AIG

Residential Mortgage Presentation

(Financial Figures are as of September 30, 2007)

November 8, 2007

(Revised as to slide 37)

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The consumer finance industry uses the Fair Isaac & Co. credit score, known as a FICO score, as a standard indicator of a borrower's credit quality.

While the current concern in the mortgage market is sub-prime lending, there is no standard definition of sub-prime. The banking regulators have provided some guidance and view sub-prime borrowers as those who may have a number of credit characteristics, including previous records of delinquency, bankruptcy or foreclosure; a low credit score; and/or a high debt to income ratio.

The rating agencies and market participants, such as lenders, mortgage insurers, dealers and investors, also have different definitions of sub-prime. For this presentation, AIG has segmented the consumer finance portfolios of American General Finance and United Guaranty into three categories: Prime, as FICO greater than or equal to 660; Non-Prime, as FICO between 659 and 620; and Sub-Prime as FICO less than 620.

For the investment portfolios of AIG insurance companies and AIG Financial Products, the presentation will use the securitization market's sub-prime convention of under 660, representing an average FICO score of the underlying mortgage collateral.

AIG and the U.S. Residential Mortgage Market

AIG and the US Residential Mortgage Market

- AIG is active in various segments of the residential mortgage market
- Certain segments of the market have experienced credit deterioration which is adversely affecting current results in AIG’s mortgage guaranty insurance business
- Credit deterioration and reduction in liquidity have resulted in negative actions by rating agencies and market value losses on many securities issued against residential mortgage collateral. These outcomes are affecting current results in AIG’s capital markets business and have caused market value adjustments to AIG’s investment portfolios
- AIG is not active in the securitization of residential mortgage related assets and does not expect to liquidate investment securities in a chaotic market due to its strong cash flow and superior financial position
- AIGFP writes “Super Senior” protection through credit default swaps (CDS) on CDO structures containing U.S. residential mortgage securities. AIGFP holds very low exposure to the 2006 and 2007 vintages. Although a valuation loss has been taken in the quarter to reflect credit spread widening of CDOs on ABS, AIGFP does not expect to make any payments on its portfolio of CDS
- AIG has a strong enterprise risk management process where risks are identified, assessed, analyzed, monitored and managed at all levels of the organization
- AIG remains comfortable with the size and quality of its investment portfolios and its operations
- AIG has the financial wherewithal and expertise to take advantage of opportunities emanating from this market turmoil

What is AIG's role in the Residential Mortgage Market?

HOMEOWNER

Borrower pays mortgage principal & interest to lender or servicer

Lender provides mortgage loan to borrower to buy or refinance home

LENDER

American General Finance

Lenders hold or sell mortgages for securitization

DEALERS

Mortgages are placed in collateral pools with thousands of other mortgages

Dealers create residential mortgage backed securities (RMBS) with different risk levels

RMBS Securities

AAA	AAA
AA	AA
A	A
BBB	BBB
Equity	Equity

MONOLINE INSURERS

Provide credit enhancement to tranches ("wrap")

Investors buy RMBS and CDOs

INVESTORS

AIG insurance cos.
AIG Financial Products

Investors are repaid from payments made by borrowers

Provides mortgage insurance to lenders

MORTGAGE INSURER

United Guaranty provides mortgage insurance to many lenders

Dealers create collateralized debt obligations (CDOs) with various collateral pools, sometimes with a combination of assets, such as bank loans, corporate debt, RMBS, CMBS, and ABS

CDO Securities

AAA	AAA
AA	AA
A	A
BBB	BBB
Equity	Equity

Provides credit protection above AAA tranche, known as "Super Senior AAA+", for a diversified pool of assets

AIG Financial Products

CREDIT PROTECTION PROVIDERS

AIG's Residential Mortgage Market Activities

Originates Mortgages: **American General Finance** extends first- and second-lien mortgages to borrowers

Provides Mortgage Insurance: **United Guaranty** provides first loss mortgage guaranty insurance for high loan-to-value (LTV) first- and second-lien mortgages that protects lenders against credit losses

Invests in Mortgage Backed Securities (MBS) & Collateralized Debt Obligations (CDOs): **AIG** insurance companies and **AIG Financial Products** invest in Residential Mortgage-Backed Securities (RMBS), in which the underlying collateral are pools of mortgages that are repaid from mortgage payments, and CDOs and Asset-Backed Securities (ABS). CDOs are similar in structure to RMBS, but the collateral can be composed of bank loans, corporate debt, and asset-backed securities (such as RMBS)

Provides Credit Default Protection: **AIG Financial Products** provides credit protection through credit default swaps on the "Super Senior (AAA+)" tranche of CDOs

American General Finance

American General Finance (AGF)

Overview of AGF Mortgage Business

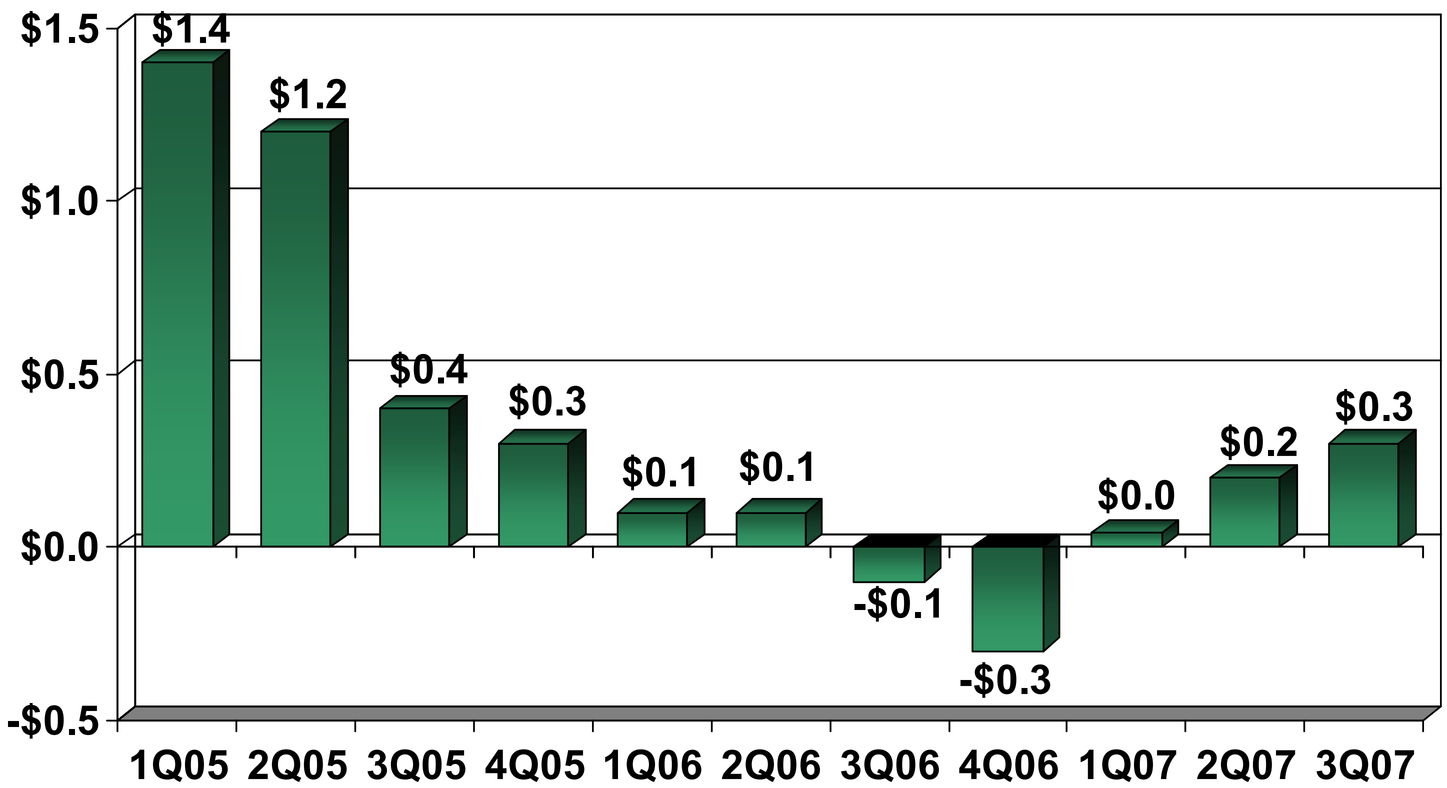
- AGF provides loans to borrowers through a network of over 1,500 branches in the U.S. that has been servicing such customers for more than 50 years
- AGF also originates and acquires loans through its centralized real estate operations
  - Higher credit quality borrowers than through branches
- Disciplined underwriting and real estate loan growth over the past few years has been focused on:
  - Higher quality loans
  - First-lien positions and fixed interest rates
  - No negative amortization payment options
- AGF tracks more than 350 markets and has adjusted underwriting standards
- All purchased loans are re-underwritten to AGF's standards by AGF personnel
- AGF's mortgage banking operation also originates and sells whole loans to third party investors on a servicing-released basis, but does not retain a residual interest

