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AIG Third Quarter Earnings Conference Call

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BODY:

OPERATOR: Welcome and thank you for standing by. All participants will be on listen-only mode until the question-and-answer session of today's conference. I would also like to remind participants that the conference is being recorded; if you have any objections you may disconnect at this time. I would now like to turn it over to your first speaker, Ms. Charlene Hamrah, Director of IR. Ma'am, you may begin.

CHARLENE HAMRAH, VP, DIR. OF IR, AMERICAN INTERNATIONAL GROUP, INC.: Good morning and welcome to AIG's third-quarter earnings conference call. Before we begin I would like to remind you that the remarks made today may contain projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management's operations, products and services, and assumptions underlying these projections and statements.

Please refer to AIG's quarterly report on Form 10-Q for the period ended September 30, 2007 which was filed yesterday with the Securities and Exchange Commission as well as AIG's past and future filings with the SEC for a description of the business environment in which AIG operates and the factors that may affect its business.

AIG is not under any obligation and expressly disclaims any such obligation to update or alter its projections and other statements whether as a result of new information, future events or otherwise. The information provided today may also contain certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures is included in the third-quarter 2007 financial supplement which is available in the investor information section of AIG's corporate website. And with that I am pleased to turn the conference call over to Martin Sullivan, AIG's President and Chief Executive Officer.

MARTIN SULLIVAN, PRESIDENT, CEO, AMERICAN INTERNATIONAL GROUP, INC.: Thank you, Charlene, and good morning, ladies and gentlemen. As usual I am joined this morning by a number of my senior management colleagues. As you know, we are all operating in a very volatile and uncertain market environment. Despite this environment AIG earned over $3 billion in net income and approximately $3.5 billion in adjusted net income in the third quarter. Return on equity using adjusted net income as the measure was 14.8%.

While these results are below those in the third quarter of 2006, we believe the effectiveness of our enterprise risk management systems and procedures was demonstrated and the benefits of our diversified portfolio of global businesses once again proved valuable. We also emerged from the quarter with a strong balance sheet. We've reported shareholder's equity of $104 billion, tangible shareholder's equity of over $95 billion and social assets of over $1 trillion.

AIG has ample financial resources to weather continued uncertainty as well as to take advantage of attractive market opportunities as they emerge. AIG returned approximately $1.5 billion to shareholders in the third quarter and has now completed 93% of its current $5 billion repurchase program. Based on current market conditions and our continued generation of excess capital, we plan on more quickly utilizing the remaining $3 billion of our $8 billion repurchase authorization as conditions permit.

My colleagues and I remain very focused on building shareholder value and we obviously shared your unhappiness with the current share price. I believe we have the right strategy in place to deliver that value through sustainable revenue growth, cost containment and effective management of risks. We are in the right businesses and the right markets at the right time to take advantage of important global trends by -- one, growing our businesses in the attractive developing markets of China, India, Vietnam in Brazil which are accounting for a growing proportion of global economic activity.

Second, delivering retirement products and services around the world as populations age and state-sponsored social benefit programs exhaust their resources. Thirdly, providing savings and protection products as well as consumer finance to the growing global middle-class while facilitating the flow of capital into emerging economies through micro finance or micro insurance. And lastly, meeting the needs of our institutional clients globally by providing solutions that address the greater risk and uncertainty in today's world.

Our businesses are some of the best positioned in their respective markets. The AIG brand continues to gain recognition of value around the world while the Company's reputation is burnished by our efforts in corporate social responsibility.

I want to emphasize that nothing in this organization is sacrosanct, other than our commitment to good corporate governance, transparency and our focus on shareholder value. Through the financial optimization initiatives we have discussed in the past that will lower our cost of capital, allow us to leverage the diversification benefits across our portfolio and increase returns, to the operational enhancements that will drive greater scale and quality of service, to the actions we have and will continue to take on our business portfolio, your management team will execute and generate value. We are continuously searching the landscape for the right acquisition and investment opportunities.

All of that said, I am not satisfied with the performance of a number of our businesses. We have work to do in our domestic life and retirement service businesses as well as parts of foreign life. Our mortgage insurance businesses are getting a lot of my attention at the moment as are our other credit and residential mortgage related businesses. Other businesses such as BBG, Foreign General and ILFC delivered reasonably good results given market conditions, but we know we are facing some headwinds in property and casualty markets around the world and we will be very cognizant of these factors as we continue to grow these businesses.

I will now provide a brief summary of our results and an overview of our organization, after which Bob Lewis will provide additional comments and an update on AIG's exposure to the U.S. residential mortgage market.

As I said earlier, shareholder's equity as at September 30th stood at just over $104 billion, declining slightly compared to June 30th as net income was offset by share repurchases activity and the decline in the value of available for sale securities reported in other comprehensive income. As expected, the market disruptions during the third quarter resulted in marks to our investment portfolio. Within the net realized capital losses of $864 million are $529 million of charges other than temporary declines in value of AIG's investment portfolio including impairments of $149 million related to AIG's holdings of residential mortgage-backed securities.

The net effect of sales to reposition assets in certain investment portfolios was a net realized gain of approximately $50 million. Book value per share increased to $40.81 including a reduction of $0.50 related to payments of $1.27 billion advanced to repurchase shares. The quarter's results also include a $352 million unrealized market valuation loss related to the AIG financial product Super Senior Credit Default Swap Portfolio.

The loss taken this quarter reflects a change in the fair value of these derivatives due to the significant widening of credit spreads on the underlying collateral. However it does not reflect a change in our view. AIG does not expect to pay any losses on this carefully structured and well-managed portfolio. All Super Senior transactions are written to a zero loss standard; underlying collateral assets analyze the model to determine appropriate risk attachment points to that all transactions have significant subordination below AIG-FP's attachment point.

AIG-FP reported strong transaction flow in the quarter in its credit, interest rate, commodity and currency products and a $131 million unrealized market valuation gain on the value of certain credit derivatives. The continuing uncertainty caused by the market dislocations leaves AIG-FP well-positioned for continued revenue growth.

In General Insurance improved underwriting results in the domestic brokerage group were offset by a $[250] million operating loss in mortgage guaranty. As the continued deterioration in the U.S. housing market increased the frequency of severity and severity of claims. We expect the downward recycle of the U.S. housing market will pressure UGC results at least through 2008.

Additionally, foreign general operating income declined compared to the third quarter of 2006 primarily due to losses from the June 2007 floods in the United Kingdom and other severe but noncatastrophic losses. Personal lines also experienced a decline in operating income due to unfavorable loss development on discontinued businesses and costs related to the acquisition of 21st Century.

At this time to our net loss estimate for the California wildfires is approximately $220 million or $140 million after-tax. This will be reflected in our fourth-quarter results. BBG and Foreign General are facing an increasingly competitive commercial insurance market. In these conditions risk selection and managing business mix is critical. With a broad product portfolio, expanding distribution platform and global presence we are still seeing attractive opportunities that meet our underwriting criteria.

Life Insurance and Retirement Services operating income declined as market volatility adversely affected investment returns of certain asset classes and our businesses in Japan and the United States face challenging market conditions. However, we experienced strong life insurance production in Asia, improved universal life and variable universal life sales in the domestic life operations and improved deposits for group retirement products at individual variable annuities in domestic retirement services.

