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American International Group Investor Meeting - Final

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BODY:

CHARLENE HAMRAH, VP, DIRECTOR - IR, AMERICAN INTERNATIONAL GROUP: Good morning. For those of you that don't know me, I'm Charlene Hamrah. And I'm pleased to welcome you today, and I hope you find today's presentations very helpful. Before we begin, I would like to remind you that this presentation and the remarks made by AIG representatives contain projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, 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, AIG's Annual Report on Form 10-K for the year ended December 31, 2006, and 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 any projection or other statement, whether as a result of new information, future events or otherwise.

The effect on AIG's financial results for the fourth quarter from changes in the fair value of its credit default swap portfolio and its investment portfolio, as well as the results from its Consumer Finance and Mortgage Guaranty operations will depend on future market developments that are difficult to predict in this volatile market environment and could differ significantly from the amounts previously disclosed.

There are a number of factors that could cause results to change over time including but not limited to further deterioration in the subprime mortgage market, further declines in home values, and interest rate increases. AIG is providing this additional information about its results prior to its fourth quarter earnings announcement date in light of the extreme market conditions in the last two months.

AIG expects that market conditions will continue to evolve and that the fair value of AIG's positions and its expectations with respect to its Consumer Finance and Mortgage Guaranty operations will frequently change. Given these anticipated fluctuations, AIG does not intend to update any financial information until it announces its fourth quarter 2007 earnings. Investors also should not expect AIG to provide information about the results of future quarters in advance of scheduled quarterly earnings announcement dates.

In addition, this presentation may also contain certain non-GAAP financial measures. The reconciliation of such measures to the comparable GAAP figures are included in the financial supplements available in the invest -- Investor Information section of AIG's corporate website or at the conclusion of the presentation materials. And now, I am pleased to introduce Martin Sullivan, AIG's President and Chief Executive Officer, who would like to make some opening comments.

MARTIN SULLIVAN, PRESIDENT, CEO, AMERICAN INTERNATIONAL GROUP: Thank you very much Charlene, and a very good morning to each and every one of you. And welcome to our Investor Conference. First of all, why are we here today? Well, as many of you are aware, AIG's last two earnings calls were taken up almost exclusively by questions relating to mortgage exposures in our non-insurance businesses.

Since our last call, we have received may requests to focus this meeting, which if you will recall originally was going to be focusing on our life and retirement services business. And in fact, Edmund's here. I don't think he got the memo that we weren't changing the subject. But, oh well. He's here to answer any questions. He said he'd rehearsed for this meeting, so he was coming.

So, we've received many requests to focus this meeting on the current market issues and how they're affecting AIG. We hope that our calls will return to discussions about our principle businesses and performance. We are not planning, as Charlene mentioned, to update any information provided today or have any more update calls prior to the release of our year-end numbers.

We will cover a great deal of material today, as you can see from the books that you were presented with as you entered the room today. I hope that it will give you a clear sense as to what we know and why we are comfortable with our current position. You will have numerous opportunities to ask questions during the various presentations, and I would obviously encourage you to do so. And we hope that you will leave this meeting with a better understanding of AIG, our exposures, and what makes us different and better. Today, you will be hearing directly from those executives who are running the four principal businesses with exposure to the U.S. residential housing market along with some of their colleagues. You will also hear from Bob Lewis, AIG's Chief Risk Officer.

During 2005, AIG began to see mounting evidence that lending standards and pricing in the U.S. residential housing market were deteriorating at a significant pace. Each of our businesses with exposure to that sector saw the same environment and took corrective action at that time, consistent with their individual business models. Due to the varying nature of these businesses, each responded in different ways. In some cases, we pulled out of the market. For those franchise businesses that must participate throughout the cycle and could not simply withdraw from the market, we modified the form of our exposures by moving to higher quality and shorter durations. You will hear much more about this during the presentations throughout the day.

Of course, AIG takes risk every day. We take it in our P&C businesses, which are exposed to losses from natural and man-made catastrophes. We take risk in our Life Insurance businesses, which are exposed to pandemics and other catastrophic events. Today, we are going to talk about risk we have taken in the U.S. residential housing sector, risk supported by sound analysis and a risk management structure that allows AIG to put our capital to work in an efficient manner. It is management's responsibility to ensure that AIG's capital is put to productive use and that our businesses are delivering optimal performance. We believe we have a remarkable business platform with great prospects that represents tremendous value.

Why do I believe this? Well first, as you have all heard before, our portfolio of businesses are well positioned to take advantage of important global trends such as firstly, shifting centers of economic activity to major developing markets, secondly, growing middle class in those markets, thirdly, aging populations and the exhausting of financial resources in state-sponsored benefit programs and lastly, greater risk and uncertainty in the world.

There are few companies as well positioned as AIG in those businesses and markets that will benefit the most from these trends. We are also undertaking several initiatives that will drive greater scale and efficiency and help improve margins. These initiatives will more than offset the increases in headcount and expenses AIG has occurred as a result of its remediation efforts. Some examples include lowering AIG's effective tax rate by changing how we fund our operations, improving our IT infrastructure, better vendor management, and more aggressive use of outsourcing.

Now, responding to many requests from members of the investment community, I am pleased to share with you that our five-year goal is to grow our adjusted earnings per share from 10% to 12% per year. A significant portion of your management's team compensation is directly tied to achieving this goal, and we believe we will be able to hit the target primarily through organic means. We will remain opportunistic and disciplined about mergers and acquisitions, and please keep in mind that we expect to have some quarter-to-quarter volatility and that we are managing for the long-term as always.

As you have heard before, we are very focused on capital management and believe we will generate adjusted returns on equity of approximately 15% to 16% over the same five-year time period. We are studying these targets, based on adjusted EPS and ROE as it is impossible for us to predict the effects of FAS 133 or realize gains and losses. It is important to note that we are generating these kinds of returns with significant excess capital. Over time, as that capital is redeployed, those returns could be higher, which is obviously what we would like to see.

That said, in today's uncertain environment, we are fortunate to have a capital base as well as a diverse portfolio of leading businesses with tremendous earnings power that will allow us to absorb volatility and maintain the resources to grow and take advantage of opportunities that emerge from this uncertainty. I don't wake up in the morning worried I'm going to have to dilute the shareholders by issuing additional common equity or cutting our dividend. You can also take comfort that your Board of Directors is actively engaged in our deliberations about capital and its deployment, and I'm delighted to see Morris Offit here, one of our Board of Directors, this morning.

Now, I'd like to review a few facts about our business, discuss our exposures and provide a backdrop for the presentations you will hear today. As you can see from this slide, we have a high quality and diversified revenue base both in terms of geographic spread where half of our revenues come from outside the United States and across various businesses and risks. Our businesses have tremendous earnings power, which has been demonstrated in a variety of market conditions. Very few companies have this kind of earnings potential.

I don't have to remind you about our performance over the past two and a half years, but we have generated strong results. AIG has faced several challenges in the past 30 months but in each quarter, we continued to generate strong profitability, in many cases when others did not. While the third quarter's growth was below our long-term targets, it is a reminder that our business will be subject to cycles and unusual events from time to time. However, we remain committed to delivering targeted results over a longer period of time and are confident in our strategy and management's ability to do so.

AIG's overall portfolio is highly diversified and contains high-quality assets. For the first nine months of 2007, we generated approximately $30 billion in cash flow for investment from our insurance operations. AIG has significant financial resources and a very healthy balance sheet that will allow us to capitalize on attractive opportunity. AIG is one of the five largest companies in the world, as measured by tangible equity. We operate with only modest financial leverage, and we have approximately $40 billion of cash and in short-term investments on the balance sheet as at September 30, 2007.

AIG does not rely on asset-backed commercial paper or the securitization markets responding and importantly, we have the ability to hold devalued investments to recovery. That's very important. It is still difficult to distil exposures to the U.S. residential housing market to one number given the varying nature of exposures across our various businesses in this sector. As you can see from this slide, AIGFP has very large notional amounts of exposure related to its Super Senior credit derivative portfolio. But because this business is carefully underwritten and structured with very high attachment points to the multiples of expected losses, we believe the probability that it will sustain an economic loss is close to zero.

In addition, AIGFP stopped writing new business on CDOs with subprime RMBS collateral at the end of the 2005. As a result of GAAP accounting requirements, the business will likely continue to show some volatility and reported earnings even though it will be unlikely to sustain an economic loss.

AIG has approximately $93 billion of mostly AAA and agency RMBS investments, about 10% of its total investment portfolio, which makes up the vast bulk of the exposure to the U.S. residential housing market. We have very little exposures to subordinated tranches of RMBS or CDO resecuritizations of RMBS. Our exposures to move to more recent vintages are high grade and of short duration. Due to our financial strength, we have the ability and intent to hold these securities to recovery, thereby minimizing liquidity-driven economic losses, even though further GAAP changes in valuation that affect net income in AOCI are possible.

UGC has approximately $28 billion of domestic mortgage guaranty net in-force exposure. Like several of our other insurance businesses, UGC is subject to cyclicality and will have periods when loss ratios increase significantly. That said, UGC has very conservative underwriting standards, and our best estimate is that future premiums on the existing in-force book of both first and second lien risks individually and in aggregate will exceed future loss expenses. However, it is likely that negative results will persist into 2008 due to timing issues and the continued weakness of the U.S. housing market.

AGF has just under $20 billion of real estate related receivables, about one-third of which is in '06 and '07 vintages. AGF's proven track record and disciplined underwriting and credit risk management is evident in loan-to-value ratios for those vintages of less than 80%. We view AIG's exposure as very manageable and expect the business to remain profitable. Each of these businesses will present in detail their exposures and how they are managed. And I again urge you to take advantage of this opportunity to ask as many questions as you can.

There are some important distinctions to make when looking at AIG. The basic one is that we operate as a principal and keep the vast preponderance of assets and liabilities we originate on our balance sheet. We have a rigorous due diligence process. We are very focused on structure and stress -- on how stress-testing key variables affect those structures. We rely on our own credit analysis, not the monolines, and we evaluate all underlying collateral. We have the financial wherewithal to hold to recovery.

As a result, we have very little exposure to SIVs, and we do not own any CDO squares. However, a small SIV called Nightingale, sponsored by AIGFP with $2.5 billion of total assets, was recently downgraded. We do not expect to incur any loss from Nightingale, and we are working actively with capital note holders to restructure the SIV and term out its financing. Joe will address this further in his presentation.

Now as you have heard before, we are very proud of our risk management culture and practices. The many years AIG has been a -- has had a centralized risk management function that oversees the market, credit and operational risk management units in each of our businesses as well as at the parent company. We have our arms around what is happening through AIG and believe we have demonstrated this through timely and comprehensive disclosure and accuracy in our reporting. Most importantly, the effectiveness of AIG's risk management efforts will come through in our results.

The following slides detail some important statistics that highlight the effectiveness of our risk management practices. From a risk selection and asset quality standpoint, AIG was able to better select its RMBS investments. While over 40% of all non-AAA issues were downgraded by Moody's, less than 8% of AIG's non-AAA RMBS investments were downgraded by Moody's, S&P, or Fitch. Including AAAs, we had 1.64% of our RMBS investments downgraded versus 7.8% for the Moody's rated universe overall. AGF's conservative and disciplined approach to credit shows in its delinquency and net charge-off statistics. Not only did AGF cut production back in a softening market, but they managed to keep their credit stats well within target ranges, as you can see here.

UGC's domestic first-lien booked represented 87% of its domestic mortgage risk-in-force continues to outperform the industry. While the performance gap will vary over time, UGC expects to maintain a positive delinquency variance to the industry, given that that industry's exposure to the higher-risk [bog] channel is far greater than that of UGC. As we have discussed in the past, the lot expenses UGC has incurred have come primarily from it's second-lien book where loss expenses come in faster than the first-lien book. Billy Nutt will discuss what is happening in each of UGC's portfolios during his presentation.

AIGFP's models through the 2005 vintages have proven to be very reliable and when coupled with their conservatively structured transactions provide AIG with a very high level of comfort. AIGFP's attachment points are higher than worst-case modeled scenarios. In addition, by being at the top of the structure in most instances, AIGFP controls the CDOs and ultimately, the collateral.

At the end of 2005, AIGFP saw a significant deterioration in market underwriting standards and pricing and concluded its models would no longer be reliably -- a reliable prospectively as they have been in the past. As a result, AIGFP stopped writing Super Senior credit protection for CDOs with subprime RMBS collateral.

Now at the end of the day, what is the bottom line? And, what should you take away from today's discussions? First of all that AIG has accurately identified all areas of exposure to the U.S. residential housing market, second, we are confident in our marks and the reasonableness of our valuation methods. We cannot predict the future, but we have in what we -- what we have, a high degree of certainty in what we have booked to date. Thirdly, AIG's exposure levels are manageable, given our size, financial strength and global diversification. Fourth, AIG is fortunate to have a diverse portfolio of leading businesses with tremendous earnings power.

AIG's goal over the next five years is to grow adjusted earnings per share in the 10% to 12% range and to generate adjusted return on equity of approximately 15% to 16% over this period of time. And lastly, AIG is well positioned to capitalize on current and future opportunities, and management has not been and will not be distracted from its focus on building shareholder value.

And now, I'd like to turn over the presentation to Joe and his colleagues, who will discuss AIGFP's business. And again ladies and gentlemen, I would encourage you to ask as many questions as you wish and to leave today's Investor Presentation fully educated on our exposure to the U.S. residential housing market. Thank you very much indeed. Joe, the floor is yours.

JOE CASSANO, PRESIDENT, CEO - AIG FINANCIAL PRODUCTS, AMERICAN INTERNATIONAL GROUP: Thank you very much, Martin. I also want to pass on my thanks for everybody being here today to listen to the presentations. So, I'm joined on the panel today with a number of my colleagues to the right. And to the left, Bill Dooley, who I think most of you now is the -- is my direct boss and the Head of the AIG Financial Services segment of the business.

To my right is Andy Forster. And many of you have met Andy in the May investor presentation we did for Financial Services, or you've heard him on our investor calls over the last few periods, as we've been talking through the issues surrounding the Capital Markets' subprime book. Andy has been with us for about 10 years now. He heads our global credit trading operation. He works with me in London, and I think he and his team have actually done an amazing job of navigating our portfolio through and building the portfolio such that they can survive the trying times that we're working through right now.

To Andy's right is Professor Gary Gorton from the Wharton School of Business at the University of Pennsylvania. Gary holds the Robert Morris chair at Wharton, and he -- Gary and I met 12 years ago. And when we met, it was at the very beginning stages of what I was interested in and what Gary was interested in. And that was this bifurcation of credit from the host contract.

Now, this is 12 years ago. This is at the very, very beginning stages of this whole world. But, Gary has helped us tremendously in helping us organize our procedures, organize our modeling effort, developing the intuition that Andy and I have relied on in a great deal of the modeling that we've done and the business that we've created. And, it's been a very rewarding relationship for me over the last 12 years. And I keep talking to Gary about trying to make the Wharton thing part-time, but it's not working out yet. But, he's -- it's nearly such the case.

And to Gary's right is James Bridgwater, and James is -- again, has been with us for about 10 years. James works with Andy and I in London. And he heads up our quantitative strategies and modeling group, and -- across the globe for us. And James has been instrumental in helping us develop some of the methodology and the modeling that we've used to create the accounting valuation that we will discuss later in the day and that we've -- that you've heard us discuss on the calls.

Next slide please -- one more, thanks. So today, what I'm -- what I'd like to cover today on this book of business is, we're going to go through once again the definition of Super Senior. And you've heard us talk about this before, but we derived our definition of Super Senior through our stringent fundamental credit review, supported by our conservative modeling assumptions and through the structuring of these transactions and our continuous surveillance such that we are highly confident that we will have no realized losses on these portfolios during the life of these portfolios. And I'll come back to that a bit more and also spend a bit of time just building up a bit of an understanding of how a Super Senior segment emerges from the structures that we do.

Andy and Gary will discuss the portfolio underwriting standards and the modeling support that we use and then, they will also discuss the experience to date that we've seen through the -- and how our portfolios have stacked up versus our modeling assumptions and also how they've stacked up through the transitions of the rating agency downgrades.

Each of our trades combines the strengths of this thorough due diligence we keep talking about, this very selective process, the word we use is we positively select many of our portfolios, and this rigorous modeling assumption. And we always model to a worst-case scenario that Gary will talk through, and we always model to a 99.85% confidence level. But just for good measure, we always add buffers, because everybody knows models aren't perfect. Their -- also, our fundamental underwriting may not be perfect. But, we always trade to our standards.

We also always make sure one other aspect of our trades are in place, that we have a full understanding of the motivation of our clients for the -- our transactions. And primarily, that is for regulatory capital management and not for risk transfer. And that is how we go into the modeling. That's how we go into the fundamental review, and that's how we go into the execution of these transactions.

When Andy and Gary talk about experience, what they're going to tell you is that we have an extremely low loss rate in these portfolios and that the underlying reference obligations have a relatively low downgrade migration from the rating agencies and that our attachment points are significantly high enough that it is very difficult to see how there can be any losses in these portfolios.