American General Finance

Net Real Estate Loan Growth

As the real estate market softened, AGF maintained its underwriting discipline despite experiencing lower volume and growth

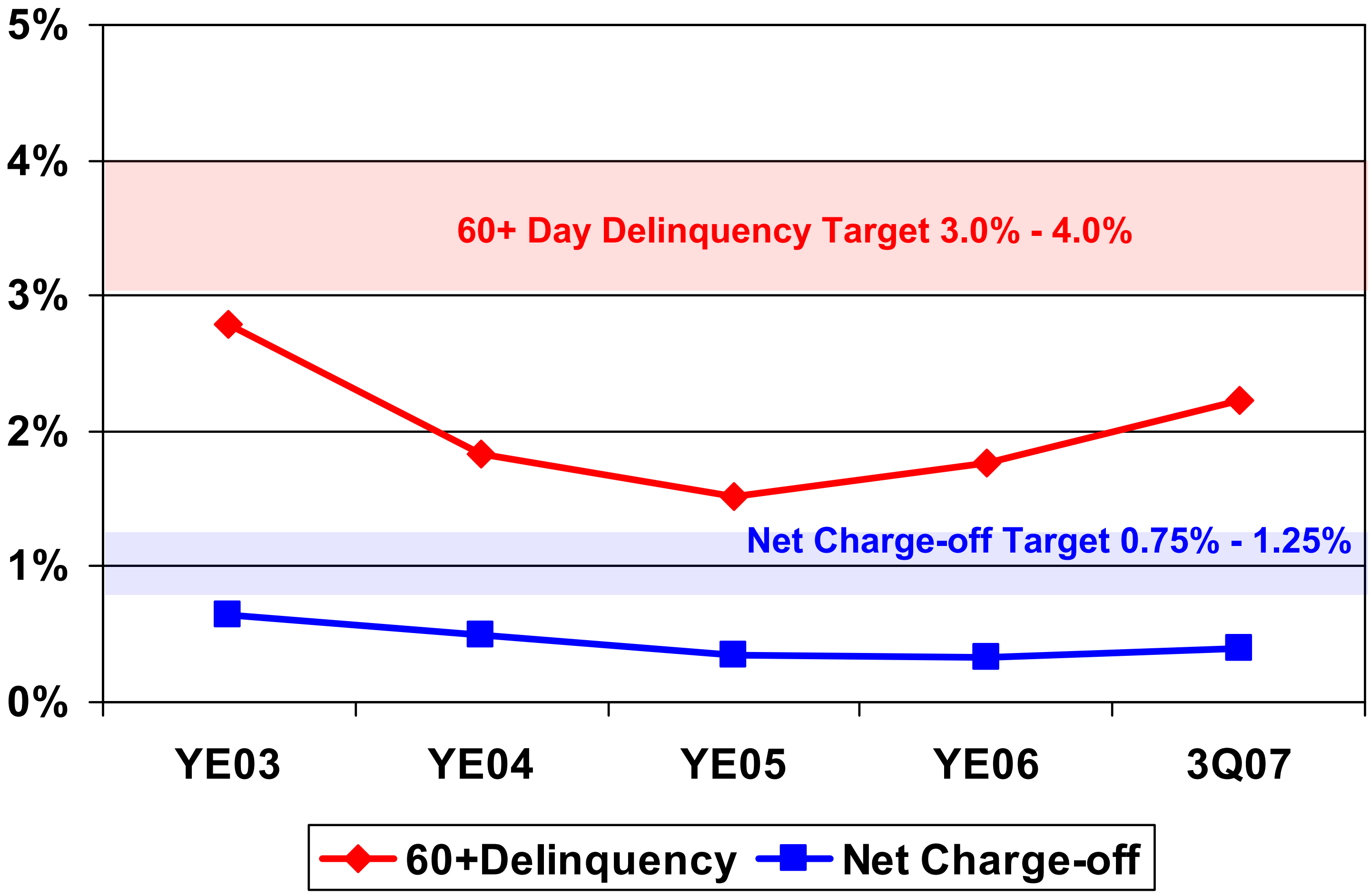
$ Billions



American General Finance

Real Estate Credit Quality

AGF's portfolio has performed better than its targeted ranges which were established years ago to denote sound credit quality parameters



American General Finance

September 30, 2007

Real Estate Portfolio	Total Portfolio	FICO (≥ 660)	FICO (620 - 659)	FICO (< 620)
Outstanding Loans	**$19.5 Billion**	**$9.8 Billion**	**$3.3 Billion**	**$6.1 Billion**
LTV	80%	84%	80%	75%
60+%	2.22%	0.94%	2.53%	4.07%
2007 Vintage	**$3.2 Billion**	**$1.0 Billion**	**$665.1 Million**	**$1.5 Billion**
LTV	78%	83%	79%	74%
60+%	0.43%	0.11%	0.36%	0.68%
2006 Vintage	**$3.6 Billion**	**$1.2 Billion**	**$682.8 Million**	**$1.7 Billion**
LTV	80%	86%	80%	75%
60+%	2.61%	1.15%	2.17%	3.89%
2005 Vintage	**$5.0 Billion**	**$3.0 Billion**	**$894.9 Million**	**$1.1 Billion**
LTV	82%	85%	82%	76%
60+%	2.49%	1.16%	3.55%	5.06%
2004 Vintage	**$4.7 Billion**	**$3.6 Billion**	**$590.2 Million**	**$538.1 Million**
LTV	82%	83%	80%	75%
60+%	1.68%	0.83%	3.27%	5.62%
LTV Greater than 95.5%	**$3.6 Billion**	**$3.0 Billion**	**$390.9 Million**	**$172.4 Million**
LTV	99%	99%	99%	98%
60+%	1.93%	1.42%	3.96%	6.12%
Low Documentation	**$512.1 Million**	**$283.5 Million**	**$152.2 Million**	**$76.4 Million**
LTV	76%	78%	75%	70%
60+%	2.73%	1.93%	3.55%	4.07%
Interest-Only	**$1.7 Billion**	**$1.4 Billion**	**$290.0 Million**	**$21.7 Million**
LTV	89%	89%	88%	79%
60+%	2.09%	1.49%	4.36%	10.23%

This table is for informational purposes only. AGF's loan underwriting process does not use FICO scores as a primary determinant for credit decisions. AGF uses proprietary risk scoring models in making credit decisions. Delinquency figures are shown as a percentage of outstanding loan balances, consistent with mortgage lending practice. Differences in totals by columns and rows are due to rounding.

American General Finance

Risk Mitigating Practices - Real Estate Portfolio

- 97% of mortgages are underwritten with full income verification
- 87% are fixed-rate mortgages; only about 10% of the total mortgage portfolio re-sets interest rates by the end of 2008
- Adjustable rate mortgages (ARMs): borrowers are qualified on a fully-indexed and fully-amortizing basis at origination
- No delegation of underwriting to unrelated parties
- No Option ARMs
- Substantially all loans are:
  - First mortgages (91%)
  - Owner occupant borrowers (94%)
- Geographically diverse portfolio

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American General Finance

Allowance Methodology

- AGF's allowance for loan losses is maintained at a level considered adequate to absorb management's best estimate of credit losses in the existing portfolio

- AGF's Credit Strategy and Policy Committee is responsible for determining the appropriate level for the allowance
  - Membership consists of AGF's senior management, including, among others, AGF's CEO, the Executive Vice President of AGF's Branch Operations, AGF's CFO and AGF's Chief Risk Officer
  - The Committee evaluates both internal and external factors including:
    - The composition of AGF's finance receivable portfolio
    - Prior finance receivables losses and delinquency experience
    - Results of migration analyses
    - Current economic environment

- AGF calculates three different migration scenarios based on varying assumptions to evaluate a range of possible outcomes for the quantitative component of the allowance for residential real estate

- Conclusions reached by the Committee are reviewed on a quarterly basis and approved by AIG's Chief Credit Officer and the CFO of AIG's Financial Services Division

American General Finance (AGF)

Summary

- At the end of the third quarter, AGF's real estate loan portfolio reached $19.5 Billion, compared to $19.2 Billion at the end of the second quarter
  - The increase in the 2007 vintage production is the result of balanced growth from both its centralized real estate and branch operations which met both strict underwriting guidelines and return hurdles
- AGF maintained its time-tested, disciplined underwriting approach throughout the residential real estate boom, continually re-evaluating guidelines and adjusting as appropriate, resulting in:
  - Lower volume
  - Better than targeted delinquency and charge-off
  - Better than industry-experienced delinquency and charge-off
- AGF believes that the housing market will likely continue to deteriorate for the remainder of 2007 and 2008, but the company's business model and strict underwriting approach are sound, allowing the company to pursue opportunities

United Guaranty

United Guaranty (UGC)