Our life and retirement services management team remains focused on distribution initiatives, product innovation and improving operational efficiencies. We are broadening our distribution reach through bank assurance, direct marketing and e-commerce while continuing to invest in agency development. We continue to emphasize delivery of our multiple product portfolios through all our distribution channels globally and our efforts to shift our product mix to investment linked and index products with less risk to our balance sheet also continue.

In our other financial services businesses continued demand for ILFC's growing portfolio of modern fuel efficient aircraft, higher lease rates and higher utilization resulted in a considerable increase in operating income. American General Finance experienced an increase in the allowance for loan losses and lower mortgage banking production. AGF's adherence to disciplined underwriting standards has helped maintain the credit quality of its real estate portfolio. Over the past quarter the portfolio experienced modest deterioration driven to a large extent by the maturation of the assets and current market conditions.

In Asset Management favorable results in the spread based investment businesses helped offset the decline in Institutional Asset Management compared to the third quarter of 2006. The decline in Institutional Asset Management is a matter of timing; this business incurs certain costs for investments on which we expect to earn future income. From time to time we acquire private equity investments temporarily held on our own balance sheet until they are transferred to AIG managed investment products. That cost us some $52 million in the quarter.

We'll also incur $30 million in sales expenses related to the successful launch of a number of funds, funds we expect will provide ongoing base management fees as well as the opportunity to earn future performance fees. I will now turn the call over to our Chief Risk Officer, Bob Lewis, who will update you on our exposure to the U.S. residential housing market. Bob?

BOB LEWIS, SVP, CHIEF RISK OFFICER, AMERICAN INTERNATIONAL GROUP, INC.: Thank you, Martin. On the second-quarter conference call in August I gave a slide presentation on AIG's activity involving the U.S. residential mortgage market. Last evening we posted an update to that presentation. Given the ongoing turmoil in this market we have expanded the information provided in an effort to address many of the questions expressed by our investors.

For each of our four businesses engaged in the residential mortgage markets we have included comments on initiatives they are undertaking, affects on the credit quality of their business, the effects of accounting rules and changes in valuations on their results, a summary of how they are responding to their markets and the opportunities they see for the future. I do not plan to comment on each slide in the presentation, but will highlight certain key areas.

As we summarize on slide 4, AIG remains active in various segments of the residential mortgage market. American General Finance extends first and second lien mortgages to borrowers; United Guaranty provides to lenders first lost mortgage guaranty insurance for high loan to value first and second lien mortgages; AIG Insurance Companies and AIG Financial Products invest in residential mortgage-backed securities and collateralized debt obligations with RMBS collateral; and AIG Financial Products provides credit protection through credit default swaps on the Super Senior tranche of CDOs of RMBS structures.

The increase in delinquencies in the domestic mortgage markets is adversely affecting current results in AIG's mortgage lending and guaranty insurance businesses. Present deterioration, the reduction in liquidity in the market and actions taken by the rating agencies have resulted in market value losses on many securities issued against residential mortgage collateral, and to the extent losses have been realized upon sale or there have been other than temporary impairments losses are being recognized affecting current results in AIG's insurance and capital markets businesses.

AIG views much of the recent pricing developments as more a result of market turmoil than indicating fundamental and permanent deterioration in the credit characteristics of our holdings. The robust cash flow characteristics combined with the reasonably short maturity structure of most of these securities held in AIG's insurance investment portfolios should exert a pool to par absent a severe recession or a depression type deterioration in the underlying credit fundamentals of the collateral securities.

AIG invests in residential mortgage related assets to achieve investment objectives in its insurance and capital markets businesses and does not materially engage in assembling, warehousing and securitizing assets. The investments we hold are fulfilling our investment objectives and, although they may experience fluctuations in market value, we expect them to pay all principal and interest. AIG remains comfortable with the size and the quality of its investment portfolios and its operations.

AIG-FP writes Super Senior protection through credit default swaps on CDO structures containing U.S. residential mortgage-backed securities. But importantly, AIG-FP stopped writing this business in late 2005 and therefore holds very low exposures to the troubled 2006 and 2007 vintages. Although a valuation loss has been taken in the quarter to reflect credit spread widening of CDOs of ABS, AIG-FP does not expect to make any payments on its portfolio with

Super Senior credit derivatives.

AIG has strong enterprise risk management processes in all the areas where we are active. The risks we are taking are analyzed based upon our own independent analyses, modeling and monitoring. Although the market may continue to experience a period of adjustment and volatility, the risk profile of AIG portfolios is appropriate for a strong world leader in insurance and financial services.

As shown on slide 9, American General Finance anticipated some of the real estate market developments and sacrificed short-term growth in 2006 for long-term credit quality and earnings stability.

Slide 10 shows that AIGF's credit quality remains strong and delinquency and loss experience, although somewhat higher than last year's historic lows, still remain under their target ranges.

On slide 11 we present detailed data on AGF's real estate portfolio, showing a breakdown by FICO score range, vintage and other factors. The growth in the third quarter was fairly balanced between the centralized real estate business and branch operations. When looking at individual cells you may see an uptick in delinquency levels, however AGF's overall 60 plus day delinquency ratio is 2.22%, is well below their target ranges and superior to the delinquency rates in most subprime asset backed pools.

AGF has maintained its conservative lending standards summarized on slide 12 throughout the housing boom. A key to AGF's approach is to underwrite mortgages to hold on its balance sheet rather than for securitization and to reward branch management on credit quality as well as production.

In summary on slide 14, at the end of the third quarter AGF's real estate portfolio reached $19.5 billion compared to $19.2 billion at the end of the second quarter. Although we believe that the housing market will likely continue to deteriorate for the remainder of 2007 and into 2008, the Company's business model and strict underwriting approach are sound and will allow the Company to continue to pursue opportunities as they arise.

Moving on to United Guaranty and slide 16, since 1963 UGC has been providing lenders mortgage insurance on first and second lien mortgages. UGC is dependent on lenders for its business and as part of the relationship it is expected to insure a wide variety of mortgage products and borrowers. As a result the cyclical nature of the housing market can adversely affect short-term profitability. UGC has been a consistent profit performer, as evidenced by their average ten-year domestic mortgage loss ratio of 27% through 2006. The results that we are seeing in 2007 are in affect UGC's version of a cat.

The graph on page 17 shows that UGC has maintained a better delinquency rate than the rest of the mortgage industry on its primary first lien business. The first lien business makes up 87% of UGC's total domestic net risk in force.

In this business, as shown on slide 18, the compensation of the portfolio has changed significantly. Loans with FICO scores -- excuse me, has not changed significantly. Loans with FICO scores less than 620 constitute only about 8.5% of UGC's domestic mortgage risk and 70% of their net risk in force has FICO scores greater than 660. Furthermore, high-risk products such as interest only and option arms remain less than 10% of the risk in force.

But as slide 21 shows, the greater challenge for UGC has been in the second lien business which produces only 13% of UGC's domestic risk in force but generated 59% of the third-quarter 2007 losses.

To address the weaknesses in this area UGC has reengineered its second lien product as described in some detail on slide 23. By strengthening underwriting guidelines, reducing retention levels, improving pricing and enhancing portfolio risk management UGC expects portfolio quality to improve.