As Martin has said and as we will emphasize throughout the presentation, vintages within the subprime sector are key, and we do not have a lot of exposure in our portfolio to the '06 and '07 subprime issuances. And that comes about from this continuous surveillance that Martin referred to. We're very conscientious that this is not a business you put on your books and then just let them sit and just see what the outcomes are. We are very vigilant. We are always looking. We are always looking for other methods in which we could find solutions if things should turn pear-shaped in this market.

This continuous -- but, one of these -- through this continuous surveillance, one conclusion we came to and -- late in 2005 was that there was a fundamental shift in underwriting standards for the subprime business in the United States and that the new vintages of '06 and '07 were being written to a standard that was not going to be able to support our fundamental review or our modeling review. And so, the only thing we could do at the point in time was pull back from the business. And that's why, I think, we're lucky enough not to have much of the '06 and '07 vintages.

As I said, James and I will talk about the accounting valuation methodology we use. The GAAP rules demand that we post the fair value for these transactions. But -- and you've heard this before, and you read it in the press and I know it's common language now, but there is a major disconnect going on in the market between what the market is telling and what the market is doing versus the economic realities of our portfolio. And one of our goals today is to set out for you the economic reality of our portfolios so you can cut through some of the popular press, some of the hysteria, some of the misinformation, I think, that is floating around in the market.

And then finally what we've added to the presentation is portfolio statistics. And what we've tried to do here is cull through the portfolios in sufficient enough detail that you also can look through these portfolios and understand why it is that we have the confidence that we do in the underlying transactions.

Much of the information that you have in front of you has come to us as was the side of the pond through many interviews that I've been doing. Charlene has been having me from time to time talk with investors that have been interested in this segment of the business. And the investors have been asking for greater information. I think what we've supplied you should give you the wherewithal to have a full understanding of the breadth of our portfolios and should allow you to evaluate for yourselves that these are money-good assets at the end of the day.

This shouldn't be an unfamiliar slide. This slide actually sits on our website today to you. The thing I just want to highlight again is the definition of Super Senior. And the problem here and the reason why we focus on this so much is that there is no uniform definition for Super Senior risk.

The market talks about it in different ways. Everybody has a different process for evaluating it. We define Super Senior risk as the risk associated with that portion of our highly negotiated, highly structured credit derivative portfolio where under worst-case stresses and worst-case stress assumption including portfolio managers' abilities to replenish assets and the performance of those underlying assets that there will not be any loss on a transaction. And so, we hold ourselves to a pretty high standard, but we think we've been able to construct a business that meets those standards.

So what I'd like to do here, and there's a lot of information on this slide, but I just want to spend a minute and review a typical CDO structure. And what this will do is allow the conversation to flow and especially the question-and-answer period where we can all use some of the same reference terms.

In this presentation, we'll be introducing a new term to you, and that term is the transaction gross notional amount. And that is reflected on the slide, the dark blue slide on the left. Before today, the numbers that we presented were notional amounts that were derived from the Super Senior segment that we were exposed to in the transaction. So, the numbers we were giving you were our net notional exposure.

Transaction gross notional, as represented by that tower on the left side of the slide, is the total aggregate portfolio that will be tranched in any CDO that might be being done. Within that, the capital -- within that, the level of the Capital Markets lower tranches will emerge, and there will be a distribution to investors under that segment that will allow them to take risk that they feel comfortable with. The transaction gross notional is comprised generally of a diversified pool of issued securities and in and of themselves comprised of -- and backed by pools of homogenous assets, i.e. the mortgages, loans or asset-backed receivables.

It's important when -- to understand that when we do our underwriting and we do our reviews of the portfolio, it is at this inception point, at the beginning of the transaction, at the transaction gross notional, that we're doing our review. And we do our reviews with our potential counterparts to the Super Senior transaction. So, we're forming these trades at that point in time when the trades are in their early stages and they're being developed.

The tower at the right represents how the risk of the underlying reference obligation in the tower on the left is going to be segmented for the risk appetite and return profile to fit the demands of a variety of Capital Markets investors.

As you see, the pool is segmented such to allow investors of various risk return targets to receive risk that fits their investment tolerances. These segments, the bit in dark blue on the right-hand tower -- sorry, I wasn't -- these segments in the -- in dark blue in the right-hand tower represent risk.

And you can look at that risk as analogist to the ratings that we put into the buckets there, and they get segmented into these tranches of equity, BB, BBB, A and AAA and then distributed to those folks who have that kind of an investment tolerance.

The reason I want to spend a bit of time on this, this is where the real business of risk transfer takes place in these transactions. The real risk transfer is being distributed into the capital markets, obviously in the equity and the lower-rated tranches and then in degrading fashion as you move up the capital chain. Where we come into play is where the yellow arrow, the last dollar of AAA, meets the first dollar of Super Senior, and that's the light blue segment.

So, when you want to think about the remoteness of this risk, I think one thing to think about, and I know the rating agencies, everybody says, "Well, can you really trust them anymore?" Or, "What's the issues?" Look, they do a good job. They are reassessing some of the things they've done. They do do a good job of ordering risk and giving risk levels the proper ordering. They may not be perfect about determining default, but in order for us to lose any money in these transactions, the first and the last dollar of the AAA needs to be absorbed.

So, our Super Senior risk reflects large notionals but poses remote risk. The Super Senior risk is the last tranche to suffer losses, which are allocated sequentially within the capital structure. And the structure would have to take losses that erode all of the tranches below the Super Senior segment before we will be at risk for $1.00 of loss.

So, think about it. Losses are allocated sequentially. Realized losses are -- would be allocated to equity first. Equity needs to be completely absorbed, and then they would move into the BBB. And then so -- so forth up the capital ladder until they would potentially get something that was as high-grade as AAA. Our wrapped segment would only come into play if the very last dollar of the AAA tower proceeds are absorbed, and that absorption needs to be loss net of recovery. So, there's an awful lot of protection built into these transactions prior to any chance of our transactions being hit.

So when you look at this, you've got to -- in terms of any segmentation of risk, we are the most remiss -- remote segment within the tranche structure, and the losses are deemed by this structuring to be more remote than the first and last dollar of AAA rated -- of a AAA graded bond.

Now, this isn't -- this is just some summary statistics that we've put together on our portfolio. As I said earlier, we believe we have given you an enormous amount of data in our book here that will allow you to drill down into our portfolios and be -- have you able to see inside and see what all the reference obligations are. And we can walk through that a bit later on during the presentation.

But, here is also where the new term shows up, gross notional. The gross notional is important because it will help you yourself do certain calculations that we know that interested investors have been trying to do. Interested investors have been looking at our net notionals. They've been looking at some of the numbers that we've put up, and they've been trying to do calculations that will tell you what different classifications or what different assets we have. In order to really complete that, you need to use the gross notional.

The other point I want to make on this slide, or the other few points, is that our net notional exposure is that number that we have been reporting. It is slightly different than what we reported to you at the end -- for the third quarter. And that's due to the normal evolution of maturities of the portfolio. So in the aggregate, it's about $7.5 billion smaller than the number that we showed you at the end of September.

Another number that's interesting is the weighted average subordination. So, if you reflect back on the slide where I showed you the dark blue boxes and the tranching that went on in the dark blue boxes and the subordination, that is what we are representing to you here. So in our corporate portfolio, the weighted average subordination is 20% of the gross notional. In the European mortgage book, it's 13%. In the multi-sector CD book -- CDO book, it's 32% and then in the multi-sector CDO book without subprime exposure, it's 14%.

Another point I want to raise the average number of obligors within our transactions. So as you can see in the corporate book, there's 1,158 obligors on average per transaction. In the European mortgage book, it's made up of mortgages and individual mortgages. So, there's 83,000 obligors within that portfolio.

Within the multi-sector portfolios, as you'll see from the subprime, it's 192. And within those 192, there are many underlying reference obligations. And so, there's great diversity within these portfolios, and diversity is very, very important to the long life of these portfolios.

Also important is the average lives, or the expected maturities. As you can see, the corporate and the European mortgages portfolios are extremely short, 2.2 to 2.4 years. This is driven from something we've talked about before where almost entirely this whole group of trades were done for regulatory capital reasons.

And as the new [Ball Accord] moves in to effect beginning in January of '08 and works its way through through the next three years, these portfolios will be culled away from us by their banks that we have done them with. But also, the multi-sector CDO book has a relatively short average life, as represented by the 4.2 and the 4.4 years.

So now, I'm going to turn the presentation over to Gary and to Andy. And Gary and Andy are going to walk you through two bits of the portfolios that I really would like everybody to come to grips with, because this is -- if you ask me how I manage the business, what do I think about, it's the fundamental underwriting that is the first line of defense, the first line of protection, the first thing that gets you comfortable in this business.

And Andy and Gary will speak to that. They will then speak to our modeling and how our modeling has worked and then, they will go through their -- our expectations and how our expectations have matched up to the realities of what's going on today. And then what we've done is, we've put into the slides and we've spent some time on something that we think of as frequently asked questions. And this really derives from many questions that we've gotten from investors over the period. Andy?

ANDREW FORSTER, EVP - ASSET TRADING & CREDIT PRODUCTS, AMERICAN INTERNATIONAL GROUP: Thank you, Joe. So as you can see from the slide, while all of our transactions are very highly negotiated and bespoke, the general approach that Joe's outlined is the same across all of the different trades that we've done. And within that, we are combining fundamental and rigorous credit selection. And then, we add in the conservative modeling to go with it.

And I just want to give you a quick overview in this slide just exactly what that means in reality. As Joe had mentioned before, no matter what sector we're transacting in, the first thing that we do is always to look at the motivations of the parties that we're talking to. That may sound odd, but if you think again going back to what Martin and Joe said, the majority of our trades are regulatory capsule motivated rather than for economic risk transfer purposes.

So, the European banks that we're transacting with who make up about 90% of the counter-parties across the corporate and residential mortgage space are looking to reduce the amount of capital they hold against their corporate loan and residential mortgage books. And buying the Super Senior protection from us, they're able to reduce their capital charges down from 8% to just 1.6%. This motivation is clearly important in helping to partly explain the quality of the transactions and the minimal loss rates that we're going to outline in terms of what we've experienced.

It is also important to understand that the originating banks created these portfolios and created the underlying obligors with a view that they were always going to hold them, so this is not a -- creating something so they can package it up and then on-sell it. Even when they do the Super Senior transaction, in almost every case, they are holding a very, very significant first-loss piece in all of the trades.

Even with that in place, we spend a huge amount of time investigating our counter-parties to ensure that our objectives are aligned with them, they have all the required experiences and abilities required and so, we're making sure that any originator or manager is very carefully vested to ensure that we're only aligning ourselves with what we think are suitable and the best partners.

On each transaction we do, we then review all of the underlying assets whatever they are, and we set tight and very specific guidelines over any changes or management that's being proposed. All of this is with the basic aim of trying to ensure that we have very diversified portfolios across asset classes and that we exclude, as much as possible, all of the weaker sectors or assets that we can identify.

And then finally before we get anywhere close to any modeling, we want to ensure that the structure we're creating is optimal for us. So, we positively selected the assets. Now, we want to positively select the transaction structure so that we further mitigate the risk to our own position.

It is only after all of this fundamental credit work that we've done in every single case that we then move on and start looking at the modeling, which Gary is going to talk about. We do not take pools of data, loans, residential mortgages and put them through our model. We only do that after we've positively selected them and given it a fundamental and rigorous credit analysis to start with.

Now, of course in everything that we do, we do want to make sure whilst we have a generic approach making sure that we combine the analysis with the modeling, we do carry out very specific due diligence in modeling, depending on the sector and the transaction that we're looking at. In the corporate space, we work hard across all of the many groups of AIG Financial Products to review all of the credits in the portfolios as much as possible.

We look to assign our own ratings wherever possible and in every case, these ratings are going to be either equal to or, in most cases, actually lower than what the rating agencies have given us. We also look to things like current market spreads to the extent that they're available for each of the names that are in the portfolios to make sure that we're always incorporating as much information that the market's been able to give us.

For the small and medium-term enterprise loans that we do to the hugely granular corporate loans that are done in Europe, we spend a lot of time reviewing and examining all of the originating banks' lending processes. We go in great detail through all of their internal scorings, the ratings that they come up with, the rankings that they come up with of all of their clients and then review the final results that they have.

Obviously to do this, we're spending significant amounts of time with all of the banks, with all of the relevant people in the groups associated with appraising, lending, foreclosure, everything you can think of within those banks to make sure that we're very happy with the way that they conduct their business, the way they rate their clients, they manage their relationships and also most importantly, how they rectify any problems they have so that they delinquencies and losses.

We spend a lot of time going over the delinquency data that they give us. We want to see all their loss and delinquency data as far back as they can go and if they can't provide, going back any meaningful length of time. And there are transactions that we do not go ahead with.

The internal ratings, if we're using those from the different banks, are also reviewed in every case and stressed by the rating agencies. So before any transaction, we spend a lot of time with the rating agency going through what processes they went through to rank and review and the rating processes. Even after we've done that and we've positively selected our clients, we've positively selected the assets and we've looked at their rating processes, we still heavily stress everything that we get out of it.

So, we heavily stress the internal ratings they give us, and we also look at any of the concentrations that the bank as a whole has in any of their lending practices, whether it's concentrations in terms of geography in their mortgage business or sectors in their corporate loan business. We want to understand why they have those. Can they justify those? And then, we work to reduce the amount of our portfolios to make sure that we have very positively selected, diversified pools that we can then model.

In the residential mortgage space, in the -- you've seen this. We're really only doing European trades, and all of these are very heavily motivated by the desire to reduce the amount of regulatory capsule held. And that is something that we confirm up-front with all of the counter-parties that we're dealing with.

Here too of course, we're going -- we spend a lot of time with the originators in the different banks. We want to know and understand all of the motivations that they have in their lending process. We want to know all the detail they're going through. We want to know their philosophy. We want to know who their target audience are. And finally, we want to know what their experiences have been, again going back as far as possible. So, we want all of the data that they have in terms of delinquencies and losses.

Again, we spend time physically with them, meeting all of their senior management, from the senior management to the foreclosure people to the loan people to the -- everyone else that we can think of that we think is going to add some meaningful information to help us create and correct portfolios. It is only then that we work hard to try and select from that overall pool a more positively selected pool, pushing out anything that we think is overly concentrated or is weaker so that we can create a stronger pool from their normal book of business.

Finally with regards to the multi-sector CDO transactions, it's exactly the same process but again, making sure that we're specific to the exact transaction. So, we're still selecting and investigating the manager. We're questioning their abilities and resources to manage both the assets and also the CDO, which is very important.

We then analyze, or we as them to -- they've analyzed all of the collateral that they have. We ask them how they went about that. We ask them how they stressed it, how they reviewed it, how they're going to do ongoing surveillance of it. But then what we also do is do our own analysis in exactly the same processes. And then, we compare and contrast the two to see if we're coming up with similar results and similar likes and dislikes of the underlying collateral.

Again, all of this is with the aim of trying to create positively selected portfolios with very high levels of diversity, as Joe was outlining. We set limits on all of the assets that we have. We exclude any asset that we don't think the manager has any strong capabilities in, and we set limits on the sectors that they're allowed to be in, both by average lives, by ratings, by overall sector.

And then finally once we've reviewed all of the assets, we work on the actual structure of the CDO itself to make sure that if there is any reinvestment that we have very tight limits on anything that they want to do and that we have triggers in all of our deals to make sure that, if the deal starts to underperform that the portfolio very quickly becomes states, and we get paid out even quicker.

We always sit at the top of the capital structure, as Joe was outlining through the diagrams. And in addition to sitting there, we always want to make sure that all of the CDO transactions we have features in them such as cash flow diversions, early amortization triggers, to further enhance our position and reduce our weighted average life still further if it's needed.

That goes through, very briefly, the fundamental credit analysis that we go through. And again to stress, we only look at a model once we've gone through all of those processes. But having done that, I'm going to hand over to Gary, who can explain a little bit about the modeling process that goes on.

GARY GORTON, PROFESSOR, WHARTON SCHOOL OF BUSINESS, UNIVERSITY OF PENNSYLVANIA: Good morning. If a candidate transaction survives the due diligence and the fundamental analysis that Andrew's been describing, it comes to the modeling. As an overview, the purpose of a model is going to be to find that big yellow arrow that was in the diagram that Joe was showing you earlier of a CDO. We have to draw a line between where we think the Super Senior attachment point should be without relying upon the rating agencies.

So if you remember that picture, there was a AAA tranche, which was just junior to us. We don't care where the rating agencies say AAA ends, we're going to find an attachment point consistent with our view of where the risk should start.

To do that, we've deliver -- we've developed a broad -- wide number of models for this purpose over the last decade. These models are for different asset classes in different parts of the world. So for example, we have specific models for Dutch residential mortgages. We have specific models for small and medium-term enterprises in Germany. And these models are highly data intensive and over the past decade, we've collected a large amount of data, largely from counter-party banks but also from publicly available sources, central banks, the OECD and so on.

These models are guided by a few very basic principals, which are designed to make them very robust and to introduce as little model risk as possible. First of all, we always build our own models. Nothing in our business is based on buying a model or using a publicly available model. No transaction is approved by Joe if it's not based on a model that we built. We only use third-party models for robustness checks and to -- for comparison purposes.

The models are all extremely simple. They're highly data intensive, and they're actuarial. They're not pricing models. They're prices -- they're models, which are intended to find losses, to be able to simulate losses.