Overview of UGC Mortgage Insurance Business

- Established in 1963, UGC insures primarily high credit quality, high LTV mortgage loans
- UGC offers first loss risk-transfer products, which include mortgage guaranty insurance for first- and second-lien mortgages, to protect lenders against credit losses
- The majority of the portfolio is conforming Fannie Mae and Freddie Mac products secured predominantly by single family, owner-occupied properties
- UGC sources its business from major U.S. and international mortgage lenders. To maintain these relationships, UGC is expected to insure a wide variety of mortgage products and borrowers. This may at times negatively affect short-term profitability
- UGC's sophisticated default and pricing models enable UGC to manage its risk and product mix over the long term cycles of the mortgage business
- UGC is a broad market participant in a cyclical industry. Historically, its loss ratio was 27% over the 10 years prior to 2007

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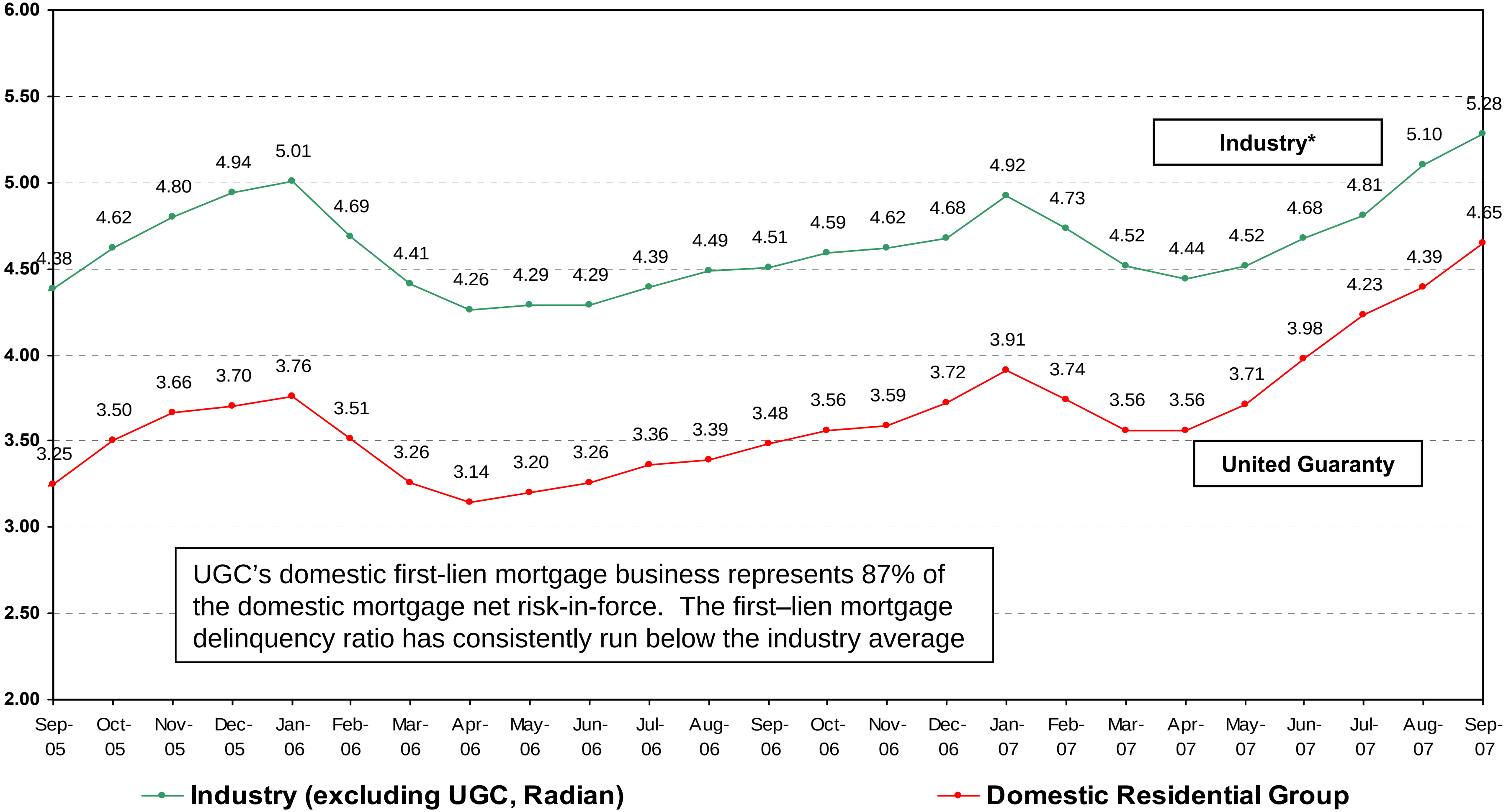
United Guaranty

Delinquency Rates – UGC vs. Industry (First-Lien)



**Source: Mortgage Insurance Companies of America (MICA)*
Figures (for UGC and industry) are based on primary insurance and does not include pool insurance.

United Guaranty

September 30, 2007

Real Estate Portfolio	Total Portfolio	FICO (≥ 660)	FICO (620- 659)	FICO (<620)
Domestic Mortgage Net Risk-in-Force	**$28.2 Billion**	**$19.8 Billion**	**$6.0 Billion**	**$2.4 Billion**
60+ Day Delinquency	2.98%	1.61%	5.37%	12.96%
2007 Vintage	**$6.5 Billion**	**$4.3 Billion**	**$1.4 Billion**	**$736 Million**
60+ Day Delinquency	1.44%	0.50%	2.15%	8.57%
2006 Vintage	**$6.7 Billion**	**$4.6 Billion**	**$1.4 Billion**	**$700 Million**
60+ Day Delinquency	3.32%	1.82%	5.82%	14.58%
2005 Vintage	**$5.3 Billion**	**$3.9 Billion**	**$1.1 Billion**	**$306 Million**
60+ Day Delinquency	2.87%	1.77%	5.57%	13.03%
2004 Vintage	**$3.5 Billion**	**$2.5 Billion**	**$735 Million**	**$226 Million**
60+ Day Delinquency	2.88%	1.44%	5.79%	15.22%
LTV > 95%	**$9.6 Billion**	**$6.1 Billion**	**$2.5 Billion**	**$1.1 Billion**
60+ Day Delinquency	3.39%	1.67%	5.71%	12.95%
Low Documentation	**$5.2 Billion**	**$4.5 Billion**	**$549 Million**	**$116 Million**
60+ Day Delinquency	2.84%	2.33%	5.98%	14.55%
Interest Only & Option ARMs	**$2.7 Billion**	**$2.2 Billion**	**$419 Million**	**$81 Million**
60+ Day Delinquency	5.67%	4.76%	9.16%	12.28%

This table is for informational purposes only.
Net Risk-in-Force (RIF) = Insurance risk on mortgages, net of risk sharing and reinsurance.
Loans with unknown FICO scores are included in the FICO (620-659) based on similar performance characteristics.
Delinquency figures are based on number of policies (not dollar amounts), consistent with mortgage insurance industry practice.

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Risk Mitigating Factors

- UGC uses several mitigants to minimize the losses transferred from lenders, which are reflected in the net risk-in-force figures:
    - Risk sharing: funded arrangements through captive reinsurance with most major lenders, in which the lenders share in losses above a determined attachment point
    - Reinsurance: quota share reinsurance on a portion of UGC’s sub-prime first-lien product and segments of its second-lien product
    - Policy limit: second-lien mortgage business has an aggregate policy limit provision limiting losses to a percentage (generally 10%) of the total original loan balances in each policy
    - Fraud exclusion: UGC maintains a fraud exclusion on both its first-lien (1st party) and its second-lien mortgage businesses (1st and 3rd party)
- 77% of first-lien mortgages are fixed rate, which have about 40% lower delinquency than ARMs
- First-lien mortgages consist of 87% single family residences and 93% owner occupied
- Elimination of certain risk factors by UGC, as well as tighter underwriting standards by lenders, should improve the quality of new business production

