful to me to have all those involved listening and hopefully hearing the story simultaneously so there is no second guessing .

I appreciate you efforts.

Joe

From: Johnson, Stacey [mailto:Stacey.Johnson@AIG.com] **On Behalf Of** Roemer, Michael
Sent: Wednesday, November 28, 2007 4:38 PM
To: Bensinger, Steven; Cassano, Joseph; Dooley, William; Kelly, Anastasia; Lewis, Robert (AIG Enterprise Risk Mgmt); tim.ryan@us.pwc.com
Cc: Cali, Rosanna; Atherley, Roxanne; Vega-Hernandez, Nilda; Meyers, Dorcas; Weber, Sherry; Alekian, Adriana; christine.sessa@us.pwc.com; Roemer, Michael
Subject: Your Participation is Requested in FP Meeting - Thursday, Nov 29 @ 8:30am
Importance: High

Please note that a meeting is scheduled for tomorrow morning at 8:30am to discuss FP's collateral dispute as outline in AIG's 3rd Qtr 10Q.

Date: Thursday, November 29

Time: 8:30am (*EST*)

Location: 18/70 Pine – Steve Bensinger's Conference Room

Dial in: 866-703-9405 ~ Domestic

865-297-1124 ~ International

Participant: 963870

Participants: Steve Bensinger

Joe Cassano

Bill Dooley

Stasia Kelly

Bob Lewis

Martin Sullivan

Tim Ryan (PwC)

*If there is anyone that you feel should be included in this meeting, please feel free to extend the invitation.

My apologies are extended to you for the short notice; however, the meeting has been scheduled in consideration of Mr. Sullivan's availability.

Regards,

Mike

Stacey Johnson

Senior Executive Assistant to Michael Roemer

Senior Vice President & Director of Internal Audit

American International Group, Inc.

32 Old Slip

New York, NY 10005

Tel. 646-857-0301

Fax 646-857-0434

AIG-SEC5981397-99

From: Cassano, Joseph
Sent: 12/01/2007 03:30:27 PM
To: Habayeb, Elias; Dooley, William; Bensinger, Steven
CC: Herzog, David; McGinn, Kevin; Lewis, Robert (AIG Enterprise Risk Mgmt); Cenci, Diane
Subject: RE: November change in value for the super senior multi sector cdo

We have now derived a number of methods for valuing the transactions . Each of the methods have come in within a range of each other .The two principle methods are the BET model using the JPM spreads calibrated to the change in the abx . All of the data for this exercise is of Thursday .We do not look at current JPM data for this exercise we look to the change in indices to correct for the 9/30 JPM data. This exercise is similar to what we id in October with the exception of improved data for the underlying reference obligations especially all of the mortgage securities. The data has been improved for amortization and average life calculations. Much that information is a download directly from Bloomberg or Intex.

The second main option is to use the BET but with spreads we derive from the actual prices from the managers of the multi sector cdo's . We have bolt another matrix which relies on the 3,500 reference obligations that the mangers have priced and then our trader inputs for areas where data was unavailable .Since many of the portfolios share many of the same attributes this is reasonably reliable . The timing of the pricing data is more difficult to pin down . It comes to us all during the month of Novememebr so it does have a timing drag .Our traders review the data and any pricing they deem inconsistent with the current market and make adjustments adjust. Finally as we discussed on the call with PWC on the conference call with Martin since these spreads are for cash as opposed to the JP/ABX spreads we make an adjustment for cash vs. cds that we derive from the market .

We also have the gut check of the pricing and margin call we made to GS as a third basis to extrapolate but that is just a gut check. Since all of this is unaudited and can not be audited before the call it is important we speak in wide ranges on Wednesday.

The second process uses the same price information we used to call back the money from GS .So the values are included in the valuation.

This month the main drivers seem to be movement in sub prime spreads but more importantly the movement of prime rmbs spreads especially higher grade instruments as all rmbs securities have been dragged down in price .higher grade higher quality instruments have accelerated down faster this month than sub prime. The other big mover is spreads from CDO's while we do not have large amounts of CDO's as reference obligations, their pull downward has been extraordinary.

We will send you the data on Monday morning .

Joe

From: Habayeb, Elias [mailto:Elias.Habayeb@aig.com]

Sent: Sat 12/1/2007 4:01 PM
To: Cassano, Joseph; Dooley, William; Bensinger, Steven
Cc: Herzog, David; McGinn, Kevin; Lewis, Robert (AIG Enterprise Risk Mgmt)
Subject: RE: November change in value for the super senior multi sector cdo

Joe

Thanks for the information.

Where these estimates derived in a consistent manner to what you did in October, that is, were the November valuation estimates derived using the same methodology / approach / assumption sources used in October or did you do anything different? The October valuation estimates were derived using the BET model and the JPM spreads adjusted for the relative change in the ABX.HE index for the subprime RMBS collateral. If so, as of which date in November were you able to get the spreads from JPM?

Did you use any of the information you have from the collateral calls in deriving these estimates?

Did you employ the monte-carlo simulation in valuing the structural benefits in November?

Can you tell what the mains drivers behind the $500 or $600 million valuation estimate are (e.g. subprime RMBS, mezz, etc.)?

Finally, can someone send me the valuation output spreadsheet from the BET model by deal (the one that shows what the DEL and DESA in bps are) and the spread input data?