On slide 22 UGC reports loss reserves for the second lien product of $500 million. The adequacy of these reserves is analyzed, reviewed and approved under standard procedures outlined on slide 20. As further shown on slide 22, UGC expects further deterioration in incurred and expected losses over and above held reserves in the $500 million range. Consistent with industry practice, these expected losses cannot be reserved today, but will be reserved as mortgage delinquencies occur in future periods.

In summary, 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. However, the elimination of certain risk factors as well as the tightening of lending standards in the first lien business and the re-engineering of the second lien business should start to improve portfolio quality going forward.

Turning to slide 26 and the insurance investment portfolios, AIG's insurance bond portfolio at September 30 totaled approximately $497 billion with over 94% being investment grade.

On slide 27 we break down the residential mortgage component of the portfolio with $93.1 billion of holdings in the residential mortgage market. Our subprime RMBS holdings totaled $25.9 billion, 98.3% of which was rated AAA or AA as of September 30. This is down from $28.6 billion at the end of June.

AIG focuses almost exclusively on AAA and AA investments with relatively short tenures. The vintages of our holdings are shown on slide 29. At those high-quality rating grades there exist substantial structural protections, see slide 30, with the subordination well above the rating agency's revised loss estimates for recent vintages.

On slide 32 we describe our CDO investments that have any subprime underlying collateral. These holdings are modest at $234 million. As shown on slide 34, the major rating agencies have been downgrading and placing many securities on negative watch during the past three months. About 663 million of AIG's RMBS securities have been downgraded through November 7, and 893 million were placed on negative watch.

Of the downgraded securities 622 million were subprime and represented 2.4% of total subprime holdings. Taking into account all rating actions through yesterday, 97.3% of our some subprime RMBS exposure is still rated AAA and AA. These rating actions, coupled with the general lack of liquidity in the markets, have resulted in realized and unrealized capital losses being taken for our RMBS portfolio in the quarter of $1.8 billion.

On slide 37 the components of these losses are detailed. Of the $176 million in net realized capital losses taken on RMBS in the quarter, $149 million represented other than temporary decline in value of our holdings. For a description of our accounting policy in determining other than temporary declines, please refer to slide 36.

AIG also recorded net unrealized depreciation of investments of $1.6 billion related to RMBS. This number was net of unrealized losses recorded in all rating categories of $1.8 billion and unrealized gains recorded of $155 million.

I'd like to state that on slide 37 there is a typo for the AIG consolidated unrealized depreciation investments; the number should read 3.393 billion not 3.493. We will make this correction on the website, the number is accurate in our 10-Q.

AIG's insurance investment portfolios are outlined for as available for sale where unrealized gains and losses are recorded through other comprehensive income on the balance sheet. While AIG has recorded these assets at fair value, consistent with our accounting policies, we believe the structural protections in our RMBS holdings will result in full recovery on the vast majority of our holdings even in the severe housing downturn.

In summary on slide 38, since the second quarter of 2007 the RMBS market has been affected by the broader capital markets emphasis on liquidity and risk aversion. Most nonsovereign fixed income has been affected by these factors. In this environment AIG has opportunistically increased liquidity. Our portfolios are generally of high-quality with less than 2% rated less than AA-.

Our CDO holdings, which include subprime collateral, are modest. Further downward ratings migration is anticipated, however rating changes do not affect existing structural protections and we expect substantial full recovery of principal interest. Furthermore, AIG will take advantage of compelling market values when it feels that market technicals present such opportunities.

Turning to slide 40, AIG Financial Products exposure to the residential mortgage market continues to be derived through two sources. First, they are a writer of risk remote Super Senior credit protection on highly diversified tools of assets which include residential mortgages. Second, they are cash investors in high-grade securities where, while the collateral comes from many sectors, some of it does include residential mortgages.

While both of these activities involve significant notional exposure, the ultimate credit risk actually undertaken is remote and has been structured and managed effectively. AIG Financial Products has been running a successful business and writing Super Senior protection since 1998. The term Super Senior has been increasingly employed in the market over the recent few months, so it is important to understand that there is no one single or uniform definition for this term or for the remoteness of credit risk to which it is applicable.

The underwriting of Super Senior risk by FP for each transaction is constructed through a careful credit analysis of each transaction structure, a review of each underlying credit reference obligor within the transaction's collateral pool, and by use of internal modeling that stresses the robustness of a transaction structure to withstand extreme economic stresses. It is important to note that AIG-FP does not rely on rating agency models and ratings in constructing the Super Senior risk layer.

The total portfolio Super Senior credit default swaps is described on slide 43. Of the total 513 billion notional exposure, $78 billion represents multisector CDO exposure. Of that $63 billion have some component of subprime residential mortgage securities in the collateral pool. It is important to note that AIG-FP stopped writing new Super Senior protection that included subprime collateral in December 2005 and thus its total exposure, after deducting all subordination across all deals to vintages of 2006 and 2007, totals just $323 million.

It is also the case that because AIG-FP's exposure is always at the very top of the waterfall structure, just over 55% of the transactions to which we are exposed have started to amortize and hence AIG-FP's exposure is being reduced on a monthly basis.

On slide 44 of the $63 billion of Super Senior CDO exposure that has some degree of subprime collateral, $44.2 billion of net exposure consists of multisector collateral that is rated predominantly AA and AAA by virtue of the subordination embedded in each individual underlying security. The average attachment point for AIG in these deals is around 15% which is higher than the regular AAA attachment point ascribed by the rating agencies.

Our notional net exposure to direct high-grade subprime collateral after deducting all subordination is $17.5 billion. The remaining $19 billion of our net Super Senior exposure in this sector has collateral which is predominantly mezzanine, i.e. BBB rated. The average attachment point for AIG in these deals is 36%. Our notional net exposure to direct mezzanine subprime collateral after deducting all subordination is $8.7 billion.

As of September 30, 2007 none of AIG-FP's exposures have experienced any rating downgrades. Some of the more junior tranches on nine of these deals however have seen their ratings downgraded; these nine deals make up just 2.3% of AIG-FP's total CDO exposure totaling $1.461 billion.

AIG-FP maintains a regular program where it closely monitors and models each transaction in the portfolio. Despite recent rating action and dislocation in the marketplace, AIG-FP's analysis indicates that except for a very modest amount that is AAA risk their exposure remains Super Senior. We continue to believe strongly that AIG-FP will not be required to make any payments on these derivatives.

AIG-FP 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 transactions are illiquid and lack enough market observability to support a fair value other than the transaction price at inception. So any subsequent change in fair value resulting from a change in the market observable inputs into the valuation model is recognized in earnings.

The valuation AIG-FP's Super Senior portion of its credit derivative portfolio is challenging given the bespoke nature of each transaction and the lack of any market observable transactions or information. In the absence of any observable market under GAAP AIG-FP must estimate fair value using the help of models. And in estimating fair value AIG-FP uses 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, AIG-FP also employs the binomial expansion technique 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. So for the third letter of 2007 AIG-FP recognized a valuation loss in the amount of $352 million on the Super Senior credit default swaps written on multisector CDOs.

