

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)

		Portfolio as of September 30, 2007	
	Asset Class	No. of Trades	AIGFP Exposure (USD billions)
CORPORATE	Corp Debt - Arbitrage	44	\$95
	Bank Loans / SME Loans	54	\$199
REG CAP	RMBS	36	\$141
	ABS - Term Protection	103	\$72
MULTISECTOR	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 "CDO²" 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 **all** 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