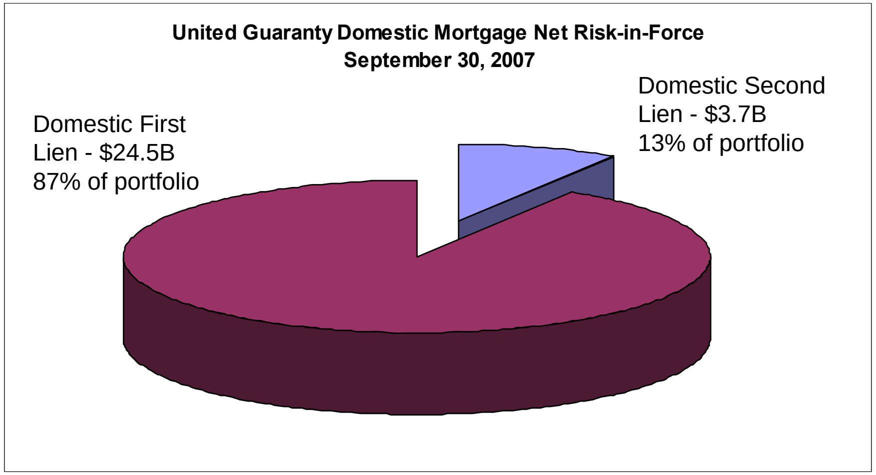
United Guaranty

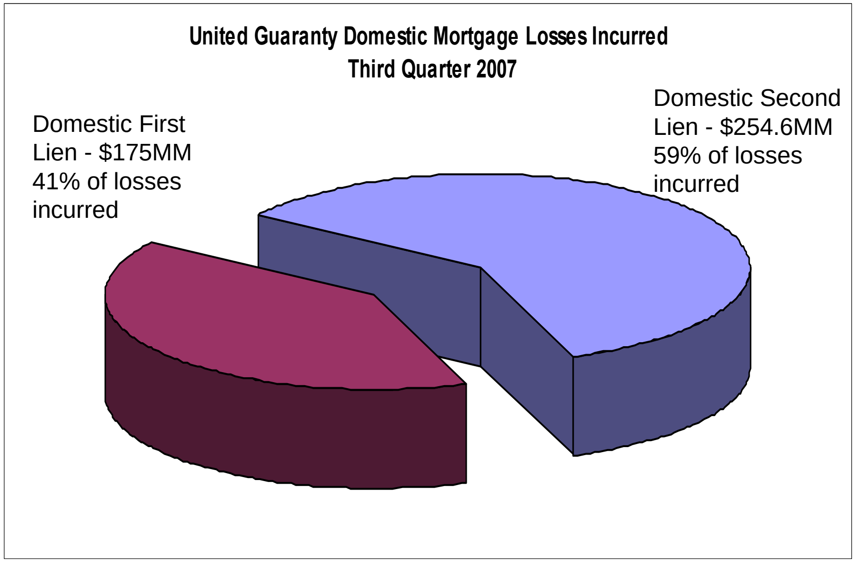
Analysis of Loss Reserve – Domestic Mortgage Product

- UGC's Corporate Actuarial Department analyzes the loss reserve adequacy of its domestic residential businesses on a quarterly basis
  - The total loss reserve equals the sum of the case reserves and incurred but not reported (IBNR) reserves
- In the actuarial testing of loss reserve adequacy, a variety of data and methods are employed
  - Accident year data is the primary focus, which represents the date of first missed payment on a loan
  - Reserving methods typically include: paid development, incurred development, Cape Cod, Bornhuetter-Ferguson and incurred count severity
  - A range of reserve estimates is established based on observed historical variance in loss reserve estimates and a selected confidence level
  - An updated analysis of the case reserve and IBNR factors is performed on a quarterly basis
- The actuarial analysis results, together with any recommended changes in case reserve and IBNR reserve factors, are reviewed on a quarterly basis and approved by UGC's CFO, Controller and Chief Risk Officer, as well as by AIG's Chief Actuary, Chief Credit Officer and the CFO of AIG's Domestic Brokerage Group

United Guaranty

- Although second-lien mortgages constitute only 13% of UGC's domestic mortgage insurance risk, they account for a disproportionate share of the 2007 losses incurred
- The deterioration of the U.S. housing market has affected all segments of the mortgage business, but the high LTV second-lien product is particularly sensitive to declining home values
- Second-lien mortgages experience default earlier due to the lack of a foreclosure requirement for claims to be paid
- As a result of the accelerated claim cycle, losses are expected to work through the portfolio much faster
- Significant tightening of product and program eligibility for second-lien business that began in the fourth quarter of 2006 should result in improved quality of new business production
- UGC revised its methodology for calculating stop loss limits in its second lien business by undertaking an analysis of over 3,000 individual liability contracts. Under this methodology, net risk-in-force was $3.7 Billion at both September 30, 2007 and June 30, 2007 ($2.5 Billion reported under previous methodology)





United Guaranty

UGC revised its methodology in the third quarter of 2007 for determining policy limits (referred to as stop-loss limits in the mortgage insurance business) for its second lien product to more conservatively measure risk-in-force

The new methodology measures the maximum contractual risk-in-force based on total original loan balances, whereas the previous methodology measured risk-in-force based on current outstanding balances

The new method indicates increases in risk-in-force primarily from older policy years that have experienced high prepayments and very low losses. While the new methodology reflects the maximum contractual liability, it **does not** affect expected future losses to be incurred

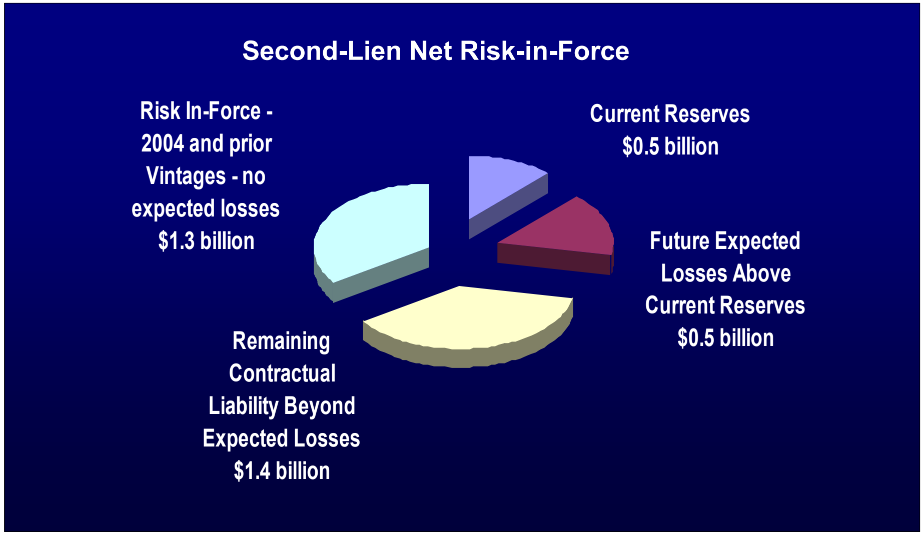
- Under the revised methodology, the net risk-in-force was $3.7 Billion at both September 30, 2007 and June 30, 2007
- 35% of the net risk-in-force ($1.3 Billion) is attributed to policy years from 2004 and prior. Based on historical experience, no further material claims would be expected, due to home price appreciation since origination and the shape of the loss curve, which usually peaks by year 3
- Of the $2.4 Billion remaining net risk-in-force, reserves of $0.5 Billion have been established, leaving a risk of future losses of $1.9 Billion, net of reserves (mortgage guaranty GAAP does not allow for reserving of future losses)
- Based on current projections, expected future losses in this stressed environment total $0.5 Billion, significantly below the $1.9 Billion remaining net risk-in-force

Revised Second-Lien Stop Loss Calculation by Policy Year at 9/30/2007

Dollars in Billions Policy Year	Original Stop Loss Methodology	Revised Stop Loss Methodology	Variance in Stop Loss
2004 and Prior	$ 0.5	$ 1.3	$ 0.8
2005-2007	$ 2.1	$ 2.4	$ 0.3
Total second lien	$ 2.6	$ 3.7	$ 1.1

Original Stop Loss Methodology - Determined at portfolio level as the sum of current outstanding loan balances times average stop loss provision

Revised Stop Loss Methodology - Determined on a policy by policy basis as the amount that represents the original outstanding loan balance times policy stop loss provision less cumulative claims paid



United Guaranty

Second-Lien Mortgage Product Re-Engineering

- Strengthened Underwriting Guidelines
  - Eliminated Alternative Risk in fourth quarter 2006
  - Eliminated 100% Combined LTV purchase money ("piggyback") seconds
  - Eliminated significant segments of stated income and third-party originated business

- Reduced Risk Retention Levels
  - In lieu of 100% coverage, introducing co-insurance to align the lenders' interests with those of UGC
  - Utilizing mezzanine risk layers and lower policy limits (policy limit is commonly referred to as stop loss in the mortgage insurance industry)

- Improved Pricing
  - Implementing higher pricing on new business
  - Utilizing experience and retrospective rating plans more frequently

- Enhanced Portfolio Risk Management
  - Established several new portfolio concentration caps, in addition to modifying selected existing caps

As a result of these changes, an estimated 60 – 70% of what was insured in 2006 would not be eligible for coverage going forward

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United Guaranty

Summary

- UGC has re-engineered its second-lien product, further tightened first-lien eligibility guidelines and increased rates in select, higher risk business segments

- UGC expects further deterioration in incurred losses for the remainder of 2007. UGC expects that the downward market cycle will continue to adversely affect its operating results for the foreseeable future and is likely to result in an operating loss in 2008

- The quality of new business production should improve, driven by UGC's underwriting and eligibility adjustments, along with more rigorous underwriting standards applied by UGC's lender customers

- Additional positive market trends include:
  - Improved mortgage insurance market penetration
  - Increase in conforming (GSE* eligible) loan production
  - Improved persistency of insured portfolio