While the credit risk profiles of AIG-FP'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. At October 31, 2007 AIG-FP estimated that the value of these multisector CDOs had declined by an additional $550 million. This loss will be incorporated into our results in the fourth quarter.

Despite these charges required under GAAP, AIG expects the value of these derivatives to revert to par unless credit losses are realized by the Super Senior risk layer. There is no significant change in fair value on the other Super Senior credit default swaps during the third quarter.

In the third quarter AIG-FP completed transactions with new exposures totaling $48 billion written on non RMBS collateral. AIG-FP will continue to pursue attractive opportunities in this sector.

In conclusion, 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 product involving residential mortgages, particularly subprime mortgages. The low volume of transactions that are being done indicates a lack of liquidity and as a result valuations are considerably below historical pricing ranges.

AIG is weathering the ongoing market downturn through its strong cash flow and its superior financial position. AIG's enterprise risk management function is thoroughly engaged in this environment at all levels of the organization, assisting our businesses in identifying emerging risk factors and assessing, analyzing, monitoring and managing them. We are involved in all phases of the process from independent analysis and portfolio review to quality assessments to reserve determinations to risk management tactics and strategies. We are well positioned to address the challenges this environment is presenting.

Finally, in periods of challenge and uncertainty companies with financial strength always find opportunities. AIG is seeking those opportunities and has the financial wherewithal and expertise to take advantage of them when they arise. Now I'll turn it back over to Martin.

MARTIN SULLIVAN: Thanks very much, Bob. Ladies and gentlemen, I want to conclude my remarks this morning by reinforcing that we have made significant progress over the past two and a half years and I remain confident in our long-term strategy and AIG's future. So far this year we have earned $12.5 billion of adjusted net income, repurchased over $4.5 billion of stock, grown retained earnings by 11.6%, and achieved a return on equity using adjusted net income of 17.7%.

The financial and operational initiatives we have undertaken will enhance future returns and lay the groundwork for continued growth. We continue to manage risk carefully and are now well positioned to respond to both challenges and opportunities all with the focus of further increasing shareholder value. Ladies and gentlemen, we'd be more than happy to take your questions. Thank you.

OPERATOR: (OPERATOR INSTRUCTIONS). Jimmy Bhullar, JPMorgan.

JIMMY BHULLAR, ANALYSTS, JPMORGAN: Good morning. I have a couple of questions. The first one for Martin. If you can discuss the Company's capital flexibility and your view for buybacks beyond the current $3 billion authorization? And then the second one maybe Steve or someone else -- on your partnership earnings, they're pretty weak across the board. If you can quantify -- you do give the data in your supplements, but if you can just talk about, based on the current environment, is the third quarter more reflective of what you expect going forward or do you expect a little bit of a bounce back maybe closer to the second-quarter level? Or just your view on partnership income over the next year.

MARTIN SULLIVAN: Actually Steve is going to respond to both of those, Jimmy.

STEVE BENSINGER, CFO, EVP, AMERICAN INTERNATIONAL GROUP, INC.: Good morning, Jimmy. I think you probably saw that we provided an update to our economic capital modeling initiative. In there we indicate that we believe that there is an increase in the range of our excess capital to $16 billion to $21 billion. We still believe that's a conservative estimate. And that principally derives from the excess capital generated by our operations and then less the amount of capital that we've consumed through dividends and also through the share repurchase program. So net net so far this year we estimate an extra $1 billion was generated.

In terms of capital flexibility, we have been initiating, as we talked about discussions with third parties such as rating agencies, regulators about our views on capital adequacy on diversification benefits. We have significant efforts now going on within the organization on how to utilize that excess capital, whether it's a return of capital through additional share repurchases. Martin mentioned in his opening remarks that our intention is to more expeditiously utilize the remaining $3 billion in our current share repurchase authorization. So we are looking at all measures to increase capital efficiency in the organization.

MARTIN SULLIVAN: Win, do you want to talk about the partnership returns?

WIN NEUGER, CFA, AMERICAN INTERNATIONAL GROUP, INC.: In terms of partnership earnings for the quarter, I think the quarter I would say was weak only in respect to the prior three quarters where we've said that that was an unsustainable level of partnership earnings. In fact, for the quarter companywide the return on the portfolio was just under 9% which is lower than our long-term range which we've consistently said was 10 to 15%, but year-to-date we're at about 15, a little over 15% on that portfolio.

So I think that as we look forward we continue to believe that it will be mixed from quarter to quarter, so it's unpredictable from quarter to quarter, but the 10 to 15 is a good range. Clearly in the third quarter the mix between hedge funds and private equity was highly in favor of private equity where returns were reasonably strong and hedge funds which were very flat for the quarter. So given all the choppiness in the listed markets, both fixed income and equity, that portfolio was basically flat. Interestingly in the first part of this quarter the hedge fund portfolio has rebounded very significantly.

JIMMY BHULLAR: Okay, thank you.

OPERATOR: Andrew Kligerman, UBS.

ANDREW KLIGERMAN, ANALYSTS, UBS: Thanks and good morning. I guess first, we've heard a lot from a number of players in similar businesses to AIG Financial Products that are actually writing these Super Senior CDS' that they're putting up losses and a lot of it relating to these CDS'.

MARTIN SULLIVAN: Andrew, we can't hear you very clearly.

ANDREW KLIGERMAN: I'm sorry. Let me speak a little louder. A lot of the competitors to AIG Financial Products are putting up losses in a range of $8 billion, $10 billion. Could you contrast for us what's different about AIG Financial Products versus these other entities that's allowing for not overly material losses?

Secondly, Bob Lewis mentioned financial strength and seeking opportunities in different areas. Where do you see the biggest opportunities right now in these credit markets that you're going to seek?

And then thirdly, with regard to the mortgage insurance, I think on slide 22 it was mentioned that there would be $500 million in future losses. The quarter produced $215 million in a net loss. Where does that put us on a run rate for mortgage insurance losses? Those are my three questions.

MARTIN SULLIVAN: Thanks, Andrew. We've Joe Cassano and his team on the line. So Joe, do you want to respond to the first part?

JOE CASSANO, PRESIDENT, CEO, AIG FINANCIAL PRODUCTS: Sure I will. Thanks, Martin. Andrew, you know it's always difficult for us to look through to other people portfolios and try and determine the nature of the losses and what's going on in other shops. What we can do and what we obviously do do is take a rigorous approach to reviewing our portfolio.

I think the big headline that Bob raised during the presentation that I think has a very, very strong effect on how our portfolio on a mark to market basis is reacting is the component parts of the vintages that we're exposed to. And I think everyone knows now from reading what's in the public press and reading what other people are reporting that vintages are really the key right now to where the loss expectations are in the business and especially in the subprime prime sector.

And as we've said many times, we were fortunate in that Andy and his team came to me at the end of '05 and they said, look, we're not happy with the underwriting standards that we're seeing in the U.S., we're uncomfortable about what's going on in the new vintages that are being developed, we think we should exit this businesses. And we did that. We went and talked to many of the folks that we were working with and let them know that we were going to be exiting writing this business because there were teams of people who were working very closely with us on this.

