Enterprise Risk Management
AIG Has No Appetite for Undue Concentrations of Risk

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

![Graph showing Return on Equity (%), GAAP Basis](image)

Despite Crisis Ridden Industry Shocks:

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

What Differentiates AIG?

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

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

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

ERM Governance and Reporting

Enterprise Risk Management
- Credit Risk
- Market Risk
- Insurance Risk
- Economic Capital
- Liquidity Risk
- Operational Risk
- SOX
- Remediation
- CSFT

Senior Management Committees
- Credit Risk
- Cross-Border Exposure
- Country Rating Review
- Financial Risk
- Foreign Exchange
- Derivatives
- L&RS RM
- General Insurance RM
- CEO Approval Process
- Capital Management
- Economic Capital
- ORM Forums
- Remediation Steering
- Complex Structured Fin Trans (CSFT)

Board of Directors

Finance Committee

Audit Committee

Enterprise Risk Management
Credit Control Process for All AIG Businesses

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

AIGFP “Super Senior” (SS) Credit Default Swaps (CDS)

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

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

Mortgage Guaranty

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

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

Summary

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