When we do that, we simulate each individual obligation in the portfolio. Remember the slide earlier, in a mortgage portfolio in Europe, the average number of mortgages is 80,000. We're going to simulate each one of those mortgages, and we're going to take into account the individual characteristics of that mortgage. Is the person self-employed? Is the home in the former East Germany? What is the LTV? And so on.

These models are then going to produce a loss distribution. When we build a model, we're going to calibrate the model so that the mean of the loss distribution is worse than the worst post-war recession in that country, the mean of the distribution. What we're going to be interested in is the tail of that distribution, the far-right tail, so we're going to be looking at events, which we think are very, very extreme, as we'll show you in a little while.

For residential mortgages, as I mentioned, these are mostly European bank portfolios. They require data from the counter-party to supplement the data we have for mortgage experience in that country. That requires a due diligence trip to the bank to understand their data. The due diligence trip, with respect to data, is part of the overall due diligence trip to understand the bank's underwriting standards and credit procedures.

A transaction can fail, even though it's gotten to the modeling point, if the data provided by the counter-party bank is insufficient, it's too many -- too few observations, or we can't understand really how they measured these observations.

We use macroeconomic data to calibrate to the worst case for many European countries. As I mentioned, the mortgage models simulate on a loan-by-loan basis. It's also notable that prepayment is something that's beneficial to our transactions. In other words, if somebody pays off their mortgage early, that amortizes the gross notional that Joe spoke about. And it's sequential amortization, so our piece declines first. In --.

MARTIN SULLIVAN: (inaudible)

GARY GORTON: Okay.

MARTIN SULLIVAN: Ladies and gentlemen, sorry to interrupt for a second. As you can appreciate, we've had a little technical hitch on the webcast. So, you see people around with little handheld devices. We're trying to pick up the webcast. So, just bear with us. Sorry -- Gary, sorry about that.

GARY GORTON: Let me speak now about the models that are relevant for corporate portfolios and multi-sector CDOs. These models are based on simulating rating transitions. The rating -- the ratings that are relevant are those assigned by AIGFP credit officers, if possible, but they may be based on a mapping of a bank's internal rating system.

Again, that requires a due diligence trip to the bank and some intensive work to understand whether we find the bank's internal rating system credible. Again, as I'll explain, these transactions are going to be based on our worst-case scenario for that model. And then, as with all our transactions, the transaction is assumed to live its entire life during this worst case.

The portfolios that are actually modeled for multi-sector CDOs, since these are in large part managed portfolios, are the portfolios that the manager could select that would be the worst following the criteria. So, we construct the worst-case portfolio and take that as our base, even though they may have some of the portfolio ramped up, in which case we, as an additional scenario, look at that.

Now a word about using agency ratings, agencies have long histories of ratings. So from that point of view, it's a bit like mortality tables. And our view of the agencies is that, on average, they can tell you whether a AAA -- what a AAA is relative to a BBB. That is, they can tell you that a 50-year old white male who smokes is more likely to die than a 50-year old white male who doesn't smoke.

What we don't accept from the rating agencies is the likelihood that the people are going to die. So, we're going to calibrate those likelihoods, even though we're going to take their relative ranking, based on their large amounts of historical data.

So, our models that are based on ratings only take their relative ranking and then what we do is, we calibrate the models again so that we're just worse than the worst U.S., or whatever country we're in, post World War II recession as the mean. And then, our tranching is going to be based on looking at the tail of that distribution.

So, a quick sense of the outcome of the process Andrew and I have been describing, this slide shows you the current book divided up into corporate loans and European mortgages. It shows you those two large segments. The columns I want to draw your attention to are the column entitled Total Losses in Reference Pool to Date. You see that for corporate loans, it's seven basis points. For European mortgage, it's three basis points.

The weighted average attachment point is the term that Joe introduced earlier, which was the percentage amount of the dark blue portion of that tower that Joe pointed out. So, that's the percent of the notional that is junior to our attachment point. How does that compare to the losses?

Well, you get a sense of what we mean when we say remote risk by looking at that last column. The number 297 means that the losses would have to be 297 times greater to get to where we attach. And for European mortgages, they would have to be 440 times greater before we would be at risk. And we'll come back and more specifically talk about the modeling and subprime in a few minutes.

JOE CASSANO: Okay. Thanks, Gary.

ANDREW FORSTER: Okay. I'd like now if we can to move on a little bit and talk more on and focus more on the -- what is the current topic, the topical sector of CDOs and within those in particular, those that we have that have subprime collateral within them.

And what we're going to hopefully demonstrate to you is that the fundamental approach that we take translates into fundamentally better transactions in reality. And I want -- we want to show how they too are as robust and risk remote as what Gary was talking about in terms of the corporate and the European mortgage sector. So, why are they different?

Well again, it comes through two sources, a mixture of our underwriting and also a mixture of the collateral that we've chosen to put into those trades.

As with all of the trades that we've mentioned, there is no change from our overall approach. We're positively selecting both the managers that we have and the assets that are going in there. But it's also, as we've outlined, very important to understand how we're attaching significantly above where regular AAA debt holders would be.

If you split up CDO transactions, as many of you have done into those that mezzanine collateral and those that have high-grade collateral, we're -- on our mezzanine deals, it's over a third of our subordination is AAA rated. And in the high-grade deals, it's 43% of our subordination that is currently AAA rated.

The attachment points that we talked about and that Gary's going to go and talk a bit more about and particularly for the CDOs, the attachment points that we calculate by our model after our fundamental analysis are minimums. They are nothing more than a minimum attachment point that we can start the negotiation with.

We may have, on occasion, compromised our pricing objectives to win a transaction. We have never compromised our underwriting standards to win a transaction. The model that we use is what we live and die by in terms of creating the attachment point that we have. We always and always do attach higher up the capital structure than that.

We also always assume the worst is going to happen to us. So even after we've positively selected our managers, positively selected our structure, positively selected the assets that are going into it, we still assume that everyone's out to get us. So, we -- when we're modeling things, we assume that they will create the worst possible portfolio that they can that the legal documents allow them to. So even though we don't expect them to do that, even though the managers don't expect them to do that. The way we run our business is to assume that they will do that, and they will do that as soon as it's humanly possible.

We also apply through all of this, is the significant haircuts, both to the ratings that we're using through our modeling and also through the recovery rates that we use, which are significantly below those used by the rating agencies.

The other big difference through all of our transactions is the collateral that's going into it. And again we touched on this a little already. The period due diligence process that we've outlined -- hang on one second, we've got some --.

UNIDENTIFIED COMPANY REPRESENTATIVE: Excuse me, could one of the technicians come up? We're getting feedback on the webcast. We're getting feedback on the webcast here?

UNIDENTIFIED COMPANY REPRESENTATIVE: Sounds like you're getting a call?

ANDREW FORSTER: So again just focusing on the collateral for a second, clearly we do have subprime exposure in the transactions we've outlined there, but we did stop committing to new transactions at the end of December of '05 that included this subprime collateral. And this was through the ongoing due diligence that we've talked about. It was through our stressing of the underlying assets that we were seeing but also through the many meetings that we held with everyone related to the market, from the managers, the originators, the servicers, the repackagers, we met all of them. And we came back from our trips thinking things are changing and they are clearly not changing for the better.

So as a result, we stopped accepting the collateral and pulled out of the business. This has meant, as Martin outlined, that we have very little exposure to the troubled vintage of '06 and '07. We do have some because we have transactions that allow for reinvestment. And so currently we have 5.3% of the total collateral in our underlying transactions is from the years 2006 and 2007. But as you will see, if you look at the data appendices and we'll touch on a bit later as well, often a lot of this collateral is very recent when transactions actually are structured much better again, or it's when managers have gone further up the capital structure and have picked higher quality collateral to put in there.

One of the questions we have had is, where you have managed transactions isn't this number going to grow? We don't think it's going to grow materially. We have picked good managers. We didn't due the due diligence for nothing. We have picked guys that know what they're doing, they are not idiots. They have seen what is going on and the problems that are out there are obviously very apparent, they are not about to run blindly into buying and investing in more '06 and '07 vintage collateral.

However, because we assume the worst, we have structured all of our transactions with triggers that, if they do start to buy into these troubled vintages and the portfolio starts to deteriorate, all of the transactions we have triggers that will stop them from doing anything else.

The earlier collateral that we have, why is that important to us? Clearly the collateral from 2005 and earlier has had a significant amount of house price and other price appreciation within that. Again if you look at the data appendix, we've spelled out what the house price appreciation is for our subprime, which is on average greater than 20% currently. The underwriting you will see I think comes out in Gary's next slide where we talk about how the rating agencies have looked at our collateral and looked at the overall collateral. And you can see again that our collateral has performed much better.

But also, again looking at the appendix, you'll see for the instance that the second lien amounts that we have through all of our collateral is a very small amount, showing the better underwriting standards we think. So the second lien in our subprime collateral makes up just 2%. The loss rates that we have on all of our subprime collateral are only a little more than 1% currently and the average FICO scores that we have are significantly north of 620.

The structures that we've created are also important in differentiating our transactions from other people's. Over 60% of all of our transactions are already starting to amortize. We're already getting paid down every month, we're already reducing our exposures. But as I mentioned, we put in deal triggers in every transaction to ensure that if the deals start to under perform, collateral starts to deteriorate that we further ensure that cash flows in the transaction are diverted to us, reducing our risk position quicker and faster.

We also spend a lot of time with the managers and on our own reviewing all of the underlying collateral. We go through that and, in the same way that we stress tested it before it went in, we continue to do that stress testing on an ongoing basis. We also ensure that the covenants and different triggers that we put into deals are being adhered to.

There is no point creating the great structures and then finding that it's not being adhered to. So we go through and spend a lot of time with the legal guys within our own groups to make sure that all of the covenants are being followed and that, if any cash flow should be diverted to us, then they are being diverted to us. And with that I'm going to hand back to Gary who can perhaps better demonstrate the performance that we've had and the differences again between '05 collateral versus '06 and '07.

GARY GORTON: So the next slide is aimed at addressing those questions, how have we performed relative to the overall subprime market, how have the models performed compared to the overall experience. On this slide you'll see six columns of numbers, three for the 2005 vintage and three columns for the 2006 vintage. So a number in this column is the percentage of a bond with a given rating on the left column that have been downgraded.

So just to understand the table, if you look at the percent of Moody's BA rated bonds that were bonds issued during 2005 linked to subprime portfolios, what percentage of those bonds have been down graded, the answer is 18.9% of them have been downgraded. Just to understand the numbers, what would our model have predicted?

So we can go to our models and we can say, imagine we have 100 bonds that were issued during 2005 and they were linked to subprime mortgages in the U.S. What would the model have predicted in terms of numbers of those bonds that would have been downgraded? The answer is, well over a two-year period 40% of them we predict would have been downgraded and over a three-year period 47 of the 100. So there's a range there of, depending on when these bonds start, whether it was January 1 or the end of December 2005.

So if you look at the 2005 vintage, you have three columns to compare. There's the percent of all bonds rated by Moody's that were subprime in 2005, there's our model predictions and there's the actual experience of our book. So again, looking at the last column, Moody's has downgraded 18.9% of all bonds that started their life BA, our model would predict 40% to 50% almost would have been downgraded and our experience has been 16.3%.

So a couple things to note here just about 2005. First of all, the positive selection of portfolios that Andrew was talking about in the due diligence trips you can see in the numbers, comparing the first column to the third column. Secondly, notice that the experience and the behavior of Moody's are both well within the tolerances that we're talking about in terms of our model. Our model predicts much, much worse outcomes. We underwrote to the standard of the middle column.

Now as my colleagues have emphasized, we stopped writing this business in late 2005 based on fundamental analysis and based on concerns that the model was not going to be able to handle declining underwriting standards. And if you look at the 2006 vintage, you can see that that decision basically was correct. If you look at Moody's downgrades, 93.7% of BA bonds started their life as BA bonds, have been downgraded. That's outside the band that our model would have predicted. So it's consistent with experience.

Now on the 2006 vintage the way the model works is, as time goes on, there will be more and more downgrades in the model. So we model to the life of the transaction. What I've shown you here is a snapshot just experienced to date. So the 2006 vintage, the model tolerance is there, depending on the horizon, 32% to 40%. If we go out to ten years, those are going to be very, very big numbers.

So we know that our model's going to get worse, what's not clear to us is whether the agencies are going to get worse. I mean seems that they, as you know, have done something that is very, very atypical for them, they've jumped. They've had a jump in their ratings for lots, they've jumped a lot of categories in many cases for 2006 and 2007 and they've downgraded lots of bonds and time will tell whether there's anything else for them to do. It could be that by the time we get to the end the model has caught up so to speak.

S&P tells broadly a similar story from our point of view. The only point to make here is that, again, the agencies have a somewhat different view with respect to certain categories. S&P shows a clear distinction between 2005 and 2006 vintages but, for example, their BBB downgrade percentage is 27.9% for the 2005 vintage, whereas Moody's on the last slide was only 5.1%. They're also harsher on 2006, their BBB is 82.8% for Moody's versus 50.1%, so S&P is harsher.

Now the distinctions that we have been making between 2005 and 2006 and the distinctions that are apparent in the rating agency behavior between 2005 and 2006 are real distinctions. Here are the fundamentals of what's going on. These are the actual delinquency rates from the bonds and so this is what is being reflected in the ratings and the models.

So this picture lines everybody up and says, along the X axis at the bottom it says, how long have you been in existence. And then the Y axis, the vertical axis, is the percent in delinquency. So for holding age of the transaction constant, you can look up and go across and rank them by how bad they are as measured by delinquencies. Delinquencies are leading indicators of default.

Now the 2005 vintage, we're well within model tolerances, that's the red line. What's interesting to note is the green line above it. The green line above the red line is the year 2001, which was the last recession in the U.S. So you can see that that's not close to, that's above the red line and our model tolerances are worse than the worst post-World War II recession. So it's consistent with the model, the red line is not as bad as the last recession and the last recession isn't as bad as the worse World War II recession.

But the other thing to notice is the black line above the green line. That is the 2006 subprime vintage. You can see that that is significantly above the green line, which was the last recession in the United States. So the distinction that we're making and that other people have made is not artificial, it's a real distinction in these bonds. It's in fact the case that the 2006 vintage is worse.

ANDREW FORSTER: Okay, so for this slide I've stolen some more data out of the appendices that you have, just to clarify exactly what exposure we have to '06 and '07. And again we've split it up between the transactions with Mezzanine collateral, predominantly BBB, and transactions with high-grade collateral, predominantly AA. And as you can see from here, the high-grade transactions have 4.3% of their total collateral, the subprime collateral being from '06 and '07, of which 65% of which is still AA or AAA rated. And in the Mezzanine transactions we have 7% of the total subprime collateral being from '06 and '07. But again there are transactions where we have on average 37% subordination. So it's 7% against the 37%.

The final slide for me which I'm going on to before I hand back to Joe is to talk about some of the frequently asked questions that we've received. Now sadly we couldn't incorporate all of the questions that we've had because you have been quite prolific, but we tried to pick the questions that we've had which we think are representative of what you've asked and representative of where you have concerns of the portfolio.

So clearly question number one is, what happens to you then if we write off '06 and '07? And again the approach has always been write it all off regardless of the rating, even though we've shown you that actually the ratings that we have, a lot of its AA and AAA. And this is sort of slightly bizarre in my opinion, but the new market approach where we say well we just write everything off with zero recovery, regardless of the rating.

So if you do that, so you're writing off all of '06 and '07 subprime, AAA downwards, no recovery, what happens to your portfolio? And as you can see from these, the high-grade transactions would show a loss of $314 million spread across three transactions, and the remaining transactions would have an average subordination of just under 13% still. The Mezzanine transactions would actually show a loss of just $7 million from one deal and the remaining transactions would have average subordination left of 31.5%.

So the questions go on. So what happens if 2005 wasn't so perfect as well and that the losses get worse than people expect and losses start to creep up the ratings stack. So how about we throw in all BBBs and lower from the second half of 2005 and we write all that off, again with zero recovery. But of course we still want to include all of '06, all of '07 and write that off regardless of rating and regardless of recovery.

If you do that what happens to your book? Well, the high-grade transactions show no further loss, the remaining average subordination does dip a little, but still at 12.4%. The Mezzanine transactions, the cumulative loss increases now to $59 million, spread across three transactions and the average subordination left is 26.4%.

And then for the truly morbid amongst you, they say well what about you've got CDOs in your transaction, so what about the CDO exposures? So we don't like CDOs from A downwards so let's take all of the CDOs that you have that are A rated and below and we give no cares for vintage and we give no cares for what the underlying collateral, which again, as you'll see in the appendix, is a very harsh assumption given that the CDOs in our deals are of an earlier vintage and the collateral is not always subprime collateral. But let's say we write all of those off, so A and below, regardless of vintage, no recovery. We add that to the second half of 2005 subprime, all BBB and below, and we add that to all of '06 and all of '07 regardless of rating and regardless of recovery. What happens then to your book?