What that did is it resulted then in that we have a limited exposure to the very, very problematic vintages. Now what's happening in our portfolio, because the nature of me market frenzy around the whole structured markets business and around the subprime prime sector is that the vintages of '05 and '06 are having market value changes associated with them. And I think if my numbers are right, and Andy who is sitting with me can correct me, but I believe we have 48% of our subprime exposure is to the '05 vintage. And we have slightly under 9% of our exposure to the problematic vintages of '06 and '07.

And so we're being affected by the change in value that's a knock-on effect from the things that we're seeing happen in the very problematic vintages. I think that's probably the biggest headline. And I think the more the story develops the more we're going to hear that vintages and segmentation are very important.

Now I'll also add that one other segmentation piece that needs to be reviewed, especially in the multisector CDO business that we've written, is that the team in FP were very conscious about making sure they didn't do predominantly subprime transactions. So what they have is a broad mix of other asset-backed classes and within each of the underlying portfolios.

So I think it's a little bit hard to generalize because all the portfolios are slightly different, but you could take that maybe we have half of the portfolio in subprime, of that half they are clearly in the better vintages of '05 and prior. Predominantly the other half is that a broad mix of various underlying asset classes and the data seems to be showing through still today that the other asset-backed classes are performing well and they are especially performing well relative to the subprime sector.

So I think it's all in the details and it's all in the segmentation and it all depends on where you sit ultimately in the pecking order of the loss distributions. And since we're -- Bob made a very important point, at least for us, and we think it's very important to clarify is that the statement Super Senior has been bandied around quite often in all sorts of shapes and forms.

Our definition and the definition we started the business with and the definition we hold to is a definition that says through the actuarial models that we use and through the rigorous reviews that we do which is a fundamental analysis from a positive selection criteria by our credit officers through our running it through our actuarial model through severe recession scenarios, running it through and then haircutting things that we see that the rating agencies might do against what we think the proper attribute should be, and then sitting at the very top of the waterfall I think is why our portfolio has behaved as well as it has to date.

The market frenzy is the market frenzy and it may be the case that as we -- the movements in spreads during the month of October were fairly phenomenal and that's why we wanted to make the announcement that we had a further loss that we can see through October of approximately $550 million. And a lot depends on where it's going to go in the future. But it is a mark to market loss and it has not changed our fundamental view of the quality of these portfolios.

ANDREW KLIGERMAN: And Joe, just to make sure I understand -- just to make sure I understand that vintage point. You mentioned that under 9% are 06-07. And then there's a term that people are using these dynamic products, these CDS' where '06 and 07 business can get put into something that was written in '05. Do you have that dynamic exposure?

JOE CASSANO: I think the more casual phrase rather than dynamic is either under CDO transactions they can either be managed, which would qualify as the dynamic category that you're speaking of, or static which speaks for itself. If you don't mind, I'm going to let Andy just talk a little bit about the differentiation between the managed portfolios, how we do our criteria for setting up the managed portfolios and what the replenishment attributes, which is what you're speaking about, are within our managed portfolios.

ANDY FORSTER, EVP ASSET TRADING & CREDIT PROD., AIG FINANCIAL PRODUCTS: You're absolutely right, we have 56 deals that are currently managed. A couple of very important points. One, as part of the due diligence that Joe outlined here, one part of that is making sure we're aligning ourselves with the very best managers. There's a huge amount of due diligence that goes on. So as those managers look to reinvest, if they're still able to, then clearly they're aware of all the activity that's going on and they're not investing back into those sorts of assets that are the most problematic stuff.

The exact number, just so it's clear, we have 9.6% of our portfolio is exposed to the '06 and '07 vintages. But there are other features in our deals. For instance, all of our deals we put in, again, which goes to Joe's point about our deals being different from others that get bandied around in the market. All of our deals have triggers in there that stop people from managing them should they hit certain collateral deterioration or losses in their deal.

So for instance I know that within the next week to two weeks about another 14 to 15 of our deals will no longer be able to be managed because the collateral will have deteriorated slightly such that they will then trigger and go into static. So yes, there is some ability to change the collateral, but teaming up with the right people and putting the right triggers into our deals has meant that that's why we've got such a very small exposure there.

JOE CASSANO: Andrew, just one more final point on the vintages question and managed deals is that now if people today entered into new 2007 vintages, because there has been such a massive correction in the underlying criteria for giving mortgages in the U.S. that some -- there's now an emerging view from the data that the later 2007 vintages are actually reasonably good.

And so you may see over time that we do accumulate a bit more, but is the managers and the quality managers that we have doing quite a good job at reviewing where they see the value proposition. But we don't expect that that number is going to grow materially. And as we go through these calls during this tumultuous period we'll make sure that everyone is aware of what's happening.

ANDREW KLIGERMAN: Got it. Thanks.

MARTIN SULLIVAN: Joe, do just want to give Andrew a flavor for some of the opportunities you're seeing at the present moment and then Win's going to give Andrew an overview from an investment perspective.

JOE CASSANO: Okay, great. Thanks, Martin. Just one of the things that we're seeing right now is that I think people know that many of our deals are, and many of the Super Senior transactions especially, are driven by the need for regulatory capital through the banking system. Now we are not writing any of the new -- any new CDO, multisector CDO deals or CDO deals.

But what we are doing is seeing very, very good opportunities to work with our end banking clients and the big international banks where we are able to take on super senior risk as they seek capital relief, and attachment points that I don't think we have seen in the ten years that we have been doing this business and at very, very advantageous spreads to the Company.

And Bob mentioned that we have written $48 billion of new business at the end of the quarter here, and all of that business was done at substantially better attachment points and at spreads that were very good because of the situation in the market and the demands that people are having for seeking capital relief. And we have been able to, more than ever before, positively pick the underlying portfolios that we want to -- that we are willing to underwrite. And that has been a huge advantage for us, and there is a very, very strong pipeline right now that we are working through for this quarter.

Now, the problem with these transactions is that they really, for the banks to get their relief that they're looking for, they really all need to get them done by the end of the quarter. So there is a lot of fundamental work and that will go on now in October and November, and most of the closings of these will take place in December.

Andy, do you want to add anything to that?

MARTIN SULLIVAN: Thanks, Joe.

ANDY FORSTER: Andrew, obviously in times of turmoil, it creates a lot of opportunities for people who have liquidity. And with our cash flow and with some of the liquidity that Bob talked about having built up in the last quarter, we're in that position. We're not being overly aggressive, but there are clearly opportunities being created, for example, in the bank loan paper. Some of the private equity deals that have been hung up create opportunities.

Clearly, in our hedge fund portfolio we think there are opportunities to increase some of our focus on distressed debt specialists. And in private equity, valuations have generally come down a little bit, particularly for growth capital which is not dependent on debt. That is attractive for us as we do a lot of growth capital investing, especially outside the US. So all those areas are places that assets have become cheaper and significantly more attractive.

MARTIN SULLIVAN: Thank you. On the third part of your question, Andrew, we have Billy Nutt with us who runs UGC, so he is going to respond.

BILLY NUTT, PRESIDENT, CEO, AIG UNITED GUARANTY CORP.: Good morning, Andrew. The $500 million in reserves that you referred to on slide 22 are those reserves that have been established for reported delinquencies in our second lien business only. As of September 30th, we had in excess of $1 billion of reserves that were established for our delinquency portfolio, our delinquency inventory for both our first and second lien businesses.