** Government Sponsored Entities, such as Fannie Mae and Freddie Mac*

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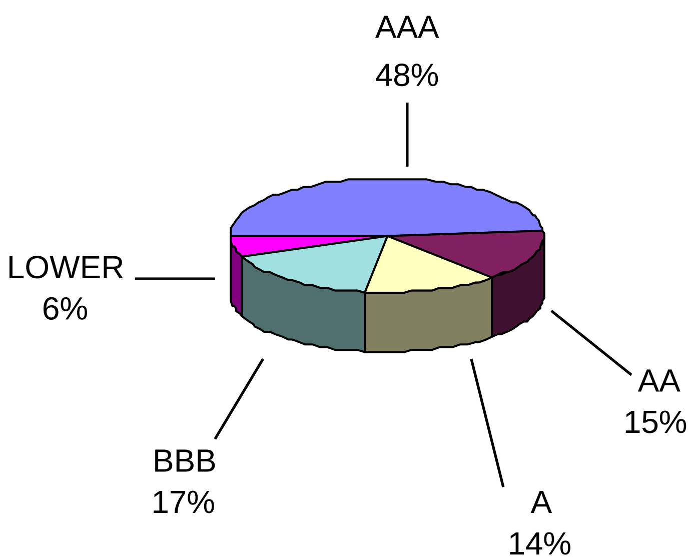
AIG Insurance Investment Portfolios

AIG Insurance Investment Portfolios

Worldwide Insurance and Asset Management Bond Portfolios

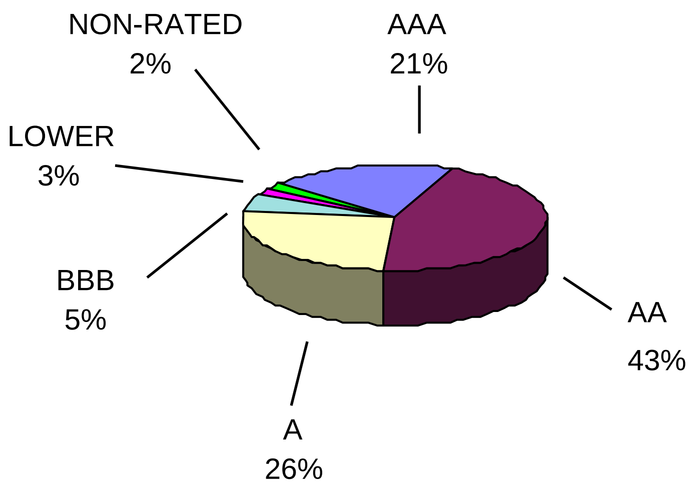
- AIG's bond portfolios reached $496.6* Billion at September 30, 2007
- The securities are of high quality with over 94% investment grade
- The bond portfolios are also well-diversified geographically

Domestic Bonds by Ratings



$297.3 Billion

Foreign Bonds by Ratings



$199.3 Billion

** Fixed Maturities: Bonds available for sale, Bonds held to maturity, Bonds trading securities and Bonds available for sale included in Securities lending collateral*

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AIG Insurance Investment Portfolios

Residential Mortgage Holdings Overview

- Holdings in the residential mortgage market total approximately $93.1 Billion at September 30, 2007, or about 11% of AIG's total invested assets
- Within AIG's $78.0 Billion non-agency portfolio, about 89% are AAA-rated and 8% are AA-rated
  - Holdings rated BBB or below total approximately $400 Million, well under 1% of the portfolio and less than 0.1% of total invested assets
  - About $8.0 Billion (10.3%) of the $78.0 Billion is "wrapped" by monoline insurance
  - Approximately $3.6 Billion of principal was paid down during the third quarter

Total Residential Mortgage Market Holdings	**$93.1 Billion** Of which:
Agency Pass-Through and CMO Issuances	$15.1 (16%)
Prime Non-Agency (includes Foreign and Jumbo MBS related securities)	$21.5 (23%)
Alt-A RMBS	$26.0 (28%)
Sub-Prime RMBS	$25.9 (28%)
Other Housing-Related Paper (primarily wrapped second-lien)	$4.6 (5%)

- Non-agency RMBS are issued in tranche structures, such that the lower tranches absorb losses on the underlying collateral in the pool and thus insulate the higher rated tranches from loss
  - The structure and size of each tranche depend on the nature of the collateral, rating agency analysis and models of default scenarios
  - As a general rule, AAA and AA securities can withstand default losses within the collateral that are multiples of historical norms without any loss of principal or interest

AIG Insurance Investment Portfolios

Sub-Prime Residential Mortgage Backed Securities (RMBS) - $25.9 Billion

RMBS
(collateral pool of residential mortgages)

Payment Waterfall
(principal + interest)

Priority
First

AAA
$21.9 Billion (84.9%)

AAA tranche

AA
$3.5 Billion (13.4%)

AA tranche

A
$440 Million (1.6%)

A tranche

Last

BBB
$11 Million (0.1%)

BBB tranche

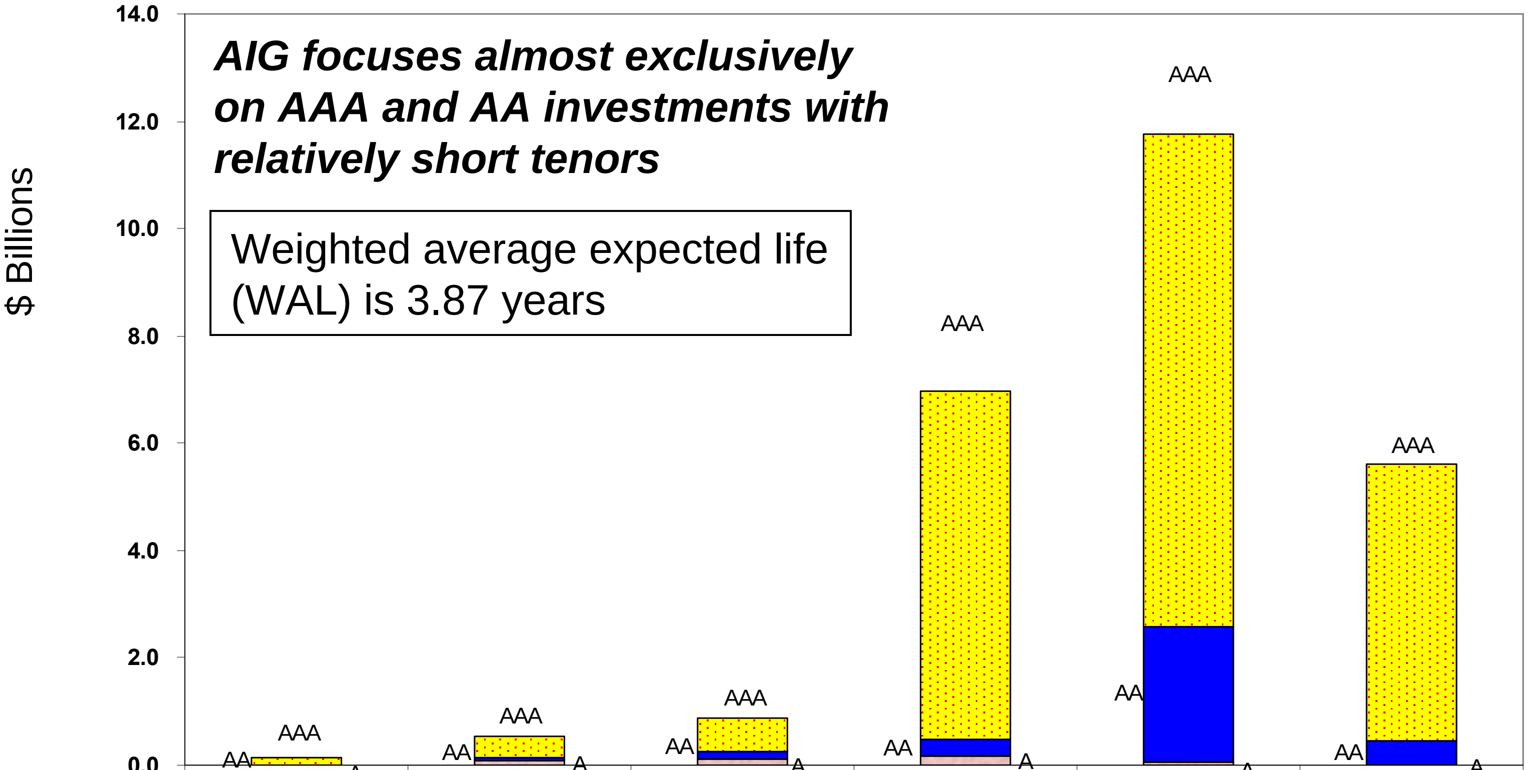
Equity
<$0.5 Million (0.0%)

BB and lower
Equity tranche

Ratings are as of September 30, 2007

AIG Insurance Investment Portfolios

Sub-Prime Exposure by Vintage - $25.9 Billion



	Prior	2003	2004	2005	2006	2007
AAA	0.14	0.41	0.62	6.47	9.19	5.16
AA	-	0.04	0.13	0.33	2.52	0.45
A	0.01	0.09	0.12	0.15	0.05	0.01
BBB	-	-	-	0.01	-	-

Vintage

AIG Insurance Investment Portfolios

Sub-Prime RMBS Risk Mitigating Factors

- AAA and AA sub-prime securities have several structural protections:
  - LTV of underlying mortgages averages about 80%
  - Subordination cushions generally increase over time as AAA and AA tranches amortize
    - Below AAA, subordination is generally 20-25% at inception, more than 3x the worst cumulative losses of about 6.5% (2000 vintage)* and well above revised rating agency adjusted loss estimates for recent vintage pools
    - AA securities on average can sustain cumulative losses of roughly 18%
  - The majority of AIG's AA holdings are structured to pay down early from lock-up mechanisms, regardless of whether performance triggers are tripped
  - Excess interest, or spread, is also used to absorb losses
  - Third-party mortgage insurance provides additional recovery support in some cases

Example of a Sub-Prime Capital Structure at Inception

Rating	Subordination
AAA	22.00%
AA	13.10%
A	7.65%
BBB	4.10%
Excess Interest	2.0% p.a.