And as you can see, the high-grade transactions now have a cumulative loss of $412 million spread across six deals now and the average subordination still stands north of 10% on the remaining transactions. The Mezzanine transactions show a cumulative loss of $169 million, four deals, the remaining deals have an average subordination of north of 20% still. So we could go on if time would permit, but I think these are what we think are representative of the questions you've asked and they're representative and demonstrate the quality book that we have, how well structured transactions that we have and the superior collateral that we have within all of our transactions. And with that I'm going to hand back to Joe to talk about the valuation processes.

JOE CASSANO: Great thank you, Andy. And as you can tell by Andy's presentation of the slide five, this is not anywhere near anything we think is going to happen. This is just, as Andy put it, there are some morbid questions we get about what happens if the world rolls off its axis and the world goes to hell in a hand basket. But with the data that you now have in front of you, you can play this power game. You can go through and you can figure out what you think our losses might be or what you see from information in the market and you can go through this. But it does come back to us as saying that we believe this is a money good book and money good assets.

Now before James goes through the accounting methodology, I just want to spend a few minutes and talk about a bit of the issues that are involved for us in doing all this. And again, I know this is quite topical. The accounting rules demand that we assess a fair value to the series of transactions. For me, when I look at these transactions, I actually think of these transactions as being more akin to an insurance contract. They have many more attributes than similarities to insurance than they do to market driven derivative contracts.

You know when you look at it there's no liquidity. The transactions that we do are very one sided, we provide protection to a Super Senior segment. There's no two-way market in these transactions, they're too customized, they're constructed as the team has demonstrated from the ground up and it is really difficult, if not impossible to get another side to this transaction. You're only called upon in certain fortuitous events, a default of some kind, a series of defaults, where they could eat into the underlying contract.

And so again like an insurance contract, it's really a fortuitous event that calls your performance into action. We do write them, though, on these is the based contracts and the accounting profession has decided that these are derivative contracts and that they should have an accounting valuation. So we follow the rules. But there are many challenges to obtaining market pricing or comparables, due to the highly customized nature of these transactions.

There's no defined market standards. We started the presentation by saying there's no standards of the Super Senior concept. Many of the questions we have are always about why did the other guy call this trade a Super Senior trade? I don't know and I can't answer that. And so it's difficult then to find trading comparisons because of the variety of attachment points, the underwriting standards and the procedures that we use and implement to create our Super Senior transaction.

So in order to build a fair value assessment we need to look at the underlying components of these obligations and we need to attempt to impute pricing for each reference obligation. But since our contract is a deep out of the money synthetic default option, that's the nature of these, there's no cash involved in these transactions, we must also take into account the difference between the cash price for the underlying reference obligation and the pricing of the synthetic credit derivative.

So seeking price discovery for the reference obligations is, at the current time, due to the complete illiquidity in the market, is nearly impossible. There is at times no a longer, at all, a readily available market and this is further complicated by the fact that many of the underlying reference obligations have non-standard features which must be accounted for when developing either an analogous or a comparative price from some other instrument.

Take for example our multi-sector book. 20,000 separate obligations exists within our multi-sector CDO book. Many of these obligations did not trade even in the best of market conditions. And if they did trade, it was infrequently and it was by appointment and whether you want to call that trading or somebody was buying or selling at different times, but there was not really a discernible market then. And so you can imagine the difficulties now.

So how do we handle it and how do we handle this lack of market information? Well we have a scale of procedures we go through. Where we can we try and use direct market information. We may get it from Andy and his team in trading some of our cash book and we'll be able to see what goes on. It maybe come in from other aspects of the AIG family of companies where Richard and Win and their team are trading and selling certain of the bonds that they have and we can use that as price discovery. It comes from our third-party counterparts where we investigate where they think pricing is.

We then try and draw on analogous information that's out there and try and draw similar attributes to some of the instruments that we have. We then get all this information and generally it's information we're accumulating from a variety of third-party agents, all bonafide people in the market, but it never fills out the entire spectrum for us. And so we then need to use our management judgment, and there is a good part of management judgment that we use to interpret the data and be able to create an overall matrix for which we can price up all of these underlying obligations. So it's quite, in many ways, a daunting task because of all the underlying instruments that exist here.

Now why do we use a model? And James will speak at greater length and more clearly on this than I will, but the bottom line is we use a model because of all the variables involved in determining how the pricing should work, how the defaults should work, how do you impute a loss given probability of default against the thousands and thousands of reference obligations we have. So we attempt to do this but it ends up with for us is a real disconnect, as I said earlier, between the economics and the reality of these transactions and what the accounting valuation is. And I'm just going to spend one minute and give you a piece of anecdotal information from the market last Friday.

So last Friday was month end for November and it was an interesting week. We all heard that Vice Chairman Kohn came out in the middle part of the week and gave a public speech in which it was interpreted that he was beginning to think that we needed to have a Fed cut. Then on Thursday night Chairman Bernanke gave a speech in Charlotte where he could be interpreted that he was thinking that maybe there's too much roiling in the markets and that maybe there needs to be a Fed cut.

And when we came into work on Friday morning in London, the press reports all had stories about Secretary Paulson and Congress working towards this new plan of theirs in order to freeze some of the rollovers and be able to help people survive the sticker shock of some of the subprime mortgages. So this all had an amazing affect on an instrument that many of you have asked me in your conversations why we don't price against the ABX. But I'm going to use this ABX and what went on in the price periods on Friday as an example of why it is difficult to see into this market and the realities of what the market is telling us right now.

Why don't we use the ABX? I think the short answer is the ABX is not at all in any way representative of our portfolio. And I think many of you now know the story of the ABX, it consists of 20 bonds, its cohort is somewhat limited and it's been selected in a certain fashion. It doesn't have the granularity or the diversity of what our portfolios are but we don't ignore it. It's information in the market, it's information about changes that go on in the market, it's information about changes in value and it informs some of the management information that we need to use when creating our valuations for accounting purposes.

Now let me go back to the Friday story. So now there are these three stories sitting out there and on Friday morning the 2006-1, which would be the mortgage pools looking back at the last half of 2005 and the A rated category. So on Friday morning, from the previous close to that morning it gaps up 13 points. That's a 22% gap in pricing. So you look and say well maybe that's good news. Then a couple of trades go through. The aggregation of these two trades -- of these few trades is not greater than $100 million and within a couple of hours of this press taking gap up of 22%, the ABX 2006-1A comes back flying down 10% and closes the day only up 1%.

The amazing thing about this is it was the most volatile day, according to different firms we talked to, of the ABX and no trades practically went through. And you look at it and you say well how can you get any transparency from this market information? And this is what people talk to us about as the most liquid instrument. So no trading, huge volatility, tremendous unease. And I think this is very, very illustrative of either a frothy market, I actually guess it's not frothy because it's the bottom part of a market, the marmite section of the market.

And it gives you a window to the challenges that we're facing when trying to give these valuations. And you know I've seen a lot of people write and lot of people talk about things about well why is there a number of this and why is there a number of that. I can tell you, we're doing our best job to give you the proper valuations, but I don't think they're grounded in the reality of our portfolios. But I know that you want a number. And as much as I sit here and tell you that it's not grounded in reality, people are seeking a number for us.

Now we have run our numbers or actually are running our numbers for November. And it's a complicated process in some of the ways we've laid it out, but what I can tell you, and I want you to walk away with this as an estimate, and my best estimate at this point in time with the information I have is that I think we will have, or my estimate is we will have a further write-down from the October number of somewhere between $500 million and $600 million. I love it, everybody wrote that number down, after everything I've been saying today.

And just for clarity's sake, we gave you a posting in October of $550 million, again we're telling you somewhere between $500 million and $600 million and we're saying that's an estimate right now. And as Charlene said at the very beginning of the meeting, this will change and it will be informed as things change during the market. Now I gave you a number as of Friday, we've all seen the rallies that have taken place, I've also given you information that says you can't believe the rallies because of what's going on. So it's still a bit in flux.

The other question people ask is well where do you see this going and where do you and your team see it all going? I have no idea. I am looking at the fundamental basis of our transactions and I'm comfortable with the fundamental parameters of our transactions. I do know that between now and the end of the first quarter market pricing is going to be dynamic, but that's all I can give you about the market.

I know it's going to be volatile, I know it's going to be dynamic and we're going to be in this phase for quite a while and at least through the end of the quarter. But I think the best way for you all to think about this portfolio is based upon the information that Andy and Gary have given you today in the fundamental analysis of the business. So now I'll turn it over to James and he can tell you why he also finds the accounting issues challenging.

JAMES BRIDGWATER, EVP - QUALITATIVE SOLUTIONS, AMERICAN INTERNATIONAL GROUP: Thank you, Joe. So I'm going to take a couple of minutes just to go into a little bit more detail about a couple of things Joe was just saying and in particular I'm going to try and answer two questions. First of all why do we use a model and the second one, why do we choose this particular model? So as Joe said, under U.S. GAAP we need to record our transactions at fair value. The real question here is how do we determine that fair value in a dislocated market?

We always try to use market prices to the extent of that they're available but unfortunately, for the sort of remote risk, highly customized transactions that we typically transact, there is no readily available market. We can usually but not always get market prices for most of the collateral, most of the reference obligations that make up the collateral pool. To the extent we have market prices we use them, to the extent we can't get them we use the best available proxy.

The next stage is to recognize the market ascribes a difference in valuation to cash securities versus synthetic. There are a number of different reasons for this but one important reason is the liquidity needed to fund a cash position, particularly in the current market environment. In other words, even if we have prices for all of the reference bonds making up the collateral pool, this is an important factor in determining a valuation for our transactions but it is not enough to determine entirely the valuation.

Furthermore, our transactions have specific structural supports that provide us with additional protection in adverse circumstances and Andy has referred to these, for example cash flow diversion triggers. In order to ascribe a fair value to these transactions we need a model to incorporate all of these different factors.

So let me talk a little bit about the specific model that we actually use. The Binomial Expansion Technique, or BET model, was originally developed by Moody's back in '96 with the goal of providing a tool for generating expected losses for portfolio credit derivative transactions. This model has been extensively studied and documented and continues to be widely used in CDO analysis. The basic methodology is simple and transparent. It relies on a measure of diversification called the Diversity Score to encapsulate the degree of correlation between defaults and securities in the underlying collateral pool.

The main point here is that the higher correlation translates into a lower Diversity Score and I'll talk a little bit more about that on the next slide. The Diversity Score is calculated and reported by most of the trustees in transactions that we have, so we have access to independently derived Diversity Scores for the majority of our transactions. And this speaks to the great advantage of a BET model.

All of the main model parameters can be derived from independent market sources. We do not need to make assumptions, for example, about the market price of correlation, which is not an observable parameter for the senior tranches of multi-sector CDOs that are we trying to value. And I've listed at the bottom of the slide the main model parameters that we need in order to achieve a valuation.

So let me finally go into a little bit more detail on a couple of these points. We use market credit spreads wherever possible to imply a probability of loss for each underlying reference security. And that means the 20,000 reference securities that Joe was referring to. We do not use agency ratings to imply our lost distributions. The key to the BET model is that we replace a large and diverse pool of securities with a hypothetical, much simpler homogeneous pool of uncorrelated securities. The size of this hypothetical pool is given by the Diversity Score.

We have made a few enhancements to the original BET model to help us capture the specific features of our transactions. For example, we look at the loss distribution through time rather than just the loss distribution at maturity. We also use Monte Carlo simulation to enable us to incorporate and to value the specific structural features that are present in each of our transactions. Thank you. Back to you, Joe.

JOE CASSANO: Great thanks, James. So just to sum up before the Q&A, we believe this is a money good portfolio. You've heard us talk about all our trades combine the strength and careful asset due diligence, selection and review with the rigors and frameworks provided by our bespoke modeling.

But each and everyone of our transactions, as Andy said earlier, passes through the same careful process, we don't have any shortcuts, including, and we haven't spent a lot of time on this but Bob will talk about this with Kevin I'm sure during his presentation, the approval of the AIG Head Office Enterprise Risk or the Credit Risk Group at AIG. So there's always two eyes, two teams reviewing our business. There is not one dollar of this business that's been done that hasn't gone through that double review check.

As Gary said, the models we use are simple, they're specific and they're highly conservative. And other than the accounting methodology model, they're all in-house models. And we actually went outside to draw down a model that was publicly available for accounting valuations because it was easy for others then to look and understand what we're doing, because that's the whole essence of the fair value is let others see into your business.

It's also important to know that we construct and stress to our worst case assumptions, as Gary has pointed out. And one of the things that's helping us through was the decision we made in 2005 and the limited exposure that we have to the problematic vintages of '06 and '07. And now we'd be more than happy to take your questions. Tom?

TOM CHOLNOKY, ANALYST, GOLDMAN SACHS: Tom Cholnoky, Goldman. Joe, just to go back to your estimate of the mark-to-market I guess --

JOE CASSANO: I warned you about this.

TOM CHOLNOKY: I just want to make sure I fully understand, I know this is kind of like second grade for me going through this. But just so I just so I understand, to the extent that you've now quarter to date had roughly a $1.1 billion or so of potential or mark-to-market --.

JOE CASSANO: Or mark-to-model loss.

TOM CHOLNOKY: Mark-to-model, just to make sure, you don't actually expect these to actually generate economic loss for you. This is an indication that, if you were to sell your portfolio today or sell these securities, you would have to recognize that loss. But to the extent that you have the ability to ride out the duration of the contract, these would ultimately reverse these charges, just to understand that. Is that correct?

JOE CASSANO: That's absolutely correct. Now let me just, what Tom is saying is absolutely correct. We see the $1.1 billion, and we should add to it the $350 million from the third quarter of last year right, the end of the September numbers, so the approximately $1.5 billion as a mark that someone might make us pay to take on these liabilities in this aberrant market conditions. But we don't have to sell, they're all synthetic, there's nothing that compels us to sell these trades. Our fundamental analysis says this is a money good asset. We would not be doing the shareholders any benefit by exiting this right now and taking that loss. And over the average lives that you see us post for the maturity of these transactions, these losses will come back and these are money good instruments that we have.

TOM CHOLNOKY: And then just, sorry, one follow up if I can just on the Paulson proposals in Washington. I you can just go into a little bit more depth of, a little more detail of how potentially that could impact your various positions. For instance there's some thought that BBBs might get pushed ahead of you and whatnot, but if you could give us a little bit more detail.

JOE CASSANO: Right. It's a good question, Tom, because it's so timely, there are a lot of questions about the Paulson plan. I actually am very happy that Secretary Paulson is taking a strong view at that end of the spectrum, how do we solve the mortgage problem in the United States at the pointy end of the mortgage problem where the individuals are. I think that's an important aspect to it. Whether his plan comes to final completion we don't know because you're all listening to the same pundits that I do.

The way to look at it is, if his plan came to fruition, what he would be saying then is, okay you who may have defaulted you no longer will default because you're going to get a better rate than you would have through the market and your mortgage will continue. That's the essence of his plan.

How does that affect us? Well as Andy has talked about, we built certain covenants into our transactions such that if there's a degradation in the portfolio and the BBBs begin to get eaten into, or certain over collateralization tests are hit or other events are hit the way we've constructed it, you leap frog your payments from the lower tranches, the BB, the BBB to sometimes the As to the AAAs and to the Super Seniors and the Super Senior gets all the principal amortization.

So in a bad situation we get first dibs on the money that's coming out of the deal. But in a good situation, which would be what the Paulson plan puts forth, the BBB will stay there and continue to get his interest payments because now Paulson's plan has created a better spectrum of events. And our AAA will though continue to get paid, our maturities will expend because the portfolios will still stay, the people have made their rate sets, they will have gone through their rate sets.

But it doesn't hurt us. I mean I think people have taken the view that, gee this BBB event where you leap frog the other fellows and you begin to pay off the top of the capital notes, is a positive in a bad situation, but you'd rather not have that positive of that bad situation, you'd rather have the portfolio pay normally along the life of the portfolio. So it doesn't put us in any worse position. Do you want to add anything to that?

ANDREW FORSTER: No I think that's right. I mean the BBBs, with all of the structures if you have what Paulson's talking about, it means the deals are not going to have the same sort of losses and the sort of delinquencies that they have now. That has to be a good thing for us. If these deals don't take these losses, if you're not forced to sell houses into a currently very difficult market, that can only be good news for us as we sit at the top of the capital structure.

JOE CASSANO: And so it's good for us and it's good for the -- and I'm sure it'll come up in Richard's discussion in the AAA pool that Richard has. Andrew? Sorry, go ahead.

BOB HUTTINSON, ANALYST, OLEON: It's [Bob Huttinson] with [Oleon]. On a go-forward basis how do you use your analytics and your leadership in the market to eventually restore, extract premium pricing and help to build a new paradigm in which the market order becomes one in which you can thrive and benefit?

JOE CASSANO: I'm going to start and then I'll have Andy talk a bit on this one. It's actually a really good question and in line with one of the questions we get a great deal is what's the pipeline look like? What's the future look like right now in this business? And I would say I think in many of the conversations I've had I've said, look, you saw that we wrote I think it was 48 billion of notional amount at the end of the third quarter. And I'd say, look, we have a pipeline that big right now.

One of the things that we are doing is trying to increase the discipline in the market by holding subordination levels at the high level that we think they need to be, premium or spread at the high levels that we think they need to be and the market is suffering now from sticker shock when we show up, so sticker shock exists everywhere nowadays, and we're trying to influence it. Now what's happening is people are struggling and they're saying, no I'm going to go away and look at someone else. When they go away they look at folks who don't have the same wherewithal that we have. And you can use your imagination and think about who some of the people are they might be going to.