We have a very rigorous quarterly reserve analysis process that we go through that involves a number of senior AIG executives, and we've taken a conservative view of our loss estimates and booked our reserves accordingly. And I think you understand, Andrew, that under GAAP insurance accounting, we can only reserve for the current delinquency loans or loans that may be delinquent but not reported. We cannot reserve for future losses or expected future losses, but will establish those reserves as those loans are reported delinquent.

As regards the run rate of our operating losses, there's nothing to indicate that the housing market correction has found the bottom. All the metrics in the housing industry and the mortgage market are trending negative and it looks like they're going to continue to trend negative, at least through most of next year, and we expect that this downward cycle in the housing market will continue to adversely affect our operating results for the foreseeable future and is likely to result in an operating loss in 2008.

Having said that, the tightening in the underwriting standards that are taking place in the market and by UGC in our first lien business and the re-engineering of the second lien business should start to improve the portfolio quality as we go forward and as the market eventually finds its equilibrium and pulls out of this correction.

ANDREW KLIGERMAN: So we shouldn't expect much difference as we move in the forward quarters from what we just saw this quarter then, at least for the foreseeable few quarters?

BILLY NUTT: That is correct.

ANDREW KLIGERMAN: Thank you.

OPERATOR: Tom Cholnoky, Goldman Sachs.

TOM CHOLNOKY, ANALYSTS, GOLDMAN SACHS: Good morning. I have a couple of questions if I can. I just wanted to follow up on Win's comments I guess on the 9% total return. I guess if we look at other investment income in both P&C and in life insurance, they were considerably weaker than a year ago and I think some of it may be explained out of period adjustments. But what else is driving that? Because those numbers were very low in the quarter.

And then I've got another question -- might as well give them to you all up front. Page 37 of your RMBS presentation, you indicated that you recognized an unrealized pre-tax loss of $3.5 billion of which $1.6 billion related to RMBS. And what were the factors that led to the remaining $1.9 million right down?

And then just to talk about -- maybe about your operations, can you provide some more color on what's going on in the Japanese life insurance markets and specifically as it relates to your A&H business?

MARTIN SULLIVAN: Okay, Tom, I think three parts to that. So Win is going to respond on the first two.

WIN NEUGER: Tom, a couple things on the comparison year-over-year. First of all, you're right, the out of period adjustment was significant in the third quarter of 2006. So if we look at the growth excluding the out of period adjustment from last year it was actually a pretty strong quarter on [gen].

On a life side, it was heavily influenced by the fact that there are two lines that have a significant equity component, one being the partnership income -- oh, three things -- one being the SAB 99 adjustment, the out of period adjustment from last year; a second being the partnership income which was down significantly year-over-year; and the third is that we have fairly significant holdings in mutual funds for our portfolios that get marked to market through the income statement on a quarterly basis. So with declines in the equity markets in the quarter that clearly had a significant year-over-year impact.

TOM CHOLNOKY: So hopefully these mutual funds weren't invested in financial services stocks. But anyway -- if we go to the next two then.

STEVE BENSINGER: Tom, you asked about the remaining pieces of the unrealized depreciation of the investment portfolio. Bob mentioned that there was a typo on page 37, so it was really $3.4 billion compared to the $1.6 billion. The rest of it is sort of a few different pieces and I'll ask Win to talk about the largest of it. The largest of it relates to depreciation in the foreign corporates and sovereigns that we own, Richard Scott will talk about those, but that's offset by gains in our other U.S. fixed income securities, also gains in our domestic equities and other invested assets. So the net of all that is about another 1.8 but driven heavily by the foreign component. Richard?

RICHARD SCOTT, SVP INVESTMENTS, AMERICAN INTERNATIONAL GROUP, INC.: Let me comment, interest rates rose in most of the Asian markets. We have very long duration portfolios generally in Asia. So in Taiwan in particular interest rates were up about 30 basis points; in Thailand interest rates were up and our portfolios are traditional whole life portfolios, very long duration. So as rates go up values go down.

The second issue affecting our foreign portfolios was the dollarized capital that we have in certain places, particularly Japan. We tend to as a risk control matter keep our capital in dollars since it is not matched against liabilities and there is a mark down from a local currency perspective because the yen strengthened against the dollar from roughly call it 121 to 115.

Much of that is offset if you look at OCI by a mark back up through the FX component of OCI. But if you break it out into the investments line and the FX line you get two different entries. And obviously the investment line was negative. And that basically accounts for the bulk of the rest of the change.

TOM CHOLNOKY: Okay. And have interest rates kind of stabilized since the end of the quarter or are we still seeing upward pressure?

STEVE BENSINGER: Well, interest rates have obviously come down fairly sharply in the U.S.

TOM CHOLNOKY: No, I mean in Asian markets, sorry.

STEVE BENSINGER: Asian markets have generally been stable. We have an extremely large portfolio and I just will note that one way of thinking about it, given the duration of our portfolio and its size, a 3 basis point move, sort of a parallel move of all yield curves globally up or down generates about a $1 billion change in the mark to market. So that's a number that will move around literally in excess of $1 billion every day.

TOM CHOLNOKY: Okay.

MARTIN SULLIVAN: The third question you asked regarding Japan and in particular the accident and health portfolio, Bob Clyde is on the line from Tokyo. But obviously two issues that have affected that portfolio, one is obviously the change in the tax code in Japan. And the second area is we've pared back on some of our direct marketing activity, because we're not seeing the response in conversion rates that we'd like to see. But I think Bob can add a little bit more color to that.

TOM CHOLNOKY: Great, thank you.

BOB CLYDE, VP L&R, COO JAPAN & KOREA, AMERICAN INTERNATIONAL GROUP, INC.: A&H does remain challenging due to competition and market saturation. And the FYP declined 9.2% compared to prior year mainly due to the deliberate measures that Martin alluded to of reducing our advertising spend in the direct marketing channel with a view of improving our profitability.

But to offset the declines in the direct marketing channel we have accelerated our A&H sales through face-to-face channels achieving a 7% growth in this quarter over past year. Our FYP grew for the second successive quarter after a trough in the first quarter as cancer and lump sum full in hospital sales in the face-to-face distribution channels are starting to offset the downturn in the direct marketing area. In addition to those products Alico's new return of premium product launched in June is expected to accelerate the sales in the fourth quarter as well.

And relating to the direct marketing piece which drives a good piece of our A&H business, as we mentioned, we conducted a review last year that showed our dropping effectiveness in the media spend supporting the mass marketing channel. And our immediate and short-term response to this was to significantly reduce the marketing spend, regain profitability, but in the longer-term we've launched a major re-engineering initiative in this channel to change the strategy of this channel from a mass marketing to more of a direct marketing with much more targeted approach being adopted as has been the case in the past.

And the major pillars for that initiative include shifting our business paradigm from a product centric distribution to a customer centric distribution, manufacturing product specifically developed for the sale through direct marketing channel to specific customer segments and integrating processes and functions to enhance cross selling and customer loyalty.

TOM CHOLNOKY: Okay. Are you benefiting from lower loss trends in A&H because others are?

BOB CLYDE: Well, we've always enjoyed very -- I don't have the specific number at hand, but we've always enjoyed a very favorable loss ratio vis-a-vis our competition.