**Source: Credit Suisse*

AIG Insurance Investment Portfolios

Sub-Prime RMBS Risk Mitigating Factors

- Diversity: collateral pools are comprised of thousands of mortgages and have various diversification features, including geography, tenor and size. Securities must be constructed with certain levels of diversity in line with guidelines issued by rating agencies
- Monitoring: AIG, collateral managers and the rating agencies monitor the performance of the underlying collateral
- Tenor: AIG generally targets the shorter end of the sub-prime RMBS market with a weighted average expected life of 3.87 years
- Since the 2000 vintage, cumulative losses in sub-prime securities have ranged from 2% to 6.5%*. The rating agencies expect losses in the 2006 vintage to be in the low- to mid-teens, which would be below the attachment points for the AAA and AA tranches
- Originator selection: focus on pools originated and serviced by organizations with strong financial discipline
- Avoiding higher risk collateral, such as 80/20 (“piggy-back”) loans and option ARMs
- Structure: focus on early pre-pay portions of the sub-prime RMBS structure

**Source: Credit Suisse*

AIG Insurance Investment Portfolios

Sub-Prime Collateralized Debt Obligations (CDO)

- The holdings of sub-prime related CDO paper in AIG insurance portfolios are modest ($234 Million). AIG anticipates full return of principal on its holdings in this sector
- Diversity: collateral pools are comprised of a large number of RMBS and other structured product assets and have a large number of diversification features. Securities must be constructed with certain levels of diversity established by the rating agencies and other protective mitigating factors
- Monitoring: AIG, collateral managers and the rating agencies monitor the performance of the underlying collateral
- Active collateral management: most CDOs are actively managed by their collateral managers, which may replace underperforming assets in the pool
- Diligent originator selection

AIG Alternative Investments

- AIG has no direct private equity investments in portfolio companies exposed to or seeking to capitalize on the residential mortgage market
- AIG has minor indirect exposures through private equity fund investments
- AIG has no investments in hedge fund managers primarily focused on residential mortgages

AIG Insurance Investment Portfolios

RMBS Portfolio Quality Changes

Rating Changes	Third Quarter 2007		Post September 30, 2007	
Action	**Number of Securities**	**Value ($ Million)**	**Number of Securities**	**Value ($ Million)**
Upgrades	17	$70	0	$0
Watch List - Positive	1	$30	0	$0
Watch List - Negative	0	$0	34	$893
Downgrades	19	$208	18	$455

- Of the $663 Million downgraded, $622 Million were sub-prime, representing 2.4% of the total sub-prime RMBS portfolio and 0.8% of the total non-agency RMBS portfolio
- In terms of value, 87.0% of third quarter and 96.7% of post-September downgrades were sub-prime securities
- The majority of watch list negatives are currently rated in the AA range

AIG

AIG Insurance Investment Portfolios

Accounting and Valuation

- AIG accounts for its cash RMBS and CDOs in accordance with FAS 115, FSP FAS 115-1 and EITF 99-20
  - These securities are predominantly classified as available-for-sale securities under FAS 115
  - Subsequent changes in fair value are reported in other comprehensive income, net of tax, a component of shareholders' equity, until realized
  - Realization in earnings occurs when the position is sold or is determined to be other than temporarily impaired

- AIG utilizes external pricing vendors as a primary pricing source, supplemented by broker pricing. For the domestic non-agency RMBS portfolio, 95% of the pricing was obtained through third-party vendors and 5% was obtained from brokers in the third quarter. Typically, observed transaction prices are used to gain comfort with the quality of valuations

- The valuation of RMBS varies by the type of collateral, the position in the capital structure and the vintage. For vintage years prior to 2006 or rated AAA/AA, the expected value of the cash flows under reasonable scenarios has less dispersion than the 2006/2007 vintage rated single-A or below

AIG

Other Than Temporary Decline (OTTD)

Risk Management Process

- AIG senior management evaluates all investments in debt and equity securities for impairment each quarter through a careful review of each security in an unrealized loss position as of the balance sheet date. AIG considers a security a candidate for other than temporary decline (OTTD) impairment and records that loss in income, if it meets any of the following criteria:
  - The security trades at a significant (25% or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine consecutive months or longer as a result of a combination of market-related factors, such as equity prices, market interest rates and foreign exchange rates); or
  - An event has occurred resulting in an issuer of the security defaulting or seeking bankruptcy, reorganization or its equivalent; or
  - AIG is unlikely to realize full recovery, irrespective of the events above, because of specific factors identified in SAB 59, such as the severity and duration of the decline in the price of the security; the financial condition and near-term prospects of the issuer; or where AIG has determined it does not have the intent and ability to retain an investment for the time sufficient for it to recover its future anticipated value

- AIG Investments' Chief Investment Officer and Chief Credit Officer make credit-related OTTD recommendations using three categories: a) likely to recover; b) possible; and c) unlikely to recover based on a detailed written description of the circumstances of each security

- In addition, in accordance with EITF 99-20, an analysis of the anticipated cash flows supporting each ABS, representing rights to receive cash flows from asset pools, such as CDOs, RMBS, CMBS, etc., rated below AA- is prepared and analyzed for impairment

- All credit-related OTTD recommendations, together with supporting documentation, are reviewed on a quarterly basis and approved by AIG's Chief Credit Officer. The AIG Chief Credit Officer must also determine whether there are any other securities (not on the list submitted by AIG Investments) that should be written down

AIG

Consolidated Summary of Capital Gains & Losses

Financial Effect of Market Disruption

For the Quarter ended September 30, 2007
($ Millions)

Total AIG Capital Gains / Losses (Pre-tax)		AIG Consolidated	Amount Attributable to RMBS Portfolio
Net realized capital gains (losses)		($864)	($176)
of which,	Sale of Securities	$50	($27)
	OTTD	($529)	($149)
	Other*	($385)	$0
Unrealized (depreciation) appreciation of investments (included in Other comprehensive income)		($3,394)	($1,613)
of which,	AAA-rated RMBS (depreciation)	($1,134)	($1,134)
	AA-rated RMBS (depreciation)	($583)	($583)
	Lower than AA-rated RMBS (depreciation)	($51)	($51)
	RMBS appreciation	$155	$155

- Market value declines are predominantly due to spread widening from liquidity risk, as opposed to significant changes to the risk of principal repayment

** Consists predominantly of foreign exchange related losses.*

AIG Insurance Investment Portfolios

Summary

- Since the second quarter the RMBS market has been affected by the broader capital markets' emphasis on liquidity and risk aversion. Most non-sovereign fixed income securities have been affected by these factors
- In this environment, AIG has generally (opportunistically) increased liquidity within its operations at favorable pricing levels
- The exposures to the RMBS market within AIG's portfolios are generally of high quality, with less than 2% rated less than “AA-” and modest holdings below “A”
- AIG insurance investment portfolios have limited (less than 0.1%) assets invested in CDO's that include sub-prime residential mortgage-backed assets
- AIG believes that structural protections in its RMBS holdings will result in full recovery, including interest, on the vast majority of its holdings, even in a severe housing downturn
- Some downward ratings migration is anticipated; however, rating changes do not affect existing structural protections
- AIG will take advantage of compelling market values at such time as market technicals present such opportunities

