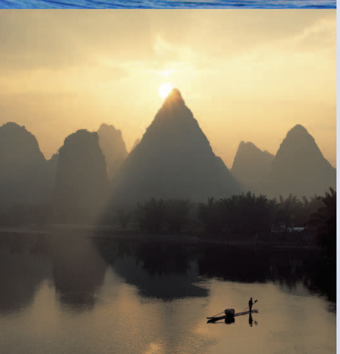
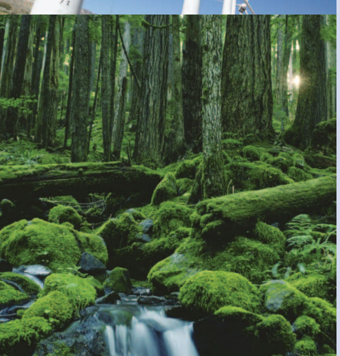
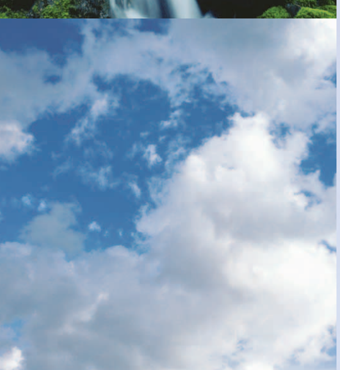




AIG Risk Finance

Conceptual for

CARBON CREDIT DELIVERY COVERAGE

AIG Risk Finance is developing an innovative program to address the delivery risks of compliance instruments generated by projects qualified under the Kyoto Protocol.

Project hosts — often located in Asia, Latin America and Eastern Europe — look to generate additional revenue or investment by selling the credits produced by their projects. Investment funds and project financing entities buy these compliance instruments as investments. Carbon credit buyers — most often companies in countries that have signed the Kyoto Protocol — purchase the credits or the right to buy the credits to address their own Kyoto Protocol compliance needs.

AIG Risk Finance is designing cutting edge solutions focusing on the carbon credit delivery risks associated with a broad range of projects qualified under the Clean Development Mechanism (CDM) and the Joint Implementation (JI) Scheme of the Kyoto Protocol. The range of projects includes:

- Oil and gas processing and distribution
- Flare gas recovery
- Biofuels
- Manufacturing energy efficiency
- Methane recovery
- Biomass
- Sequestration
- Small wind farms

Addressing Complex Risks with Customized Solutions

Investing in these carbon trading markets poses many risks:

Operational Risk – Will the technology work? Will it create the carbon emission reductions necessary to generate the credits purchased by the investor?

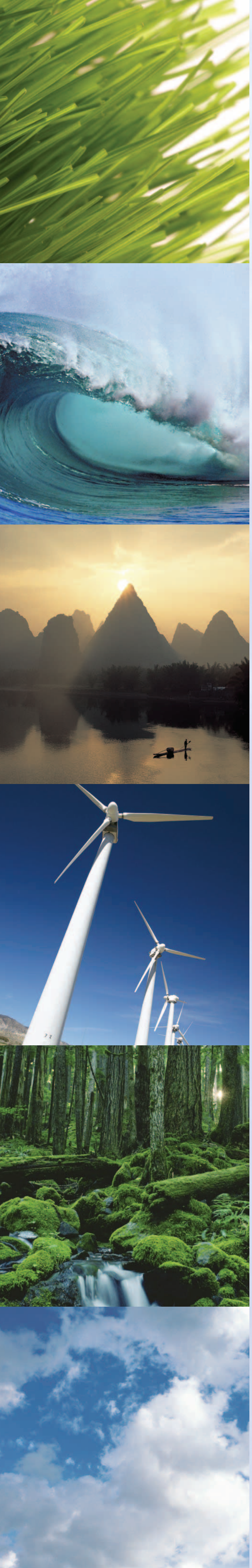
Credit Risk – Will the project or its participants become insolvent or bankrupt before delivering the credits?

Political Risk – What happens if a governmental entity takes over the project or seizes the credits? Are buyers protected if a government intervenes to block the delivery of credits?

Pricing Risk – Suppose the carbon credits are not delivered, and the buyer has to turn to the spot market to purchase replacements. Is the buyer protected if the spot price exceeds the original contract price?

Our goal is to develop a flexible program that can be tailored to address each client's concerns regarding these risks, so that both purchasers and investors can insure monetary losses that may result from any of these classes of risk.

- For investors, the loss amount is expected to be based upon the initial investment.
- For purchasers, the loss is expected to be the amount by which the price paid in the spot market to replace the undelivered credits exceeds the contracted price.



AIG Risk Finance plans to incorporate flexibility such as:

Policy Form	✸ Customized to include specific conditions not provided by standard insurance policies
Limits	✸ Significant capacity ✸ Limits vary by project
Term	✸ Up to seven years to cover the first Kyoto Protocol period ✸ Begins on the effective date of the contract and expires on the last carbon credit delivery date specified in the contract
Program Structure	✸ Insurance policy covering a maximum of 80% of the carbon credits to be delivered ✸ Primary layer of coverage generally retained by the client

Next Steps

To learn more about protecting against the risks of the carbon credit trading market, contact:

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AIG Risk Finance

Developed in conjunction with AIG Product Development.

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