And when it goes up the management chain the management chain says, no that's not a money good trade let's go back to AIG. But it is causing a new dynamic for us in the negotiations and in the discussions on these portfolios. But we are exerting our influence to create even greater discipline than what we were able to accomplish here. And one of the frustrations we had in this market was that we could see the underwriting standards beginning to collapse and we had to step out.

And you know there was a long time between 2005 to where we are today and there are always questions of us well why aren't you doing this, why aren't you doing that? And you say, look, we've got to keep to our knitting, we have to watch underwriting standards. And people look and go well I'm not so sure about that. We're in that same position today and we're trying as best we can. But in some ways sometimes we're a lonely voice in these things because there are other folks that are desperate to do business for whatever their reasons are. Does that answer your --?

BOB HUTTINSON: (Inaudible question - microphone unavailable)

JOE CASSANO: You know I'll let Andy answer this, but the structured credit business and the way the structured credit business was created and what it got to, it's going to roll back, it's a pendulum swing as we have all seen in the market. So we're going to come back to more basics. You do see and you all hear that the credit linked obligations, CLOs, where there's direct tracking of underlying loans into things rather than the CDO mechanism is something that's taking off.

But I do think also that there will be more discipline. You know one of the things that happens as markets develop is people rely on others. It's always been our benchmark not to rely on others, to rely on our recognizance. So I can sit here in front of you and tell you that I've done my homework. But the market did get carried away with relying on others and now they want to point to others and they want to say, oh it's their fault. One example would be everybody wants to blame the rating agencies, I don't think that's fair. I think you have to do your own homework and do your own evaluation. And I think the market is learning that lesson again, but that's a lesson the market learns after every one of these kinds of events. Do you want to --?

ANDREW FORSTER: I think the only thing I would add is that if you focus directly on our Super Senior business, it clearly is a declining business. You know we pulled out of doing stuff where it's the multi-sector CDOs and if you look at the other transactions, the corporate and the residential mortgages, as we've outlined, the vast majority of people that we're transacting with are doing that for regulatory capital purposes. They no longer need to do those trades or some of them won't need to do those trades starting in January 2008 and as they implement the different processes.

So they won't all disappear in January 2008, but the vast majority of our trades are going to disappear well before what we've even shown in the slides where we've shown it to the first call date. As the regulations change people will be able to cancel those trades and still have the same benefits. So that side of the business is clearly declining and over the next two or three years those notionals are going to disappear from our books. And they really can't be replaced.

JOE CASSANO: But you know it's the challenge of the business we're in, it's always recreating what we do. And you've heard me talk in many instances that that's what we do. We are back to our knitting, we have our commodities business that we're looking at and we're continuing to grow, we have our rates business that's been a hallmark of our activities, our equity derivative business especially in Europe is doing very, very well. You know Andy's business on a whole in credit is not going to disappear, credit's not going to completely disappear, it's the second oldest profession, somebody needed to borrow money for the oldest profession. Ted?

UNIDENTIFIED AUDIENCE MEMBER: Thank you, Joe. I have two questions which are rather different one to the other and it would help to have, if we could, slide 17 back up on the screen. But the first question, Joe, regards capital and how are your capital requirements determined. And going forward, do you see any near-term constraints, given the way capital is provided to AIGFP? And I'll just wait for slide 17 for the second question.

JOE CASSANO: Guys, could you go back and put up slide 17?

UNIDENTIFIED AUDIENCE MEMBER: If not I can just talk to it.

JOE CASSANO: Right. Here it comes.

UNIDENTIFIED AUDIENCE MEMBER: Subprime RMBS models versus reality. 17 or 18 is fine. Why don't we start with this one. Something struck me that on a three-year basis your models indicate that about 38% of the AAAs will deteriorate and it's a bathtub curve, it drops to 29% for the As and then rises up again, which you'd expect, for the BBs to 47%. And I'm just curious what in the model drives the bathtub.

GARY GORTON: Okay so let me answer that. It's not monotonic because we're calibrating to meet the mean default rate and the data is actual data for downgrades. So in the data the downgrades happen at different rates and what we're focused on is the column of losses. So when we underwrite, we're not really focusing on the downgrade experience so we weren't concerned with this non-monotonicity that you pointed out. But in terms of showing you the robustness of the model compared to experience, there are many more downgrades than there are actual defaults. There's a lot talk about defaults but the actual number of defaults hasn't been very large. So it seemed that in terms of the data it was better to show you this comparison.

UNIDENTIFIED AUDIENCE MEMBER: Thank you. And then the capital question.

JOE CASSANO: Okay. The capital question is a good question at times like this. One, I think it's also a good question when Bob's up because Bob is doing a lot of the enterprise risk management and new capital modeling work that we're going through. These are unrealized losses.

Our fundamental perspective on these transactions has not changed. So we have to take account that there are the unrealized losses and they go against book but we also have to look at the fundamental nature of this business. And this is a three-month period we're going through here, this started in August and here we are in November, well five-month period, and I think we have to be careful about drawing too many conclusions from an aberrant period and then deciding how we measure the future growth to capital.

And Bob and I work a lot together on these issues and we talk a great deal on how we show go about and think about this. Very frankly, a lot of my attention has been to the knitting and the book right now and not so much to what should we do as a profile of our capital. But it's clearly on my list of things to work through. But I also want everybody to be careful to think that we shouldn't jump to a conclusion based on an aberrant period. And this is clearly an aberrant cycle in what's going on. But it has to inform us as to how we should look at the business over the haul.

Now the other part of your question, Ted, is how does your wherewithal to withstand this business under the way capital is allocated and all those things work out. Clearly this is a time where it's a huge benefit to be part of the AIG family. And I'll be very, very frank with everyone, there was a time in the last few years where I was looking and wondering, gee is there something about the model we created in 1987 where a team of people attached themselves to a fabulous multinational company with huge amounts of capital and said, gee we can build this business out together. Because what happened was the market began to move away into the structured vehicles, not just SIVs, all kinds of structured vehicles, hedge funds and all those things, and it was saying you could be self sustaining with the capital that's inside you.

And I used think gee is there something anachronistic about what we did now? Is it passé in some ways? And I think the proof is in the pudding and I think it's these crises and these points in time that give us the wherewithal right now to stand here with you and say on the back of giants, on the back of everybody at AIG who has built the capital that AIG has, the AIGFP unit is able to withstand this aberrant period. And it's due to that that things would work out. So we don't have any issues of our wherewithal here to sit through this business.

UNIDENTIFIED AUDIENCE MEMBER: I was thinking specifically of the 30% slice for you and your team.

JOE CASSANO: Well some of us will be hungrier this Christmas than others. But look I haven't sat down with the Compensation Committee, I've had some early discussions with Bill and with Martin on what I think a proposal should be. Clearly my team, they have done a good job, they need to be rewarded and the shareholder wants them to be in place. The one thing I actually haven't gotten through this market is the other parlor game where they've been decapitating firms and then they take out everybody underneath. And I wonder well who's there managing it now and what's going on there.

Now you know if management decides that I'm a problem in this scenario and they want me to leave, that's fine, I understand that that's how this business is conducted. I think I have the confidence of the management team, is Bill leaving? And we will work this through. I mean I'm here for the long haul, I've been here for 20 years, I have a huge sense of responsibility to what we've done and what we've created and to this moment in time. And we will work it through but clearly my team, we need to keep the team in place and we need to figure out how to do that. And I know that in the next month we'll all be sitting with the compensation committee or the Board discussing the methodology for doing that.

UNIDENTIFIED AUDIENCE MEMBER: In the third quarter 10-Q for America International Group, it states that you were cognizant that basically your assessment of certain Super Senior credit default swaps and the related collateral, that your estimate of that differs significantly from your counterparties. What does that sentence mean?

JOE CASSANO: It means the market's a little screwed up. How are you Charlie? Seriously, that is what it means. The market is, and I don't mean to make light of this, actually just so everybody is aware, the section that Charlie was reading from was a section that dealt with collateral call disputes that we have had with other counterparts in this transaction. It goes to some of the things that James and I talked about, about the opacity in this market and the inability to see what valuations are.

And we have from time to time gotten collateral calls from people and then we say to them, well we don't agree with your numbers. And they go, oh, and they go away. And you say well what was that? It's like a drive by in a way. And the other times they sat down with us, and none of this is hostile or anything, it's all very cordial, and we sit down and we try and find the middle ground and compare where we are. And that goes to some of this price discovery I've been talking about and how we go through that price discovery process.

But there's also some huge pressures sitting out there on a lot of the people who you can think of as our counterparts in some of this business and the funding costs that they're suffering through because of the aberrant market, and then looking at every available place where they can get collateral. And as Andy said, when times get tough, and we always know this is going to happen, everybody goes to the docs right? Everybody is real friendly when you're closing the deal, it's going to work out fine, don't worry, we're all buddies, all this good stuff. And the next day they say, no this is what the document says.

And we're very careful about that and we make sure that we know where we stand in the pecking order of the documentation and where we are. But we need to be careful. Again, it's not a service to the shareholder or to the company for me to agree terms on these collateral calls unless I can make sure that I believe that they're bonafide. And that's what we do. And that's what that note was about. And you know we're hearing anecdotally in the market that this issue about collateral calls is just circling through the entire market because there is no price transparency right now. And you can go back to my anecdotal story on the ABX which everybody thinks is liquid and it tells you a lot about the market.

UNIDENTIFIED AUDIENCE MEMBER: What is the recession that you're underwriting to, the worst one since World War II?

GARY GORTON: It was a recession in the '70s I think.

UNIDENTIFIED AUDIENCE MEMBER: The '73/'74?

GARY GORTON: Yes. And Dun & Bradstreet has a time series of defaults which goes back that far. If you look for data on large corporate defaults, you don't find data sets that go back that far.

UNIDENTIFIED AUDIENCE MEMBER: Right. Are you simply taking the frequency and severity of losses during that period? Or are you adjusting that to reflect the laxer lending standards, the huge run up in home prices we've had and that kind of thing that we're dealing with today?

GARY GORTON: No it's the former, it's the frequency of default, the frequency of default. So the core model is something which, once we agreed was a reasonable approach, we've stuck to. We don't fiddle with the model really to take other things into account, except as the team thinks the model doesn't consider certain things and then that is added in the buffer.

UNIDENTIFIED AUDIENCE MEMBER: But isn't that unrealistic just to take the model at the time, then you didn't have ARMs, you didn't have teaser rates, you had much lower loan to value ratios.

JOE CASSANO: It goes to a different point though, is what we did, and you can all disagree with this, is that we looked and we knew our model didn't work for what we saw going on in the market. When Andy went through his presentation and talked about how we went to ground and met with all of the people that we mention with, all of the people in the market that we talked to, you know we talked to Kevin and Bob about what their view was, we talked to our colleagues at AGF about their view of the market.

You know we realized that there was a fundamental shift and we also realized the model was incapable of dealing with that fundamental shift. And some of it went to teasers and all these option ARMs that are out there and these other kind of products that were there, that we didn't have the proper tools to evaluate. And so that was what made us, one our fundamental analysis when something's up, and then we also knew when we looked it said the model wasn't going to be able to deal with it so I think it's time to exit.

UNIDENTIFIED AUDIENCE MEMBER: Did it also adjust for the abnormally high run up in prices in the 2001 or 2002 period through 2005?

ANDREW FORSTER: I think the important thing, and what you're saying is exactly right, but the important thing is that we agree with you in the sense that we both agree that the model will not capture all of these things. But we never expected it to and that is why we have a fundamentally different approach of saying, yes we can use the model but the model will not capture everything. So if you just run a model you will have problems. We think if you combine the model with fundamental analysis and credit analysis deciding whether we think these are good assets before they're going in, that we capture an awful lot more of the risks that are in there. And that's why we think we have a better transaction.

JOE CASSANO: And let's just put it in order, fundamental review first, fundamental understanding of what we're doing, then use the model to verify what we believe were the fundamentals.

GARY GORTON: This is the advantage of building your own model. When you build your own model you know exactly all these issues that you've identified. When you buy a model you have no idea what the issues are. So you're making a very good point. All models are wrong, Black Shoals assumes volatility is constant, but if you know that then you can intelligently use the model. And that's sort of the spirit that we use models.

JOE CASSANO: Andrew, got the mic?

UNIDENTIFIED AUDIENCE MEMBER: Finally the mic guys are controlling it here, so a little different at AIG. Two questions and let me give you the first one. I mean you've clearly demonstrated no economic loss, your models are impressive and you pointed that in this mark, I think your mark is about $1.5 billion. So not to annoy you, but what if you did use the ABX index and the counterparties? What would that mark be?

JOE CASSANO: It's nonsensical.

UNIDENTIFIED AUDIENCE MEMBER: But what would the nonsensical number --?

JOE CASSANO: I don't know. It's nonsensical.

UNIDENTIFIED AUDIENCE MEMBER: Could it be north of $5 billion?

JOE CASSANO: You know I have no -- do you have any idea? I don't know. We don't know. Look we're in the business of going to the core fundamentals. The ABX is just not representative of the pool of business that we have. And it's not that we don't look at it because we don't like the numbers, today I like it, it's up eight points I think, what is it, it's up eight points in two days. It's just that it's not -- I'm trying to think how to convey this in a way that people will stop asking me.

You know there's so much value being pushed around by this small contract that it just is an indication that there's a real problem out there. And the shorts can push it where they want, they get squeezed out and then the longs can come back and re-establish, but the amount of volume going through, relative -- you know I tell you approximately $100 million traded on a day where there was a bandwidth of 20% moves in this contract and do you really want me to price up a $500 billion portfolio with that. And so there's just no analogous situation here to these transactions.

ANDREW FORSTER: I think the other thing I would add as well, if you look in the appendices when you have time, you can see we've split up what the different collateral is in there, the different vintages and things like that. I think that very clearly demonstrates that this isn't something that's -- you know as we've mentioned, the ABX is a useful data point for certain things, it is not a useful data point for pricing our portfolio.

JOE CASSANO: But, we do, and James you can talk about this, we use the change in the ABX as part of what our inputs are into the model. Is that right?

JAMES BRIDGWATER: Right. The change in the ABX from month to month is one of the proxies that we use where we cannot get any other sort of market data. But to the best of our abilities we try to use actual market pricing first and foremost.

UNIDENTIFIED AUDIENCE MEMBER: And just shifting over to those counter-party bids that you that you received, the counter-party bids, Joe, the differences were pretty dramatic. Is that fair to say?

JOE CASSANO: What was interesting --.

UNIDENTIFIED AUDIENCE MEMBER: (inaudible) counter-parties.

JOE CASSANO: It was the collateral calls.

UNIDENTIFIED AUDIENCE MEMBER: Yes.

JOE CASSANO: What was interesting was the difference among each other. That was more interesting to me than the differences between us and them. And it tells you that the Street is just having an enormous problem putting value on here. And when you see that then we need to go to ground and figure out how we manage through and figure out what the numbers are. And we're AIG, we deal with the top-tier firms and the valuations are quite different and dramatically different among each other. So you need to go into ground and figure out what are causing the differences and where are they coming from.

UNIDENTIFIED AUDIENCE MEMBER: Okay. And then just real quickly, in those dynamic products that you have where you've got some thresholds where it ends reinvestment or it accelerates cash flow to AIG if there's under performance, could you give a sense or a data point, you know an average data point to get a sense of where that threshold is? When do you get the --.

JOE CASSANO: Don't mention the ABX any more, Andy.

UNIDENTIFIED AUDIENCE MEMBER: No, no ABX, Joe.

ANDREW FORSTER: I mean it's very difficult to generalize because, as we said, all of the transactions that we put together are a bespoke negotiation that we have with them. So all of the different trades will have different triggers in there based on different things. So you know we have some trades that have triggers based on well, if the underlying tranches of the CDO where we have the senior part get downgraded, that would stop it. But we don't have that in every transaction, we have that in some, so the more prolific that the rating agencies are the less management that they're going to have.

We have triggers based on weighted average rating factors, we have triggers based on losses and we have a multiple combination of them. So unfortunately it isn't really that easy to sort of generalize as to can I point at something that then says they're not going to become managed any more. You know what we're also seeing is there's an awful lot of the transactions we have where they are still managed, they're being managed extremely well and they're sitting there with big cash amounts, which is economically perhaps not rational but it goes to the fact that we pick good sensible guys and they are much happier to sit there on cash that invest in something that they're not 100% comfortable with.

DAN LIFSHITZ, ANALYST, FIR TREE PARTNERS: Hi this is Dan Lifshitz with Fir Tree Partners, just a clarification on the structure of these transactions. Are they structured like an index where higher tranches could take losses, even if lower tranches get some recovery? Or is it a strict waterfall where the lower tranches have to get completely wiped out before your Super Senior tranches start to take losses?

ANDREW FORSTER: The latter, it's a strict waterfall.

DAN LIFSHITZ: Great. Thanks a lot.

JOSH SMITH, ANALYST, CREF INVESTMENTS: Hi, Josh Smith, CREF Investments.

JOE CASSANO: Hey, Josh.