AIG Financial Products

AIG Financial Products

"Super Senior" Portfolio Construction

- AIGFP has been writing "Super Senior" ("AAA+") protection through credit default swaps ("CDS") since 1998
- The portfolio reflects a large notional amount, but poses remote risk. The "Super Senior" risk portion is the last tranche to suffer losses, which are allocated sequentially within the capital structure. The structure would have to take losses that erode all of the tranches below the "Super Senior" level before AIGFP would be at risk
- There is no uniform definition for "Super Senior" risk across the market. AIGFP defines "Super Senior" risk as the risk associated with that portion of its bespoke, highly negotiated credit derivatives portfolio where, even under worst-case assumptions for the replenishment and performance of the underlying assets, there is no expected loss
- Following due diligence, the "Super Senior" portion of AIGFP's credit derivatives portfolio is constructed using an AIGFP proprietary model that incorporates conservative assumptions (including recovery rates significantly below those used by the rating agencies and underlying ratings that are lower than those publicly assigned). All underlying obligations are individually stressed and modeled to create an overall loss distribution for the entire portfolio. While agency models and attachment points are useful verification tools, AIGFP always builds and models each "Super Senior" transaction with its own, more conservative assumptions
- The attachment point for the "Super Senior" portion of each portfolio, as determined by the AIGFP model, is calculated as a minimum threshold above which there is no expected loss to AIGFP, even under recessionary conditions. These modeled conditions are worse than any experienced in US history since World War II and are assumed to adversely affect the performance of each underlying obligor throughout the life of the transaction. Each transaction is then negotiated to ensure that the final attachment point exceeds the modeled attachment point, giving AIGFP an additional cushion of subordination to its risk position

AIG

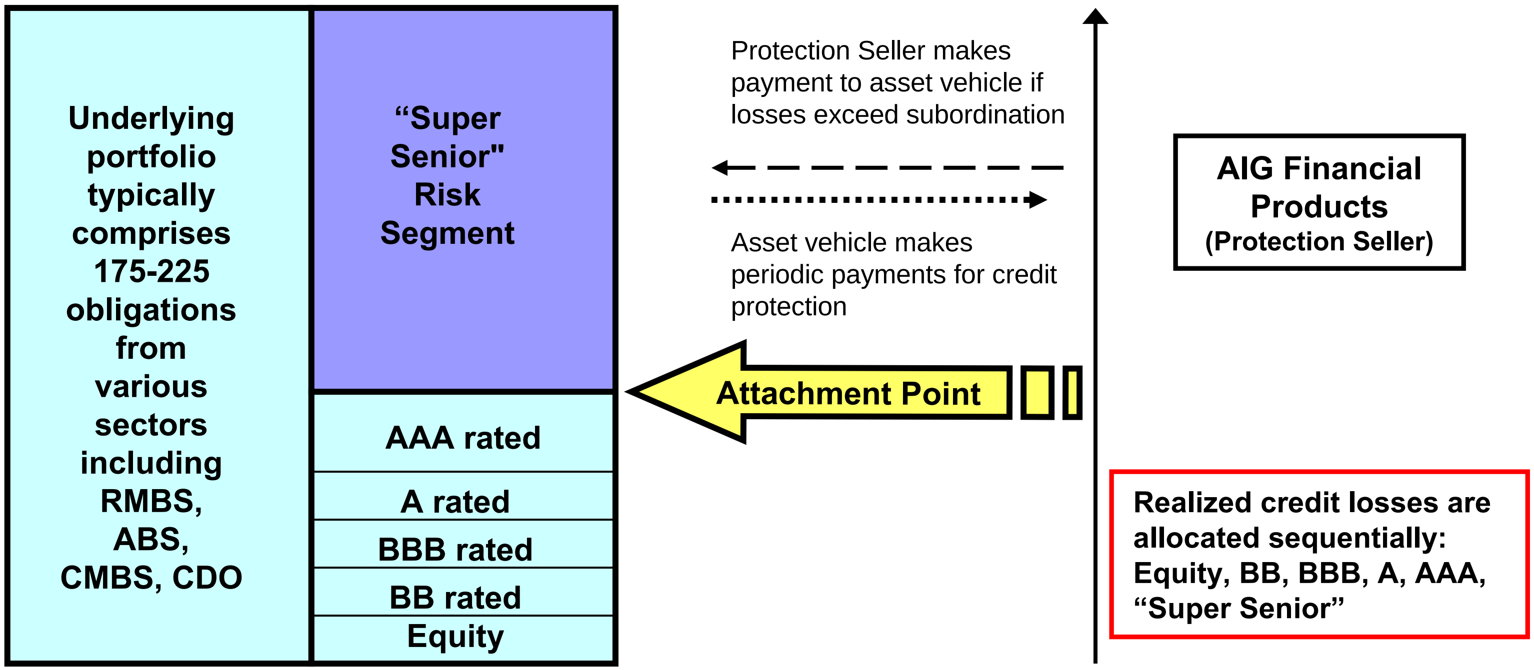
AIG Financial Products

“Super Senior” Portfolio Construction

- All “Super Senior” transactions are structured to ensure that cash flows are diverted to more rapidly amortize AIGFP’s “Super Senior” position if the underlying collateral deteriorates in credit quality, and all “Super Senior” transactions have triggers to stop reinvestment if required. These performance triggers are critical to enhancing AIGFP’s overall “Super Senior” risk position
- All “Super Senior” transactions are carefully constructed, screened, reviewed and monitored by both AIGFP’s credit surveillance team and its Risk Management Group. AIG’s Credit Risk Management Group also analyzes and formally approves every transaction and monitors all existing transactions in conjunction with the corresponding teams at AIGFP. All “Super Senior” transactions are documented to ensure they accurately reflect the precise, negotiated terms
- AIGFP carefully analyzes and constructs its multi-sector CDOs to ensure diverse, granular pools. Individual deals include:
    - Analysis of each underlying obligor, including review of each asset servicer and originator, their historical performance and expected future performance. All obligations are stressed
    - Transactions are constructed to ensure maximum granularity with all obligors. Servicer and geographic concentrations are strictly limited
    - Collateral managers are carefully evaluated through extensive on-site due diligence and constantly monitored. Deals are structured to take into account the individual skills and capabilities of the selected manager and to restrict activities to those areas of proven ability

AIG Financial Products

Typical Tranche Structure of a Multi Sector CDO Including “Super Senior” Segment



Hypothetical example of underlying CDO reflecting the various rated risk layers

AIG

AIG Financial Products

Credit Default Swaps

- At September 30, 2007, AIGFP's "Super Senior" CDS book totaled a net exposure of $513 Billion, which is divided into the following:
  - Corporate Loans: $294 Billion
  - Non U.S. Residential Mortgages: $141 Billion
  - Multi-sector CDO's: $78 Billion

- AIGFP provides "Super Senior" protection to multi-sector CDOs, which consist of pools of reference securities whose underlying collateral pools are a mix of collateral, including sub-prime mortgages. Within any of these CDOs, there are about 175-225 different underlying obligors but not all of these obligations are exposed to sub-prime collateral. Typically, about 50% has such exposure and the rest is a mix of CMBS, auto loans, credit cards and other assets

- The $78 Billion multi-sector CDO exposure consists of:
  - Deals with no exposure to sub-prime: $15 Billion
  - Deals with mixed collateral, including sub-prime: $63 Billion

- AIGFP stopped committing to writing new "Super Senior" protection that included sub-prime collateral in December 2005, and thus its total exposure, after deducting all subordination, across all deals to the vintages of 2006 and 2007 totals just $323 Million

- Managed collateral pools provide limited substitution and replenishment rights which are subject to various triggers and other constraints

- 55% of all of the deals have started to amortize, thereby reducing AIGFP's exposure which is paid off first in the waterfall structure

- All transactions have been structured and selected to afford the maximum protection to AIG's risk position

AIG Financial Products - Credit Default Swaps

"Super Senior (AAA+)" Credit Default Swaps on Portfolios that Include a Portion of Sub-Prime Exposures
September 30, 2007

- $63.0 Billion (104 deals) of "Super Senior" multi-sector CDO exposure included in the information above consists of deals with sub-prime RMBS and other ABS collateral
  - Collateral protection in every transaction is specifically modeled under continuous recessionary scenarios to determine minimum attachment points for the "Super Senior (AAA+)" threshold
  - $44.2 Billion (45 deals) "Super Senior" exposure relates to deals where the underlying collateral is predominantly AA and AAA ("high grade")
    - Average attachment point (also called subordination) is 15%; 41% of this 15% subordination represents AAA rated tranches underneath our exposure
    - AIGFP's exposure to sub-prime RMBS collateral, after deducting all subordination, is $17.5 Billion
  - $19.0 Billion (59 deals) "Super Senior" exposure relates to deals where the underlying collateral is predominantly BBB ("mezzanine")
    - Average attachment point is 36%, much higher than for AAA/AA deals; 38% of this 36% subordination represents AAA rated tranches underneath our exposure
    - AIGFP exposure to sub-prime RMBS collateral, after deducting all subordination, is $8.7 Billion
- All of AIGFP's exposures continue to have AAA tranches below AIGFP's attachment point, and only 9 deals have had any junior tranches downgraded. These 9 deals make up 2.3% of AIGFP's total CDO exposure, totaling $1.461 Billion
- AIG does not expect to be required to make any payments from this exposure

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AIG Financial Products

Accounting

- AIGFP accounts for its “Super Senior” credit default swaps in accordance with FAS 133 and EITF 02-3
  - The derivatives are initially recorded at their transaction price, as that is the best indicator of fair value
    - These are illiquid transactions and lack enough market observability to support a fair value other than the transaction price at inception
  - Any subsequent change in fair value resulting from a change in the market observable inputs into the valuation models is recognized in earnings