Thanks,
Elias

From: Cassano@aigfpc.com [mailto:Cassano@aigfpc.com]
Sent: Friday, November 30, 2007 6:16 PM
To: William.Dooley@aig.com; Steven.Bensinger@AIG.COM
Cc: David.Herzog@aig.com; elias.habayeb@aig.com
Subject: November change in value for the super senior multi sector cdo

Pierre ,Andy ,James and I spent the day working through various permutations and runs of the multi sector cdo book for the end of November . While the number is a rough cut due to the time constraints we estimate the value change for the month of November between $500 million and $600 million . I would propose that at the conference I say

Something to the effect while it is still early after the month end I estimate that the change in value for the month of November was similar in magnitude to the change for the month of October of somewhere between $500 and $600 million but of course that number can change as we dig through the details of the results for the period.

I am going home , we can talk further on Sunday.

Joe

AIG-SEC0005621-23

Subject: 3.30pm Year End Valuation Approach - Diane Cenci & William Kolbert
Location: halo

Start: 12/6/2007 10:30:00 AM
End: 12/6/2007 11:30:00 AM

Recurrence: (none)

From: Cenci, Diane
Sent: Wednesday, December 05, 2007 7:32 PM
To: Cassano, Joseph
Cc: Kolbert, William; Whitty, Caroline
Subject: Meeting Tomorrow

Joe
We have meeting scheduled for tomorrow to discuss year end valuation approach. I am attaching a list of questions/procedures PwC will be looking to perform at year end as a basis for our discussion.

Speak with you tomorrow.

Regards
Diane

Population under evaluation (as at 3Q07)

	Asset Class	Portfolio as of September 30, 2007 No. of Trades	AIGFP Exposure (USD billions)
CORPORATE	Corp Debt - Arbitrage	44	$95
REG CAP	Bank Loans / SME Loans	54	$199
	RMBS	36	$141
MULITSECTOR	ABS - Term Protection	103	$72
	ABS - 2a7	16	$6
	TOTAL	**253**	**$513**

1. **Model validation**
   1.1. Review the model chosen as the primary model
      1.1.1. Does the model capture "CDO^2" characteristics if applicable
      1.1.2. How does it treat the cash flows at the "inner" level
      1.1.3. How do the credit enhancements get captured by the model and calculated
   1.2. Review the model validation work being done by Jean-Michel Fayolle
   1.3. Review sensitivities etc. to inputs
   1.4. Applicability of BET model for Super Senior transactions
   1.5. Applicability of other models e.g. Gaussian Copula, relative value to indices
   1.6. Model integrity
      1.6.1. Test controls over access to models
      1.6.2. Validate if model is based in Atlas environment
   1.7. Applicability of BET model for Horizon / Combs transactions

2. **"Market" Inputs**
   2.1. Test support for "observable" market inputs where obtained
      2.1.1. JPMC spread data
      2.1.2. ABX calibration data
      2.1.3. Weighted Average Life ("WAL")
      2.1.4. Ratings
      2.1.5. Discount rates
      2.1.6. Recovery rates
   2.2. Evaluate existence of CDS vs. Cash spread differentials
   2.3. Evaluate other information used for pricing purposes

3. **Transactions inputs - including underlying collateral**
   3.1. Test trade bookings - tie back sample of transactions to bibles and to Lewis summary reports (key dates, notional amounts etc.)
   3.2. Look through each transaction to the underlying collateral and categorisation
      3.2.1. Test nature of underlying collateral, and categorisation into 5 portfolios
      3.2.2. Test vintage of underlying collateral
      3.2.3. Evaluate "CDO of ABS" for "squared" type structures, and evaluation of underlying collateral
   3.3. Test monitoring of actual performance of underlying collateral
   3.4. Test extent and nature of cancellation features
   3.5. Evaluate waterfall and credit enhancements provisions

4. **Assumptions and Extrapolated Inputs**
   4.1. Test support for "extrapolated" market inputs where obtained
      4.1.1. JPMC spread data -
      4.1.2. ABX calibration data
      4.1.3. Extrapolation of WAL, ratings for reference obligations not obtained
   4.2. Evaluate ability to apply "Market Premium" considerations (especially relevant on Regulatory Capital trades with no calculated DEL loss assumptions)
   4.3. Evaluate transactions not priced in A, D & E portfolios due to data constraints
   4.4. Evaluate vintage scaling where applicable
   4.5. Evaluate potential to calibrate to recent transactions
   4.6. Evaluate treatment of credit enhancement features

5. Collateral discussions

5.1. Documentation and analysis of collateral call discussions
5.2. Basis for calculation of collateral amounts
5.2.1. Cash versus CDS spreads
5.2.2. Thresholds (e.g. 4% trigger below which collateral not required)
5.2.3. Amount to be provided (notional percentage versus fair value)
5.3. Review range and outcomes of collateral discussions with **<u>all</u>** counterparties
5.3.1. Obtain agreements and all other documentation with counterparties for review
5.3.2. Evaluate if additional procedures are required including interactions with counterparties
5.4. Documentation and evaluation of collateral call amounts as an indicator of fair value

6. Other questions & assumptions

6.1. Review EITF 02-3 guidance - highly sceptical of recording gains and losses on a one way market
6.2. Is all new business being written being done only in regulatory capital book
6.3. Evaluation of regulatory capital transactions
6.3.1. Evaluation of inputs availability
6.4. Completeness of population
6.4.1. Horizon transactions
6.4.2. Combs transactions
6.4.3. Other structures
6.5. Evaluation of new transactions, terminations and any other valuation data points
6.6. Analysis of any other counterparty information, modelling approaches etc where possible
6.7. Evaluate if any of the information affects other areas e.g. AFS valuation
6.8. Evaluate completeness of disclosures