JOSH SMITH: I noticed that some of the underlying collateral has been replaced with '06/'07, I think the non-static deals, I think people take a lot of comfort that you stopped riding the '06/'07. Can you quantify the risk that the underlying collateral from the earlier vintages gets replaced with this '06/'07 stuff which isn't as good?

JOE CASSANO: So the question is you're looking at the book, you see the '06/'07s we have, you understand that they come from the managed deals, what's the propensity of more '06/'07s coming in. You talk about it, do you want to take it?

ANDREW FORSTER: Well I guess it goes back to the point that we made about who we've aligned our self. I mean can I tell you categorically now how many of those transactions are going to invest in other '07 collateral now? No. But can I tell you that we've aligned ourselves with the sensible managers that we have frequent and ongoing discussions with them, they are all very, very aware of what the issues are and so we're not investing in that collateral, can I tell you that? Absolutely.

JOSH SMITH: Can you bracket for us sort of an upper bound as to how much can be in there? Because I guess it was zero a quarter ago and now it's showing up to be in the 5% range or so.

ANDREW FORSTER: No.

JOE CASSANO: No, it was never zero.

JOSH SMITH: Well, I thought you had stopped writing. Well, in all the disclosures you've said you haven't written anything since '05.

JOE CASSANO: Well, let's be -- let's just --

JOSH SMITH: Maybe there's a new disclosure in there.

JOE CASSANO: No, just for clarification let's talk about what we did. Remember, and I've talked about this before, in October of '05 Andy and his team came to me and said, look, we're seeing some issues that we need to investigate. And they identified what the issues were, we were a little bit uncomfortable about the underwriting standards being performed by the Street in the CDO space and we are not happy by the underwriting standards of the fundamental subprime business itself.

We then, as I told the story before, between October and December of '05 we did all this investigatory work that we needed to do to get to the bottom of what our analysis should be. In December of '05 we went out to almost all of our counterparts and told them that we were going to stop writing this business. Now we had a pipeline in place and so through that pipeline, through that first quarter, we did accumulate some early '06s in that period. So we always had the '06 vintages in the portfolio. And since we've been talking about this portfolio with you on the calls, we've always had '06s and '07s that have accumulated in the portfolios.

I think someone asked us one of the calls, well gee your number has gone up in '06 and '07 from I guess it was the June presentation or the August presentation to the third quarter presentation. And we said, yes we have managed deals in our portfolios and the managers can go out and buy new deals. Now there are a couple of mitigants that you see going on. Many of our deals are hitting their tests where they're going static so the managers can't buy new transactions.

Also, the cash flow from the deals isn't that enormous that the managers go out and buy new '07 vintages, but they do get some cash flow and some managers are entering into the latter '07 vintages. And as Andy said during the presentation, the late '07 vintages now have high underwriting standards beyond anything that was going on in the previous two years, due to everything that we're talking about today. And so people are seeing those as good value.

They are also looking at buying some of the higher capital notes of these vintages. So they're buying AAA notes if it's late '07s or of the '06. And so there is a trend towards accumulation. But my team is out interviewing the managers, they're talking to them all the time and we're having discussions. And Andy and I actually on the flight over were discussing a lot of the information that we're gleaning and one of the things that we're seeing from our active managed portfolios is that they're saying, look we understand the circumstances, we understand what's going on and we're shifting and diversifying into other credits where we can.

We also, though, have very strict buckets in terms of what these portfolios can add and where they can add and a lot of them are just locked out from buying more because they can't enter the buckets. Quantifying it is not something we've done yet. I haven't thought about how much more can this guy -- because you know we'll look at them and we'll decide person by person. We'll take it under advisement and then when we give our report in March or whenever we do, February for the December numbers, we'll look to include something that can give you some comfort in that.

ANDREW FORSTER: I think just one thing to add, I think perhaps where we've created some confusion is just between this sort of gross and net stuff, the net numbers, because we always talked about what our net exposure was after subordination. We've now given you, in the spirit of trying to be more open, we told you the 5.3 is the gross number. But as I said in the presentation, that doesn't take into account the subordination that we have in the deals which then erase most of it. You have to go back to the sort of frequently asked questions section and if you look at what it is there, when you write off the '06 and '07, that will tally with exactly what we presented in the last call.

JOE CASSANO: Just one more question please. And then I just want to spend two minutes to describe what's in the appendix. Or actually I want to have Andy spend two minutes describing what's in the appendix.

JEFF BRONCHICK, ANALYST., REED, CONNER & BIRDWELL: I'll make sure this is a question then, Jeff Bronchick, RCB Investment Management, if you look at the subprime you have in your transactions and you look at your weighted average attachment point for, and I'm referring to page 14 of this 13% of European mortgages, is it possible to say what cumulative loss ratio is necessary to actually hit the attachment point on some of the subprime stuff?

JOE CASSANO: You're looking at the wrong number first, because in the European portfolio there's no subprime, that's all a prime portfolio. So let's shift over to the multi-sector --.

JEFF BRONCHICK: Yes same question change that.

JOE CASSANO: I don't know if we have the -- does the cumulative seem to be the subordination and then you need to run through each of the deals. If you want to do that exercise --.

JEFF BRONCHICK: I don't, that's what I want you --.

JOE CASSANO: No. Look we're at a little bit of logger heads on this because it's the parlor game I was talking about. What if. Go through the FAQs and the FAQs say write off all '06, write off all '07, write off the second half of '05, a BBB or lower, no one is calling for that kind of disaster with no recoveries. And if you look at the profile we've given you, you will see that many of our '05s have gone through their reset dates so they're stable.

And you can run through that information and determine that that's not going to be the case. But if you do all of that, we've given you the numbers that tell you how bad it is. I don't think anybody is talking about meaningful losses in the '04s and the first half of the '05s. But it's all there for you to begin to analyze and then obviously any further questions, talk to us. Can you just, and I know I'm popping this on you, in two minutes just describe what we put in the annex?

ANDREW FORSTER: Sure. I mean the appendices that we've added we think breaks down the portfolio in as much detail as has been asked for and as much as we think we can be helpful with. So as you look through that we have split it into the high-grade and the Mezzanine transactions because again that's what you all seem to want to do. So we've split it into those sections. We've given you initial information on the corporate portfolio with all the different how we've split that up, we've given you the information on the European residential mortgage section.

And then when you go into the multi-sector CDOs we've split it up showing you the underlying collateral, which then goes back to one of the earlier questions about it's not all subprime. We've given you the breakdown of that, we've given you the vintages of all of those. We've also then tried to drill down more, and again try and pick up on every question that we've received so far that we've had, so things like the house price appreciation, the amount of second lien that's in the portfolios, and we've drilled down further again splitting it between the high-grade and the Mezz. So you can see and you can answer some of the questions that you have.

There are also additional appendices that are added to it which relate to some of the other points that we made. So there's a slide in there for our SIV exposure because of the Nightingale finance that we've run, and we've also shown our cash book in there as well with exactly the same breakdown.

JOE CASSANO: Okay. Well I want to thank you all for listening to us and I appreciate you giving us the time to present the book of business. Thank you very much.

UNIDENTIFIED COMPANY REPRESENTATIVE: There's a coffee break now for 15 minutes, so if we could just come back at that time so we don't fall further behind. Thank you very much.

(BREAK)

MARTIN SULLIVAN: If I could just ask you to take your seats, thank you very much indeed. I wish my children moved that promptly when I speak.

Before I hand the floor over to Win and Richard and the team to talk about our investment portfolio, I just wanted to point out I did have to jump on the stage during Joe's presentation just to point out that there was a technical hitch -- not at the AIG end, I should stress -- I'll protect the name of the telecommunications company.

There was about a 10-minute period when we would not be in webcast, and I'm reliably informed that we can retrieve that period of time and that there will be an uninterrupted copy of the presentation on our website by the end of the day. So thanks for your patience there.

Win, the floor is yours.

WIN NEUGER, EVP, CHIEF INVESTMENT OFFICER, AMERICAN INTERNATIONAL GROUP: Thanks, Martin. Richard, Scott and I are joined here on the dais with several of our colleagues from the Structured Finance and Mortgage Backed Securities Group. I'll let Richard introduce them when he comes up.

But before I turn it over to Richard, I'd like to talk a little bit and give a little bit of detail and make a couple of key points about our residential mortgage-backed securities portfolio, reinforcing some of the things that Martin said, but also adding a couple of additional.

First of all, AIG's portfolios are managed on a spread or asset liability basis, not as a transactional business. And as a result, we do not warehouse residential mortgage loans or securitizations, we do not retain residual or other securities from RMBS activities, we are in this as an investor.

Secondly, our RMBS is held as available for sale, not as trading positions. Hence, our underwriting focuses on the ultimate collectability, not short-term market movements.

Third, as with all investments in our portfolio, we purchase RMBS based on our proprietary research. We do not rely on the rating agencies to make our valuation judgments.

And finally, AIG investment has little or no exposure to asset-backed commercial paper, SIVs, RMBS-based collateralized debt obligations, et cetera.

If we look at the overall debt market, the $29 trillion in the U.S. bond market, we see that mortgage-backed securities make up a significant component of that market, about 24% directly done in the agency MBS and the non-agency MBS and then some portion of the asset-backed securities. That probably gets it up into the 27%, 28% range as a part of the total U.S. bond market. And if we break it down in the non-government, non-treasury, non-government agency, non-money market component, it's about half of the investable market.

So with that backdrop and in that context let's look at our worldwide bond portfolio. It's now almost $500 billion as of September 30. Over 94% of that portfolio is investment grade. It's very diversified geographically with about 60% invested in the United States and about 40% in the rest of the world. If we drill down to the domestic portfolio, that $300 billion, we see again the broad diversification of that portfolio, about a third in mortgage-backed securities, about a little over 40% in credit and about 21% in municipals.

We're obviously a large company with a very large balance sheet. Any exposure that we have to any sector of the market is going to be a large number, large notional number. But we believe that proper diversification and prudent diversification is one of the keys to successful portfolio management. The other key is strong fundamental research. And as we talk through the balance of this presentation, I think you'll see the level of research that we put into this segment of the portfolio.

As I said, AIG owns a broadly diversified portfolio, not just across the bond portfolio but of course across all of our asset classes. U.S. RMBS at about 29% of the domestic bond portfolio makes up 11% of our invested assets. The overwhelming majority of our U.S. RMBS exposure is an agency and AAA securities that are direct securitizations of underlying mortgage loans, not CDOs. Exposure to non-AAAs and CDO resecuritizations of RMBS is minimal. That distinction between direct securitization and CDOs is exceptionally important and I hope that you'll see that as we talk through the balance of our presentation.

I'd now like to turn it over to Richard Scott, Senior Vice President for Investment and Head of Fixed Income as well as the Chief Investment Officer for the Insurance Company portfolios. Richard?

RICHARD SCOTT, SVP - INVESTMENTS, AMERICAN INTERNATIONAL GROUP: Thank you, Win. I'd like to introduce a couple of my colleagues who are with me here today. Sonia Hamstra who is sitting directly my right runs our Structured Credit Group and our Capital Markets Operations. I give her credit for the fact that we do not have any SIV exposure, she actually was assigned a couple years ago the task of examining whether or not we might want to sponsor an SIV. She came back with the good answer that no we did not want to sponsor an SIV and furthermore we didn't really want to invest in them either.

Craig Mitchell who is sitting next to her is the primary Portfolio Manager responsible for the U.S. Insurance Operations. Jason D'Angelo who is sitting next to him, Andy Parower and Joseph Philips are all analysts in our MBS area and are here to help with whatever questions we may have in a greater degree of detail. They are part of a team of 16 professionals we have dedicated to the RMBS space.

Touching briefly on some high-level numbers, 97% of our book is rated AAA, AA, or is agency paper, 89% is agency or AAA, about 28% is subprime of which 85% is AAA. Our ratings performance, which was touched on earlier has been excellent this year, at least excellent relative to the market as a whole with downgrades throughout this book relative to market downgrades as measured by Moody's, or frankly as measured by the other agencies at a significantly reduced level as a percentage of our book than is true for the market as a whole.

The reasons for this are multifaceted. We do independently develop comfort levels on securitizations on a security-by-security basis based upon our own views of reasonable stress scenarios. This results in our generally requiring higher subordination beneath the pieces we buy than rating agency minimums. It also generally limited our participation, over the last couple years in particular, in tranches rated below AA and in RMBS-based CDOs, regardless of rating, since such structures could not generally withstand our adverse scenarios.

To sum up our strategy for residential mortgage-backed securities, relies on internal evaluation by Portfolio Managers and analysts, employee stress testing to determine comfort levels, has focused on higher credit enhancement tranches in recent years and emphasized regular performance monitoring and active management to avoid migration problems, just to give a little detail on that.

We undertake a monthly analysis, and just so people who aren't unfamiliar with this market may be unaware that payments on mortgage-backed securities come in once a month so you get a trustee report, in effect, once a month from each securitization that gives detailed information on everything from payments to delinquencies to other, if you will, analytical indicia of what's going on in the account.

So when we get those reports monthly, we do an analysis of our portfolio holdings to identify bonds that may not be performing to our expectations. Principally we're looking at prepayment rates and what are known as loss vectors and delinquency vectors. Bonds which jump out of that initial screening process as not performing receive a more detailed analysis, which basically stresses the delinquency vectors to make sure that, in our opinion, the remaining credit enhancement of that piece is adequate to avoid ultimate loss.

If we believe the piece is subject to the possibility of a downgrade or an ultimate loss, it will go on to our surveillance list and be referred to the Portfolio Managers for action where possible. Realistically, just to put a number on it, at the present time we have roughly $2 billion worth of securities on the surveillance list. However, I would point out that based on our reviews to date, the number of those pieces where we anticipate an ultimate loss of principal is less than $5 million at the present time. So it's a downgrade oriented listing, it is not a loss oriented listing.

Turning to the next slide, this gives you a brief overview by type of our portfolio. A couple of things I wish people would take away from this, one, we have made no below investment grade acquisitions in recent years in the U.S. market and we have virtually no holdings. We bought nothing at the BBB level domestically in '06 and '07 and have de minimis holdings overall. Our purchases of As in the last couple years have totaled only about 160 million, down significantly from what we had bought in prior years and, within the context of our portfolio, a fairly tiny holding.

So net-net I would say we backed away from the more credit sensitive parts of this market fairly dramatically over the last couple years. One other thing that doesn't jump off of this slide but I think will come out of some of the future slides, in addition, particularly in the Alt-A and Jumbo space, the amount of subordination beneath the AAAs that we bought over the last several years has continuously gone up, reflecting our view of the need to have additional cushion beyond that minimum required by the rating agencies, even at the AAA level.

I touched briefly on our downgrade and watch list experience at the bottom of the page, in particular this our 2006 vintage subprime holdings. If you'll note Moody's has downgraded approximately 41% of the comparable universe for us, 41% is of those that are rated below AAA, our comparable holdings about 7.5% have been downgraded by Moody's, S&P, or Fitch. So we're comparing just us against Moody's, but the reality is we're picking up the downgrades by all three agencies.

So realistically I think the proof is in the pudding that the performance has generally been better than the market as a whole. At the top, as I mentioned, you'll see the watch list as of various dates. Our watch list, as I mentioned, is somewhat bigger than the rating agency watch list. We have about $2 billion on our internal watch list, they had about $1.3 billion of our holdings that are on their watch list. There is a great deal of overlap, needless to say, between those two lists.

Everybody is fascinated by the daily mark-to-market, I would note that we do not actively trade these positions, we do trade when we think we need to to protect asset value. These are in AFF accounting, which means that changes in market value go through OCI unless they are viewed as a permanent impairment. At October 31st, the estimated aggregate mark-to-market loss in this portfolio was about $2.9 billion.

I will note with respect to the pricing we use for our books and records 95% is provided by an independent industry standard commercial pricing vendor called IDC, the remaining 5% is priced by brokers with whom we do business and are familiar with the specific securities that we're trying to price. We don't price any of these securities for our books and records according to our own internal modeling system. We do look at prices, we very rarely challenge prices if we think there is a manifest error. A manifest error would be things like giving us a price for the wrong security. But fundamentally we accept the prices that are given to us by the market.

I want to touch a little bit on the market for RMBS, I think there's been a huge amount of confusion out there. The first and most important point I want to make is that within this portfolio, except for the very modest holdings of about $235 million in the RMBS CDO space, these are direct securitizations we own of the underlying hard asset, i.e. the loan itself. These are not intermediated through a CDO type structure, these are direct pools, if you will, of ultimate mortgage loans.

Give you an idea what these different pieces look like, prime jumbo is the type of mortgage most of you in this room who have a mortgage would have. It is basically a loan to a high-quality borrower who is buying a house that needs a mortgage in excess of $417,000. This is the primary mortgage market for the New York area, frankly, and the primary mortgage market for much of the west coast. Alt-A is a very broad spectrum of paper that ranges from deals that are near jumbo prime to deals that are subprime. It is a catchall categorization of sorts. We -- in our portfolio, we have a weighted average FICO of about 700, which is not all that different from a prime jumbo portfolio.

But generally, there are flaws in the documentation of one sort and another. And just to give you a concrete example, and some of this is obviously somewhat artificial. If the average FICO on a pool is 699, then by definition under our standards, it does not qualify as a prime jumbo. If it's 701, it could theoretically qualify as a prime jumbo. We use a 10% investor-owned property limit. If there's more than 10% investor-owned preps, we categorize is as Alt-A. If there's less than 10% and it otherwise does not have this favorable features, it may be categorized as prime.