- For the third quarter of 2007, AIGFP recognized a valuation loss in the amount of $352 Million on the “Super Senior” credit default swaps written on multi-sector CDOs
  - At October 31, 2007, AIGFP estimated that it incurred an additional loss of $550 Million on its multi-sector CDOs
  - While the credit risk profiles of AIGFP’s “Super Senior” credit default swaps did not change, the valuation loss, which effectively represents a mark, was driven by the widening of credit spreads on CDOs of ABS
  - AIG expects the value of these derivatives to revert to par, unless credit losses are realized by the “Super Senior” risk layer

- There was no significant change in fair value on the other “Super Senior” credit default swaps during the third quarter

AIG Financial Products

Valuation

- "Super Senior" credit default swaps are bespoke in nature and lack market observable information
  - In the absence of an observable market, AIGFP must estimate fair value using models
- AIGFP estimates fair value using all available market information and several approaches and models that employ both actuarial and market-driven inputs
- In addition to its own actuarial models that are calibrated to stressed historical ratings transition data, AIGFP also employs the Binomial Expansion Technique (BET), where appropriate, to estimate the fair value of a portion of the "Super Senior" credit default swap portfolio. This model utilizes credit spreads for the reference obligations of the collateral pool obtained from an independent source. The model accounts for the specific features of each transaction, such as portfolio amortization and tranche subordination
- AIG uses the valuations from its different models and all available market information, along with management's own best judgment, to help derive the recorded fair value

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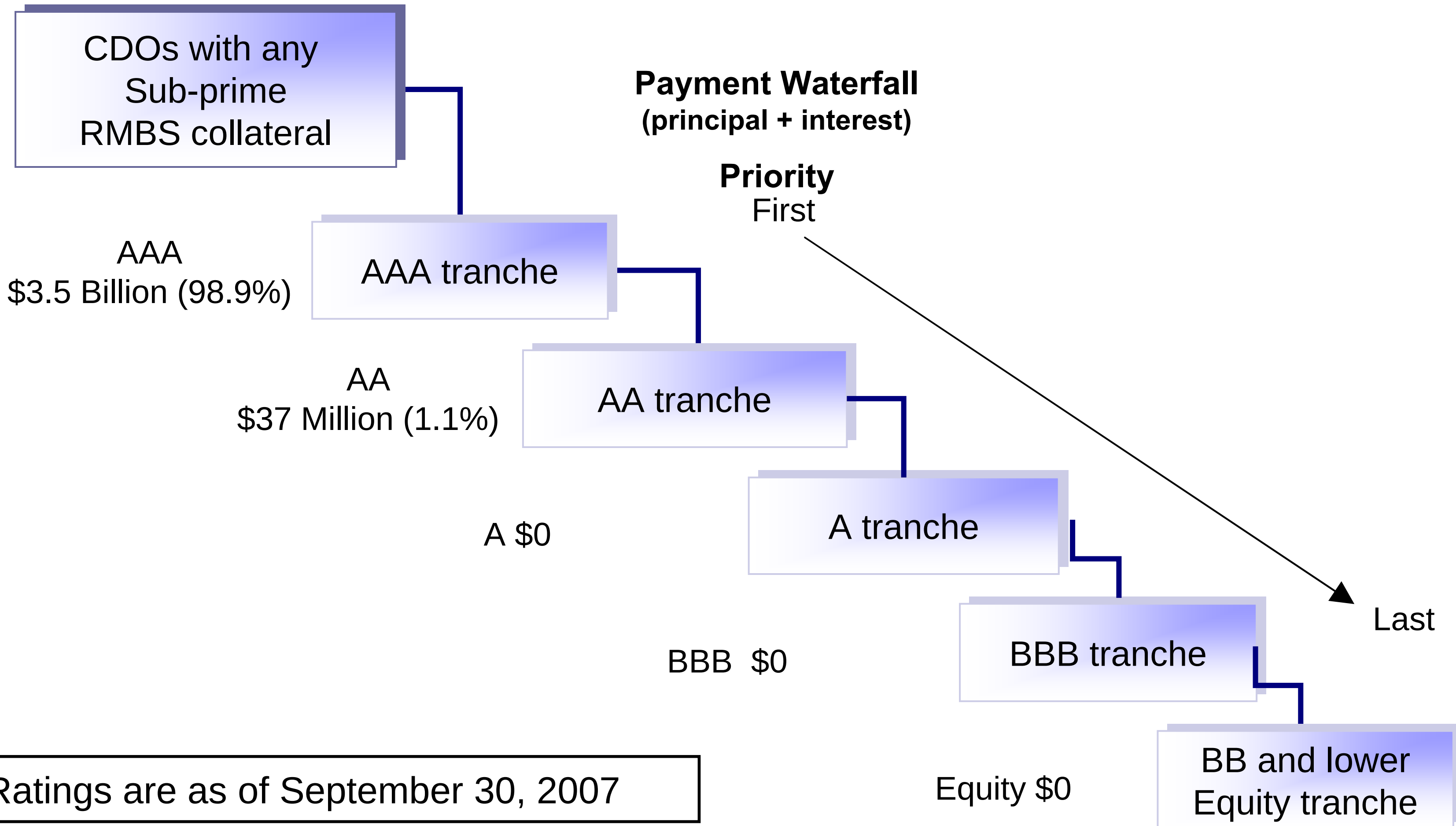
AIG Financial Products

Cash Multi-Sector CDO Exposure to Sub-Prime RMBS

- AIGFP invests in high grade securities rated almost exclusively AAA
- AIGFP has $3.5 Billion (68 deals) of cash multi-sector CDO securities where some portion of the collateral is sub-prime RMBS
  - 64 securities are rated AAA and 4 securities totaling only $37 Million are rated AA
  - $1.1 Billion of AIGFP's multi-sector CDO securities are backed by high grade collateral
    - Within which AIGFP exposure to sub-prime, after deducting subordination, is $516 Million
  - $2.4 Billion of AIGFP's multi-sector CDO securities are backed by mezzanine collateral
    - Within which AIGFP exposure to sub-prime, after deducting subordination, is $1.6 Billion
  - AIGFP total exposure to all sub-prime collateral originated in 2006 and 2007, after deducting subordination, is only $11 Million
  - To date, none of AIGFP's exposures has been downgraded, but 4 deals have had junior tranches downgraded. AIGFP's exposure to these deals is $73 Million
  - Over 44% of the deals have started to amortize, thereby reducing AIGFP's exposure

AIG Financial Products

Cash Multi-Sector CDOs with any Sub-Prime RMBS Collateral - $3.5 Billion



Ratings are as of September 30, 2007

Summary and Conclusion

AIG

Enterprise Risk Management

AIG has a strong enterprise risk management process where risks to the mortgage market are identified, assessed, analyzed, monitored and managed at all levels of the organization

- All business units involved in the mortgage markets have credit functions and underwriting practices, which utilize their own analysis and conclusions prior to inception of risk exposures and on an ongoing basis
- The foundation of AIG’s decision-making process is based on independent analysis. Business units determine risk appetite for underwriting, investing and maintaining exposures based upon ongoing analysis, modeling and monitoring. AIG does not rely on external ratings to drive decisions
- Decisions are made under credit authorities granted by AIG’s corporate level Credit Risk Committee (CRC). The CRC also reviews and governs credit risk tolerances and appetites for the business units
- AIG’s corporate Credit Risk Management Department and the CRC conduct regular ongoing reviews of the portfolios and provide independent assessments to senior management
- AIG establishes appropriate credit reserves for all its exposures through a process that includes recommendations from the business units and approval by AIG actuaries, comptrollers and AIG’s Chief Credit Officer

AIG and the US Residential Mortgage Market

- The capital markets have experienced significant turmoil over the past few months leading to general risk aversion and capital constraints and to a reduction in trading activity. The marketplace has lost much confidence in external credit ratings of structured products involving residential mortgages, particularly sub-prime mortgages. The low volume of transactions that has occurred indicates a lack of liquidity, and valuations are considerably below historical pricing ranges
- AGF believes that the housing market will remain under stress over the next several quarters, but the company has adjusted to current conditions, given its business model, time-tested, disciplined underwriting approach and continual re-evaluation of lending guidelines
- The continued credit deterioration in the residential mortgage market is adversely affecting the current results of AIG's mortgage guaranty insurance business. While UGC expects further deterioration in incurred losses for the remainder of 2007, the company is experiencing improvement in its portfolio composition, given the higher quality of its new business production
- AIG is weathering the ongoing market downturn through its strong cash flow and superior financial position. AIG continues to be comfortable with the size and quality of its investment portfolio in mortgage-related assets
- AIGFP has taken a net unrealized market valuation loss on its "Super Senior" credit default portfolio and expects further deterioration in the fourth quarter. This adjustment is a result of credit spread widening in the CDO of ABS underlying collateral. AIGFP does not expect to pay out under its portfolio of credit derivatives
- AIG has the financial wherewithal and expertise to take advantage of market opportunities, as they emerge