TOM CHOLNOKY: Okay, great. Thank you.

OPERATOR: Jay Gelb, Lehman Brothers.

JAY GELB, ANALYSTS, LEHMAN BROTHERS: Thank you. Just a follow-up with one of the last questions. Can you talk about what the mark to market would be through October for the RMBS portfolio through the other comprehensive income line?

MARTIN SULLIVAN: Absolutely. Win?

WIN NEUGER: It's a bit early in the month for us to have final valuations, but in terms of our RMBS portfolio, I'd say clearly it's down for the quarter or quarter to date. But that's offset by other moves in interest rates around the world. So from our point of view, while we don't know a number right now, it clearly has RMBS down and other things up and that's about all I guess I can say at this point in time.

JAY GELB: Okay. And then separately just a couple other points in. First, can you comment on the $8 billion of wrapped exposure you have from RMBS to the bond insurers? Do you have any concerns about that given the strains among the bond insurers? And then separately, your California wildfire losses seemed a bit higher than we would have anticipated. Can you talk about what may have been driving that?

UNIDENTIFIED PARTICIPANT: I'll comment on the wrapped exposure. As a practical matter the bulk of that is in the HELOC and second lien arena. Most of that is on FICO scores close to 700 on the underlying. So we view the bond insurers as a secondary source of payment but not necessarily critical to the recovery on those pieces.

MARTIN SULLIVAN: Jay, on the California wildfires, based on what we know today the bulk of that loss activity is in the AIG private client group portfolio. Chuck Schader is here and I don't know if he's got a further update. Chuck?

CHUCK SCHADER, SVP, CHIEF CLAIMS OFFICER, AIG DOMESTIC BROKERAGE GROUP: Thank you. A little over 50% of it was in the private client group with a small portion in personal lines in the Lexington homeowners segment and the remainder in commercial lines. We had a commercial lines exposure as well. The reason it may have been larger than some of the folks were projecting is simply because our portfolio on the personal lines is geared toward higher exposure homes and not a general distribution throughout the population in the state. And the fires themselves actually happened disproportionately in those areas and the combination of those two factors led to, again, larger losses but manageable losses that were a little bit higher than some of the generalized projections would have indicated.

JAY GELB: For the California fires, do you think it was driven more by having a larger market share in the affected areas or insuring homes with larger average values? So you think one or the other was driving it more?

MARTIN SULLIVAN: I certainly think in the private client group it's a combination of both, Jay. Obviously we have a reasonable exposure there and those homes tend to be of higher value. And also, we have a reasonably large commercial property portfolio that would obviously have exposure in those zones.

JAY GELB: Do you have a breakdown of the impact from commercial lines losses versus personal lines percentage wise?

MARTIN SULLIVAN: I think we have a reasonably detailed breakdown at the present moment. Let me just see if I can lay my hands on that. I think the private client group is around $122 million and the Lexington, which is primarily a blended commercial with some personal lines, is around $82.5 million and there's about $15 million in our Lloyd syndicate.

JAY GELB: And your Lloyd's would be personal lines?

MARTIN SULLIVAN: No, I would think that's more commercial.

JAY GELB: And you said 50 for Lloyd's?

MARTIN SULLIVAN: No, 15, sorry, 1-5, Jay.

JAY GELB: Thank you very much.

OPERATOR: Dan Johnson, Citadel Investments.

DAN JOHNSON, ANALYSTS, CITADEL INVESTMENTS: Thank you very much. A couple questions. First, on the operating front, there is some good discussion in the Q about the Foreign General business and specifically you refer to the challenges of pricing and the outlook on the expense ratio remaining elevated for the reasons of decreased premiums. Can we talk a little bit about what's going on? And I don't know if you can put your arms around it from a numerical point of view or at least give us some color as to what's changed there versus the operating environment in the first half of the year. And then I've got one or two others, please.

MARTIN SULLIVAN: Certainly, Dan. I mean, obviously when you look at Foreign General you look at a portfolio that is predominantly split 50-50 between consumer and commercial. And obviously we're seeing certain rating pressures throughout the world on commercial business and obviously driving forward on our consumer business. Now obviously the consumer business tends to have a higher expense element, particularly in acquisition, and a lower loss ratio whereas commercial obviously has a very volatile loss ratio depending on claims activity. So as you see the drive towards growing consumer business you'll see an increase in the expense ratio due to higher acquisition.

DAN JOHNSON: I guess even when you look below say maybe to examine it on the combined ratio line, I think these numbers are about right even backing out the reserve releases from sort of comparative periods, it looks like the combined ratios in Foreign General are up 4 to 5 points maybe over the last couple quarters versus the year ago quarter. And I probably haven't stripped out all the one timers, but what do you think the sort of underlying increases in the combined ratios are looking like versus this time last year?

MARTIN SULLIVAN: Well, clearly in the third quarter there were some obviously higher severity losses, the UK floods I mentioned earlier, but there were also some increased severity losses in other portfolios, both in the energy sector and the aviation sector. So obviously if they prove to be a one-off aberration from an increase in severity then we should go back to norms. Frank, I don't know if you're seeing any trends in Foreign General that would cause any concern?

FRANK DOUGLAS, SVP, CASUALTY ACTUARY, AMERICAN INTERNATIONAL GROUP, INC.: No, from the casualty point of view the loss experience was favorable in the quarter. We actually had favorable development, Martin, on several of the longer tail classes. So the loss trends have been favorable in the recent accident years.

DAN JOHNSON: So I'm sorry, I'm just left with -- what's the take away then in terms of modest uplift in sort of accident year combined ratios year-over-year or more or less than that?

FRANK DOUGLAS: Rates are down on the commercial lines so obviously you would expect over the long run at least that would eventually have some upward push on the loss ratio. We are in the midst of a general pattern of favorable loss trends in the recent accident years and how long that will continue obviously will determine at what point the loss ratio might go up and at that point by how much.

DAN JOHNSON: Okay. Fair enough then. The other question is related to the comment in the Q about differences with counterparties in terms of valuations. And you refer to them as -- I don't remember if it was termed as material or significant, it was one of those. Any sense as to how we put our arms around that as outsiders as to how big those valuation differences are with counterparties?

MARTIN SULLIVAN: Joe, can you respond to that?

JOE CASSANO: Yes, sure. This is -- the issue at hand right now is the cost of the opacity in the market. So we have counterparts who have come to us and shown us collateral calls, and we've looked at those collateral calls and said we don't agree with the market. What we wanted to do -- with the numbers. What we wanted to do is make sure that we fully disclose and we put that into the Q, but the whole dialogue we're having with the various counterparts on this is quite constructive. It's a little hard for me to put a number on it because the ranges are just indicative of all of the talk in the market about the opacity here.

We've seen some people give us numbers that are say at 65 or at 55 and on very similar or same deals people have come in with numbers of 90 and 95. And then coming to agreement with that and trying to get folks to reconcile those numbers is a bit of a process and we're in the process of doing that. Everyone we're talking with, and there are not a lot of these, there are a few of these, it's a constructive discussion about look, how do we come to closure on all this? How do we meet in the middle or where do we end up on this? And generally the process is that we'll go out to the markets and we'll get indications from people of where the valuation is and then we'll just move on from there.