At the other end of the spectrum, there is subprime. Within our portfolio, subprime is a weighted average FICO around 630 actually. But, the -- you see the range there is 500 to 660 for the underlying, so the average is just that, an average. Generally, these are borrowers with challenged credit. Contrary to popular belief, most of the subprime loans are, in fact, first-lien. Typical second-lien holdings in a typical subprime pool would be on the order of 4% or 5%. Generally, the loan to values is around 70% for prime and Alt-A and around 80% for subprime.

I'm going to touch a little bit on our strategy in each of these areas. We provide in-house -- we execute in-house fundamental credit analysis on all the positions we buy. And just to give you a little bit of a gee-whiz number, our total portfolio has around 6,700 different positions in it across the domestic U.S. housing space. Within jumbo prime, we avoid pools with high concentrations of reduced documentation or high combined loan-to-value loans. We avoid fixed-rate pools with high percentages of IO loans, and we favor pool service by well-capitalized loan servicers.

In the AAA market, the large majority of our '06 and '07 vintage purchases were purchased in what we refer to as Super Senior format. It means something a little different from -- in Joe's world. To us, a Super Senior means that there is a AAA within the overall structure that is junior to the AAA tranche that we purchase. Roughly, just to put it in perspective, about 85% of our purchases in '06 and '07 in prime jumbo were in Super Senior format.

And when we look at the not -- when we are looking at the non-AAA pieces, which is actually a fairly small piece of what we do, we simply have a more rigorous review of the individual loan level characteristics on the theory that at the senior level, you're counting on the bulk of the loans will pay off. As you move down the credit spectrum, you get increasingly dependent on evaluating the loans that may not pay off.

Within the Alt-A world, we try to avoid the more subprime, light Alt-A pieces. And frankly, if you look at what we did in '06 and '07, virtually all of our purchases were in Super Senior format with somewhere between 12% and 15%

credit support, which is two to three times the average AAA required support level for an Alt-A pool under most rating agency models.

In the non-AAA Alt-A market, we really frankly didn't buy much after 2005. If you look at -- I can give you a quick estimate but fundamentally, we stepped away from that market, starting in 2005, really de minimus purchases after that date. In addition, within Alt-A, we do not have exposure to negative amortization-type products.

Subprime obviously everybody's favorite asset class right now, we generally favor refinance loans over purchase loans, although in all practicality, most pools do have a majority of purchase loans in them. Generally, I would say purchase loans have a higher incidence of more aggressive lending characteristics. So, we try and find pools that have the maximum amount of refinance rather than repurchase.

The other thing is, frankly on a refinance loan, the buyer has been in the house for a longer period of time and has a greater sense that there is a build-up of equity, both personal equity in terms of the neighborhood in which they live, but also financial equity in the house in which they live. We basically have a three-tier system that we use on the trading desk to identify positions and to categorize positions. These are not hard tiering but basically, we look at all of the different -- all the different types of characteristics. And generally, we're looking at things like geographic diversity. The more diversity the better, as far as we're concerned, minimal large loan balances, lower LTVs, a higher percentage of conforming within the pool. That's one of the actual good-news pieces of the subprime world.

The vast majority of these loans -- the loans average about $200,000 each so that as a practical matter, the average house can be purchased by someone who can qualify for a government agency mortgage, even though the specific borrower, in fact, does not qualify for the -- for a government agency mortgage, or may not qualify for a government agency mortgage. But, it does provide some comfort that on sale or refinancing, there is a agency-related mortgage product that would be appropriate for a substitute owner. The other thing it does is, if the credit cures of the existing owner, it provides the opportunity for refinance. So fundamentally speaking, we try and find subprime pools that have generally smaller loan balances in them.

We also look for pools with minimal second liens or high combined loan-to-value loans and generally look for higher average FICO scores, the higher the score, the more amenable we are to the transaction and with better documentation. These are fairly straightforward and basic type underwriting criteria, but the emphasis that I really want you to get from this is, we don't just buy these because they say AAA on the front. We buy these based on a very detailed review of the collateral pool characteristics.

We then tier things into Tier One, Tier Two, Tier Three. Basically, don't buy anything in Tier Three, which would basically be all the horror stories that you can imagine. Tier One and Tier Two dictate how much subordination we are going to insist on and to some degree, whether or not we're going to consider buying a AA rather than a AAA.

One other just general comment I'd like to make, and I think it's something that has been lost in the rhetoric a little bit, our view of the subprime market and, frankly, our view of the mortgage market generally is that there would be problems from time to time. When you look at the subordination levels we have under what we bought, we bought with a view that the housing market goes through cycles just like a corporate market or any other credit market. And therefore, we needed to have a level of subordination that was multiples of what had been experienced in the last recent downturn, which was really the 2001 downturn.

Within the subprime world in particular, it has always been our expectation that at least 25% to 30% of the loans would become delinquent and go into default. So, you're starting at a -- with a security that -- it's -- and it's like anything else. It becomes a statistical game. If that's your assumption going in, it obviously dictates that you need to have a fairly high degree of subordination in order to have any confidence that you're going to get repaid.

The other thing I'll mention and that has really astonished me, quite frankly is, this is not new to subprime. We have had prior subprime crisis. During the 1990s, these are names that some of you may have forgotten, but I'll remind you of them. You had a -- you had the Green Tree incidents. You had the Money Store. You had 125 LTV lending, which was a very popular product during much of the 1990s. It makes 80% look fairly conservative when you get right down to it. And that all came to tiers at the end of the 1990s. But frankly, the impact on the AAA part of the spectrum has always been fairly modest.

Finally, I'd like -- not finally but next, I'd like to talk about the surveillance process. As I mentioned, we review these things on a monthly basis. We use our own internally developed surveillance system that integrates data from a variety of sources, Bloomberg, [Intex], trustee's reports, various other sources.

We use a filtering system to select bonds for analysis. Those filters include delinquency vectors, delinquency migration, i.e. 30-day to 60-day, 60-day to 90-day, 90-day to foreclosure, et cetera. We look at the build-up of credit enhancement. One of the other things that happens in these structures is, every month as prepayments come in, the amount of credit enhancement underneath your piece, all things being equal, should be increasing. And as I'll show you, that has generally been the case.

We look at loss vectors. What is a loss vector? It is the build-up of losses within the portfolio. And we then do a projection of credit enhancement going out in the future and then look to see whether that projected credit enhancement, based on the trends we see in defaults, delinquencies, prepayments, et cetera, is such that it will fall below the expected credit enhancement level for the level of rating on the security.

So when you get right down to it, this system in addition to identifying securities where we think there's going to be an actual payment problem is fundamentally oriented to detecting securities where we think there is a significant risk of the erosion of the credit support to the point where these risks downgrade. Anything that pops out of what I would call the statistical examination then receives an in-depth review. And to be blunt, our surveillance is completely independent of the rating agency processes. As I mentioned earlier, we have about $2 billion currently on our surveillance list. This breaks it out by sector.

I mentioned credit enhancement, and I think that this chart should give everyone a lot of comfort. It certainly gives me a lot of comfort. If you -- this is the jumbos, which -- and the Alt-As. The next page I'll get to will show you the subprime. But if you note, the amount of original credit enhancement means the credit enhancement built into the deals that we purchase at purchase has gone up fairly significantly over the last couple of years.

The current credit enhancement refers to the amount of credit enhancement below our piece currently. If you look at the Alt-As, if you -- for instance in jumbos, 2007, the original current -- original current enhancement, i.e. at purchase, was roughly 13% for the 2007 purchases, 8.6% for 2006, 6.4% for 2005. So over the last several years, we have continually ramped up that credit enhancement.

Within Alt-A, same story, a continual upgrade of the credit enhancement to where the credit enhancement, we purchased within the Alt-A world really looks more like typical credit enhancement for a subprime deal. More to the point, if you look at the current credit enhancement column, you'll see that the amount of credit enhancement in each of these asset classes for each of the rating categories has actually gone up continually over time.

Subprime is a slightly different story simply because the -- unless you go back to 2004, the amount of credit enhancement that we have insisted on has basically been in the low 20s fairly consistently over the last couple of years. But more importantly, if you look at the build-up of credit enhancement, you'll note that the 2004 vintage, for instance at the AAA level, we now have almost 60% credit enhancement.

So, put that -- what does that really mean? It means that if 100% of the loans default in that vintage, with a 60% severity at the loan level, and 60% severity at the loan level means you're getting back about $0.20 or $0.30 on the dollar of the house itself, the AAA would not be hurt. Similarly 2005, credit enhancement is up above 40%. Even in the 2006 vintage, which has received so much nasty press play, our current credit enhancement under our AAAs is close to 30%.

And that reflects the fact, also not widely understood, that the 2006 mature portfolio, at least the ones we own and there's obviously a range because it's an average, are basically 30% paid down at this point, roughly 30% paid down. So as those pay-downs come in, unless you eat away the subordination underneath, the remaining subordination available to support the AAA continually goes up. And this has also been true at the below-AAA level. We really have not had any significant erosion, or any erosion frankly, except on a very idiosyncratic basis in any of these holdings.

I'm going to actually skip the next slide, because I think we've gone over it in enough detail before. But, I want to talk a little bit on the next slide about the trigger process. There's been a lot of discussion recently, including yesterday in the press, about the trigger issues and whether or not forbearance on resetting loans would affect things. First, I think people need to understand what the trigger system means. Basically, the way that these structures are designed, generally at the end of either two years or more, typically three years, the whole structures -- all the -- all prepayments go to the AAAs for the first three years in the typical deal. At the end of three years, you examine the triggers.

If the triggers are passing, then future prepayments pay pro rata across the structure, i.e. right on down to the BBBs, the BBs, the residuals. If the triggers have failed, then all prepayments continue to go just to the AAAs until all the AAAs are paid off. Then, they go to the AAs until all the AAs are paid off, et cetera. The significance of this is that if you assume those triggers are going to fail, and there are basically -- usually people talk about two triggers. There are really three triggers. One is, has the enhancement doubled for the AAA? So, if the initial enhancement was 20%, is the enhancement at least 40%?

Second trigger, have cumulative losses been in excess of some minimal amount? There's a fairly complex calculation of all these things, but rough justice, somewhere around 2.5% or 3% defaults. Or, is the 60 plus day delinquency bucket more than roughly 16% of the deal? And if any of those three things are true, then the deal does not step down. The triggers fail, and all prepays continue to go to the AAA.

You know realistically, this causes what might have otherwise been less -- last cash flow AAAs to become sequential AAAs and pay off early. It's called a turbo feature in some structures. This is an important structural protection to the AAA part of this universe. To put it in perspective, we estimate that with regard to our subprime AAAs, if the triggers fail, it reduces the average life of these pieces by about a year and a quarter, which is significant, so from roughly three some odd years down to about two and a half years.

What are the other -- the other mitigating factors? Mortgage cash flows, we talk here about what -- how much is not last cash flow, which is the bulk of it, and how much is last cash flow. But as I mentioned, if triggers fail, which seems to be the common perception, the reality is, none of these are going to be last cash flows.

This slide, I think if there is nothing else that I could spend a little time with you guys on today, is what I would really like everyone to internalize. It is Mortgage Securitization 101, but it also goes a long way to making people understand a fundamental difference between a securitization of mortgage loans and a CDO that consists of mortgage-backed securities pieces.

If you start on the far left of the chart with the subprime mortgage loans themselves, these are just a raw pool of loans, if you think about is the owner of that pool of loans, any losses hits you dollar for dollar and any income comes to dollar for dollar. So, then you move the first step to the right. And this is a mortgage securitization, and this is a style -- this is not a specific deal, this is a stylized deal. But, one way to think about it, if you were to AAA piece a good analogy would be that you're the equivalent of an S&L, a closed-end S&L that has roughly a 20% loan loss reserve, because all losses go to the pieces beneath you before any losses go to you.

So, all of that ex -- all of those pieces beneath you have to absorb losses on the structure before any loss goes to the AAA. In addition, all excess interest within the structure is available to absorb losses before -- and there is. A lot of people don't understand this. There is between 2% and 3% excess interest on these things at origination, and that's before you get to the reset. So, even on the teaser rate or whatever you want to call it, there's significant excess interest in these things.

So realistically, you might think of yourself as an S&L with a 20% starting loan loss reserve that then goes up every year. And why does it go up? Because you're paying off that AAA with every payment that comes in the door, so at the -- within a relatively short period of time, the amount of claim that is represented by the AAAs continually shrinks, and the cushion underneath stays the same except to the extent of actual losses.

So realistically, think of this. You are at that AAA level significantly more protected from performance in that loan portfolio than the direct owner of the loan. On the other hand, if you move down the stack, you'll note you have AAAs, and you have AAs, and then you have As, then you get down to the BBBs. The BBBs are still above the BBs, the non-rateds, the excess interest. They have some credit support. But the bottom line is, it doesn't take a huge amount of losses to nick the BBBs. In a typical deal that might be 4% or 5%, 6% losses, you're going to start eating into the BBBs. So, that sort of makes it clear.

So, if you're at the lower end of the spectrum on these pieces, you have an enhanced allocation of the losses. If you're at the upper end of the spectrum, you have a reduced allocation of the losses. You then look though and go to the next step over, which are the ABS CDO structures. If you'll note, what do they pick up from this direct securitization? They pick up primarily the BBB piece. And the reality is, they then retranche that at the bottom of the page. So, if you think about what some of these Mezz ABS CDOs are, they're simply a pool of BBB pieces of mortgage-backed securitizations.

Now, if you believe that the risk in those individual pieces is idiosyncratic, i.e. they are going to behave differentially to one another, then you're getting a diversification benefit within that structure that may justify some tranching. On the other hand, if you get into a market where all subprime doesn't perform well, then you have -- you may have 100 bets in that portfolio, but it's 100 times the same bet.

So realistically, the tranche structure and the bottom structure doesn't really help you much if, in fact, it is simply a resecurtization of the same risk. And frankly, that structure, that bottom structure, has been the source of most of the pain that has been incurred out there because realistically, a lot of the people who sponsored these transactions, who were underwriters, could not sell those lower tranches.

So, what do they do? They put it -- they either retain them on their books in which case they're -- they're having the pain. Or, they put them into this kind of securitization, retain the securitization, or at least parts of the securitization on their books. And they are also having the pain. Similarly, those who bought the structure, even at the higher rated ratings may have fair amount of pain simply because they -- think of it as, they have a securitization of the loan loss reserve that's available for all these other pep.

So people say, gee, aren't all AAAs alike? And the answer is no, all AAAs are not alike. To put it in perspective, the entire structure at the bottom of the page, the Mezz ABS CDO structure, would have to go to zero before even the A up here gets nicked at all. So, there's a fundamental difference between being in a securitization of the underlying asset and being in a Mezz CDO.

I'm going to touch very briefly on the high-grade CDOs. There actually aren't very many high-grade CDOs. There are a few out there. We have actually some very small holdings ourselves. Arguably, they have less risk than the direct securitization, because they just take the AAAs and AAs and resecuritize them.

Realistically, that was not a very big market simply because generally, there wasn't much of an arb to be made there. But it's worth noting that notwithstanding the -- I'll just make the advertisement that not withstanding the fact that arguably, they have less risk than the direct securitization, they trade more like the ones at the bottom. So, there may be some opportunity there. Finally I'll just mention, CDO-squared is on the right. Everything I said about the Mezz ABS CDO, the CDO-squared part sort of -- all I can say is, those are good reasons not to buy CDO-squareds.

Finally, I just -- I would be remiss if I didn't touch on what we do own. We do have $157 million of Mezzanine ABS CDOs. Virtually all of this -- not virtually, the vast majority of this portfolio predates 2006. It is based on fixed-rate collateral and really reflects a very isolated relationships, I guess is the way I would phrase it, with a specific -- mostly with a specific originator in whom we have a fair degree of confidence.

So -- and for what it's worth, none of our tranches in this area, and this is a tiny part of our portfolio. I hope people do appreciate that $235 million in the context of a $1 trillion balance sheet is not a large holding. None of our tranches is deferring interest or paying in kind at the present time. I will note however, the weighted average price of this is only 50.

I'm a little out of time here. I would like to touch briefly on our monoline exposure. So, I'm going to advance through a few pages here. There's some fun reading on perception versus reality with regard to what the realities of the subprime world. Monolines have gotten a lot of press. I think that they are relatively poorly understood by people who are not in the fixed income market. If you look at our monoline exposure, just on its face, it looks huge at $41 billion -- or nearly $42 billion. But, I would note that 75% of that is wrapped municipal bonds, and I can tell you that we do not view the municipal bonds wrapper as providing any value whatsoever to those securities.

In our opinion, the reason why municipal bonds get wrapped is that they are primarily sold to retail buyers. And retail buyers do not have the staff or the -- frankly the wherewithal to conduct independent research. We do independent research on every single municipal bond owning -- holding we have in our portfolio. We have virtually none that do not have an underlying municipal rating of at least A. And frankly, if you look at studies, an A underlying for a municipal is equivalent to AA corporate. A AA muni is basically equivalent to AAA corporate in terms of risk. So fundamentally speaking, while a lot of these are wrapped, we buy municipal bonds wrapped or unwrapped as generic, for want of a better way of phrasing it.