I think the other point that that leads to is well, are these significant in terms of liquidity or any of the issues that the Company has in terms of pledging the collateral. And I think you should be rest assured that you've heard me say on previous calls and on the previous call that we -- and now is that we've been husbanding our liquidity all through this very trying period. And we have plenty of resources and more than enough resources to meet any of the collateral calls that might come in. What I do want to do is make sure that we have some precision to these calls and that we understand the fundamentals for where the underlying numbers are.

DAN JOHNSON: Thank you for the answers.

OPERATOR: Mark Lane, William Blair.

MARK LANE, ANALYSTS, WILLIAM BLAIR: Good morning. Just wanted to go back to the capital management question for Steve, regarding prospects for further buybacks beyond the current program. Within the economic capital model report and the discussion, I understand it's a process and it's iterative, etc., etc., and I would expect you to be talking to the rating agencies and having discussions internally. But what sort of milestones can we look towards through this capital management plan where we're able to get more visibility on excess capital that you actually can do something with extending the buyback program or whatever it may be?

STEVE BENSINGER: Okay, in terms of visibility, I think some of the actions have already been visible in terms of the share repurchases conducted to date. We will keep examining that. Share repurchases are one of a series of alternatives that we have for utilization of excess capital. We can look at our risk profiles, we certainly have significant opportunities that we're evaluating, as Martin said, continuously in the M&A area and we want to keep powder dry for that. We also have opportunities for different retention levels in our business and can use capital for that.

We've also indicated that we've now retained a panel of outside experts to evaluate independently both the efficacy of our models and the assumptions that we're using and the inputs to those models. We would like to get through that exercise as well which is now ongoing and we'll report the results of that to you when it's done, but that's going to take a number of months.

So there's a lot going on, Mark, but I think what you'll -- what we said before is you'll see -- we'll report to you any progress that we're making and you'll see it principally in our actions in terms of capital management. And it's across the board; there's not one particular area that I can point to that will be predominantly manifest in how we utilize that capital.

MARK LANE: What about the rating agencies placing more emphasis on some of the work that you've done and actually giving you some of the benefit? I know obviously it's a tough period and they're not going to show their hand, but is there an expectation some time over the next 12 months where the discussion and the movement goes towards such a significant way that you would expect them to at least respond more formally or quantitatively in how they feel about some of these efforts?

STEVE BENSINGER: We do expect that. I don't think it's going to be uniform by any means among various rating agencies where we have significant relationships. There are some that are further ahead than others in terms of their own framework in evaluating and taking into account both companies' enterprise risk management and also their economic capital models.

So I think you will see definite progress within the next year with one or two of the rating agencies and perhaps less progress with some of the others. But we are trying to initiate those discussions and -- well, we've already initiated them, but to continue those discussions as much as we can within the constraints of their own framework. It's one of our top priorities and it is getting traction.

MARK LANE: Okay, thank you.

MARTIN SULLIVAN: I think it's safe to say, Steve, the rating agencies are making progress with their own models on diversification.

STEVE BENSINGER: They are. The rating agencies' proprietary models are developing as well, they're becoming a little more stochastic than past versions so that's also helpful in coming to a convergence of results.

MARK LANE: Thanks.

MARTIN SULLIVAN: Ladies and gentlemen, unfortunately we only have time for one more question.

OPERATOR: Josh Shanker, Citigroup.

JOSHUA SHANKER, ANALYSTS, CITIGROUP: Thank you. A few questions but most of them are pretty short. The first question regards the presentation back from May 31. In it you talk about vintages being the big difference between you and some of the monoline competitors. There's a slide in that that says that the AIG-FP's credit business grew by 86% in 2006. I'm wondering if we can clarify exactly what this means? That's the first question.

The second question is a real simple one. I'm wondering if the mark to market of 352 relates to all of AIG-FP or just the 70% owned by AIG. And finally, I'm wondering if we can clarify a little bit how much unfavorable development there was on the P&C business from the 2003 accident year and whether given that was near the 2004 piece, whether there are concerns about the favorable development we've seen in the year '04 and later.

MARTIN SULLIVAN: All right. In response to your second question, that's 100%.

JOE CASSANO: The slide you're referring to is a slide where I put up a -- to give a discussion and a representation of how the business mix within AIG-FP has changed from year-to-year and what I was comparing in those slides. I believe the years were '06 to '05 and the 86% increase represents an increase in revenue from the credit team during the year '06, comparing '06 to the year of '05 and that was driven by a lot of the growth that we had in building up the Super Senior book and the regulatory capital book that we have along with certain realizations that we had in some of the available for sale securities that Andy and his team have been managing.

JOSHUA SHANKER: And so do we need to be concerned about the '06 growth? Why is that growth not growth in the stuff that -- the vintages that people are concerned about?

JOE CASSANO: You see now when we give you the presentation that Bob laid out and what I talked about when I was answering Andrew's question, the breakout of the vintages of where the book is today. What you saw in the slide that I presented was revenue growth as we were building out this book. We take in the income on this book over time. You're not allowed for GAAP reasons to take in because these are qualified as '02-'03, this is a one-way kind of business, it doesn't have a bid offer to it, you can't get observable marks.

We're not allowed to present value or it's not proper GAAP to present value the current income that you have from these. Then what we do is take in the subsequent marks. But what we do do is accrue the revenues on this portfolio over time. So what you're seeing is the growth in the revenue stream of the book of business that we've accumulated. Does that make sense?

JOSHUA SHANKER: So that's the earned growth, not the written growth?

JOE CASSANO: That's right.

JOSHUA SHANKER: Okay, very good.

JOE CASSANO: And just for clarity, in the slides that Bob has provided and that we've put on the website you can see where the book is today and then the discussion of how we -- the attributes of that book.

JOSHUA SHANKER: Thank you.

MARTIN SULLIVAN: Joshua, Frank is going to respond to the third part of your question.

FRANK DOUGLAS: Yes, your question on accident year 2003, in the year-to-date results we had $143 million in the quarter, it was about $127 million of development from accident year 2003. Your question as to whether that gives us any concern about the more recent accident year, the answer is, no. The reason is it's almost entirely due to excess casualty claims. We can see exactly what claims are driving it. It's a relatively short list of large losses. We see no signs of that occurring in the more recent accident years. In fact, we're seeing favorable development for excess casualty in the more recent years.

The only other thing I would mention about accident year 2003, if we take a backward look at how it's developed since its inception, it had about $1.5 billion of favorable development in 2004 which is about 5 points on the 2003 loss ratio. It actually has not moved much at all since then. It moved $60 million in 2005 favorable, it moved $200 million in 2006 favorable, and now it's backing up $150 million approximately unfavorable this year. But all those three moves since 2004 are less than 1 point on the 2003 loss ratio.

So I think when you put it in perspective of the reserves for that year it really isn't a material amount. And as I said, we're not seeing any signs of that in the more recent years.

MARTIN SULLIVAN: Thanks, Frank.

JOSHUA SHANKER: Thank you.

MARTIN SULLIVAN: Ladies and gentlemen, thank you very much indeed for your attention.

OPERATOR: Thank you. That concludes today's call. All lines may disconnect. Once again, that concludes today's call. All lines may disconnect.

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