To the extent that there are muni wrappers on some -- most of the rest, or the vast majority of the rest, is wrapping various -- mostly mortgage-backed securities pieces. And there are several reasons why we look at wrappers in that arena. One is so-called tail risk on last cash flow pieces.

So, if you think about the way a mortgage-backed security pays down and you start out with a pool of 50,000 -- or, 5,000 -- typically 5,000 or so loans, at the end of say three or four years, that may be paid down to 100 loans left outstanding. When it's a pool of 5,000, you can basically rely on the law of large numbers to give you a fairly straightforward performance. However, as it shrinks down, that tail develops more and more idiosyncratic risk.

So the bottom line is, the wrapper is there to protect you against idiosyncratic risk in the tail. On the other hand, the tail is typically a tiny piece. So, if you started with a $100 million piece, you're really looking to the wrapper to protect you against idiosyncratic risk on, in effect, the last $1 million or so of collections in the piece.

Secondly, we use wrappers on untranched deals meaning, if you go back and you think about that tranche structure of securitization, typical deal, you've got AAAs, AAs, As, BBBs, BBs, et cetera. In certain asset classes, home equity loans being the most notable, they're issued as single tranche deals meaning in effect, you're buying a tranche that is a combination of BBB, A, AA, AAA, so you buy the -- you don't buy the wrapper. They're usually sold with the wrapper, for want of a better term. It is really intended to say, okay, we wouldn't normally buy that BBB piece, but that little bit we'll view as acceptable within the overall context of the piece because of the wrapper.

And finally within the subprime world, some pieces are wrapped that are natural AAAs, and they were wrapped by the underwriters simply to provide additional marketing comfort, for want of a better way of phrasing it. And with respect to those pieces, we would not view the wrapper as a meaningful part of our credit analysis.

I think I'll end there. Let me just hit my 'in conclusion.' We do believe our RMBS portfolio is reasonably well positioned to withstand even a severe downturn in the U.S. housing market. This is basically a function of the subordination level we've bought. We have minimal holdings in RMBS-based CBOs and minimal holdings in lower-rated tranches of direct RMBS securitizations. We believe our RMBS portfolio is a prudent and appropriate component of our overall diversified exposure. As Win went over, there's roughly -- if you think about our buyable universe, mortgage-backeds make up about 50% of our U.S. buyable universe.

Realistically, the option of corporate credit or RMBS, in my personal view, is we would be remiss if we put everything in one asset class. It simply is not a practical way for us to run our business and not the way that we can run our business. I'd also point out that the consumer housing cycle and the corporate credit cycle are not entirely correlated with one another and so, they do provide a diversification benefit.

Finally, our exposure to monoline insurers is modest from an economic perspective. I would say it rounds down to a trivial number, frankly. And wrappers are viewed, at best, as a secondary source of payment. Thank you.

UNIDENTIFIED COMPANY REPRESENTATIVE: Now, we'll take some questions.

GARY RANSOM, ANALYST, FOX-PITT KELTON: Gary Ransom, Fox-Pitt Kelton, I just had a question on your overall bond portfolio strategy and how the ownership of RMBS fits into that strategy. What are the characteristics of RMBS that you like compared to other options out there.

RICHARD SCOTT: Well --.

GARY RANSOM: And -- could you just address that?

RICHARD SCOTT: I'd be happy to. If you look at the -- let's look at the U.S. markets, since that's principally where there is an RMBS market. The U.S. bond market basically consists of about four big categories. You have residential mortgage-backed securities, which are roughly a $9 trillion or $10 trillion market. You have corporate debt, which ranges from high-grade to high-yield to distressed, which makes up a very significant part of the market.

You have treasury securities, which are about 15% of the market. But frankly, we don't -- as much as I would like to, we don't really fund at the treasure rate. Believe it or not, people seem to think the treasury is a better credit than us. I always have trouble with that.

But realistically, I've always told people that if I'd buy something at the risk-free rate, I basically am buying something at the profit-free rate. So realistically, one could argue that a treasury security is a risky position for me because realistically, I'm funding it. But, there are only two ways I can fund a treasury and make money.

One is to take a duration bet, i.e. funds shortened by long, and hope I guess right on interest rates but have massive repricing risk, because I'm not going to make a spread owning a treasury. The other is to hope I time it just right and get in when treasuries are rallying and get out when they're falling, because my cost of funds exceeds the treasury cost of funds. So much as I, particularly in troubled times, one might say, gee, why don't you own a bunch of treasuries? The reality is, if I own a bunch of treasuries, over time, I don't make any money.

And finally, you have agencies. And we do own agencies. I'm not sure that's such a good thing in this day and age either. But, I personally have no trouble with the agency credit. But, it is -- they -- they are -- there are two or three specific issuers. And as a practical matter, we're not going to put that -- notwithstanding the implied guarantee of the U.S. government, we're not going to put that much in. And frankly, they have historically traded very tight to the curve and, frankly, have not been a source of a lot of value.

So, when you sort through it all, you really come down to two basic asset classes that are of significant size. One is the mortgage market. The other is the corporate credit market. Realistically, we feel that it is prudent and appropriate to have an allocation to both of those major parts of the market. That provides us some protection against a meltdown or a market dislocation on either one.

As a practical matter because of the relative shortness of mortgage-backed securities, we tend to use them in the shorter liabilities of -- like annuities and similar type programs and tend to use the corporates more heavily in the more traditional life arena.

The other major asset class that we do own, obviously, that I alluded to earlier is municipal bonds. But, municipal bonds from a tax viewpoint do not work for life companies. So, we own them in our P&C accounts, but life companies under the U.S. tax law do not benefit from tax-exempt interest. So, we do not own them in our life accounts.

WIN NEUGER: All right. The only thing I would add to that is that, again, what Richard just talked about is roughly 50% of our portfolio with the balance being invested all around the world and in various other asset classes. So, the diversification in the aggregate portfolio is even greater than that that he just described.

JAY GELB, ANALYST, LEHMAN BROTHERS: Thanks. Jay Gelb from Lehman Brothers, within the $2.9 billion of negative marks in the RMBS portfolio, would you be able to update us on that through November?

RICHARD SCOTT: We have not finalized our pricing process for November. We have been through it. I think that a -- I'm willing to give a rough estimate of perhaps another 2% decrease on the overall book.

JAY GELB: What does that translate into?

RICHARD SCOTT: Call it another $1.7 billion, $1.8 billion.

JAY GELB: Okay. And then -- so that's unrealized. What -- in the way you treat this from an accounting perspective, what would cause that to be reflected in other than temporary impairments through the realized gain and losses on --?

WIN NEUGER: Well, let me over that, because it's fairly complicated. A lot of people say, why don't you just market to market. And the answer is, we don't have it in the trading portfolio, and U.S. GAAP doesn't allow you to mark things just because you feel like it. Realistically, the things that trigger recognition are obviously if we sell a piece. That triggers recognition. If we have to write down a piece under EITF 99-20, it's probably the likely source of write-downs. EITF 99-20 is a fairly complicated accounting rule.

But fundamentally it says, if there is an adverse change in the anticipated cash flows from the piece, we then mark it to market. The effect of that mark to market -- and we also reset the amortization rate at that point to reamortize it back to what we view as the recoverable value of the security.

So, if the adverse change in payment is simply a change in the timing of payment, you would reamortize it back to PAR. If the change, adverse change, in payment is a perceived ultimate loss of principal, you would estimate a reamortization rate back to what you estimate the ultimate principal recovery would be.

Now, the practical effect though, even though you -- the rule essentially says you discount at "market rates," what we do, we assume that the market reflects market rates. And so, we will mark those pieces to market if the triggering calculation is there. And during the third quarter, we did have a number of items. I think the total amount was in the $140 million range that marked to market under EITF 99-20. The third is that independently of sales and independently of EITF 99-20, if we determine that there is a principal impairment, we then mark it to market at that time.

JAY GELB: Then the final question is, I believe the last panel was also asked about the Paulson plan. As significant owners of RMBS, what's your view in terms of how this all comes together?

WIN NEUGER: Well, I'm going to actually to defer to Jason D'Angelo, who's with me. We actually spent a great deal of time yesterday talking about this, but I'm going to let him give you the summary of our views on that.

JASON D'ANGELO, VP, PORTFOLIO MANAGER - AIG GLOBAL INVESTMENT GROUP, AMERICAN

INTERNATIONAL GROUP: I think in general, we agree with the majority of people who believe that modification is a good thing for borrowers and for investors in mortgage-backed securities. Given our position at -- more heavily weighted to the top of the capital structure, it's pretty hard to argue that it is not a good thing for our holdings.

The key to the -- the details have yet to be worked out. And it's inevitable that there will be some formidable hazard, and there'll be some flaws and difficulties in the determination process to decide who gets modification. But there really -- there are other people who have taken some questioning about what it might do to some of the capital structure.

There is the potential that they -- if a -- an inordinate amount of loans got modified that some of the triggers that benefit the securities we own would not get tripped. We do not think that is the case for the majority of deals in which we're invested, because there already is a significant amount of delinquency and default built into those transactions that they're extremely likely to fail triggers anyway. So the short answer is, it will be a net positive for us.

WIN NEUGER: Yes. And I think we would view the ameliorative effect on avoiding the additional housing stock going into the resale market as more than offsetting whatever incidental disadvantage there might be on the occasional deal due to trigger fail -- trigger fail, trigger pass type calculation.

RICHARD SCOTT: And Jay, I just want to add one other comment on the valuation. This -- we're talking about one subset of our total portfolio. With our portfolio, if you track it quarter to quarter, the reality is it moves by billions of dollars almost every quarter.

In fact, if we look at the total portfolio, there is -- there are many things that so far this quarter, and we've still got another month to go I think, there are a lot of things that are up in the portfolio, so -- that are offsetting that decline. So again, it's one of the beauties of diversification. But for us every quarter, it's an unusual quarter, as I say, that doesn't move by $1 billion or $2 billion one way or the other.

WIN NEUGER: Yes. Let me add to that. We actually got a question on our last earnings call, which was, gee, how much is the mark to market? And I pointed out that it is not uncommon. As a matter of fact, it is an unusual day when the market value of our portfolios does not change by well in excess of $1 billion up or down. And to put that in perspective, we have roughly a $500 billion bond portfolio.

A 20 basis point change in carrying value is $1 billion either way. Given the duration that we have on so much of our portfolio, that translates into roughly a three basis point move in pricing. So, when we have days like we had in the last several weeks where the ten-year bond moves by over a percent in price in a day, you can sort of do the math and say that our portfolio probably moved in the order of $5 billion or $6 billion in value on those days.

RICHARD SCOTT: And just so -- remember, this is bonds. When rates go down, bond values go up. When rates go up, bond values go down.

UNIDENTIFIED AUDIENCE MEMBER: Hi. I just have a question on your portfolio -- overall portfolio. Based on the current environment, where is it that you're buying more or increasing your relative bidding? In terms of asset classes, where are you backing off? And specifically on subprime RMBS, do you see an opportunity to increase the allocation to that asset class? Or, are you trying to get rid of what you own?

RICHARD SCOTT: Let me start and then, I'll turn it over to the mortgage experts on our RMBS. Clearly this market environment, because of the uncertainty and the volatility, is theoretically creating a lot of opportunities. I think the reality is that there's less trading than is being talked about. But nevertheless, we are seeing opportunities that we're taking advantage of through our hedge fund to funds portfolio. We're seeing great opportunities in private equity where deals that had been put in place are being restructured.

And interestingly in our growth private equity business, which is a significant part of our direct private equity business, so deals that we're doing that are not dependent on leverage, we're seeing a significant increase in opportunities as some of those leveraged buyers are backing away from the market. So, we're seeing a big pick-up in -- and particularly in emerging markets and in the U.S. in what I'll call the smaller and middle market segments of that portfolio. So, we think there are great opportunities.

I think in terms of RMBS assets, as I said, I'll let my colleagues talk about. One of the clear opportunities here is that if you believe, as we do, that the AAA sector of the RMBS market is money good and if you could truly buy those securities at significant discounts, there's a huge opportunity.

And there's a bit of resistance to catching the falling knife. But on the other hand, we've got a long-term view. And if we can buy that paper at meaningful discounts to par and have high confidence that we're going to get paid back over the next three or four years, we should be buying a lot of that. But as I say, not very much of it is trading. So --.

WIN NEUGER: Yes. I think there's some short-term technicals to the market that would probably have me be a little cautious in the short run, including the fact that there's some seasonals to delinquency patterns that typically peak in the first quarter of the quarter of the year, which I think are going to lead to some more fun headlines before we get out of the woods. So realistically from a tactical viewpoint, I'm probably in a neutral position right now.

UNIDENTIFIED COMPANY REPRESENTATIVE: We have time for one more question, if there is one.

JEFF SHANKER, ANALYST, CITIGROUP: Jeff Shanker from Citigroup, in terms of looking at your comments on Page 24, the tranche in various Mezz CDOs and subprime bonds and what not, you point out that a CDO or Mezz CDO, it's all BBBs and then all BBB, and there's some dispersions about that quality. How does that relate to your opinion on home equity line of credit investments and second-lien investments? What's the underlying quality of those transactions to begin? And should we be viewing those as having natural AAA attributes? Or, are they closer to BBB?

RICHARD SCOTT: I would say, they are -- they are, as I mentioned in connection with a discussion on monolines, they are in effect untranched transactions. As a practical matter, the borrowers are generally pretty high quality in those deals. As I recall, the average FICOs are north of 700 in those pools.

But, one of the reasons why there is a wrapper on this is if you think about it, an untranched deal is sort of a blend of AAA, AA, A and BB where you might say 60% of it is AAA, and 20% of it is AA, and the other 20% is A and BBB. So one of the reasons we primarily buy those, or almost exclusively buy those, with a wrapper is to protect against the tail risk on those bottom -- the bottom part of the untranched structure. However, realistically at worst, we would view the underlying -- part of the underlying as being BBB at inception.

WIN NEUGER: I might use that as the opportunity to point out that in the appendix, there is additional detail above and beyond what we talked about here and particularly around second-lien and home equity loans, so that it's there for your review. And with that, I think we'll turn it over to the next group. So, thank you very much.

MARTIN SULLIVAN: Ladies and gentlemen, just while we segue to the next presentation, I would also like to point out that in addition to Edmund not getting the memo, [Chris Moore], and Kevin Kelley didn't get the memo either. So, they're actually in the audience today. And if you have any questions on the domestic brokerage group, please take the opportunity during the lunch hour to make them earn their lunch. So, as Billy -- you're nearly in position?

BILLY NUTT, PRESIDENT, CEO - UNITED GUARANTY CORP., AMERICAN INTERNATIONAL GROUP: Yes.

MARTIN SULLIVAN: Okay. I'll hand over the podium to Billy Nutt, who will talk about our Mortgage Guaranty business.

BILLY NUTT: Thank you, Martin. Good afternoon everyone, and yes, it has passed 12 o'clock. I'm Billy Nutt, CEO of United Guaranty Corporation, and I'm pleased to provide you with an overview of our U.S. mortgage insurance operations. I have with me today Tripp Waddell, our Chief Financial Officer, and Len Sweeney, our Chief Risk Officer.

For my agenda, I will provide an industry and company overview, describe the product characteristics and financial model of our business, show some details about our first and second-lien portfolio, discuss our analysis of expected future performance of our existing portfolio. And then, we'll be pleased to answer any questions you may have.

As I go through this presentation, there are four principal points that I'd like to make. Number one, UGC as a broad market participant, operates in an inherently cyclical business that is highly correlated to the fortunes of the housing market. Number two, we price for long-term profitability to absorb market disruptions, and we have generated $3.4 billion in net operating income over the 10 years prior to 2007.

Number three, even considering the current market downturn, expected future losses on our existing portfolio are significantly less than our net risk in force. And finally, UGC is well positioned to take advantage of the opportunities presented when the market emerges from this housing correction and continue its long-term profitable growth.

I won't review each of the bullet points on this page, but the principal point I want to emphasize here is that as an industry, we began in 1957 as an alternative to government programs. And we have helped over 25 million families purchase a home with a low down payment. Looking more specifically at our company, UGC is a broad market participant in a cyclical industry. Historically, UGC's loss ratio was 27% over the 10 years prior to 2007, demonstrating our strong profitability over many years.

UGC provides coverage for major lenders, originating primarily A-quality paper, and as a part of these relationships, we are expected to insure a wide variety of mortgage products and participate through all housing cycles. And given the cycles in the housing market, UGC prices its product for long-term profitability.

Now, let's take a look at some of the basic product characteristics of mortgage insurance. And with that in mind, I thought it would be helpful to define what mortgage insurance is and what it is not. Mortgage insurance is clearly defined credit protection that not only -- that only pays in the event of borrower default on residential mortgages. It is life of loan insurance coverage governed by a policy. It is insurance coverage with exclusions for fraud, property damage and environmental impairment. It is credit protection for high LTV first and second-lien residential mortgages, and it is credit protection subject to coverage limits on the individual loans or pools of loans.

Mortgage insurance is not an unconditional and irrevocable financial guaranty. It is not an RMBS or CDO wrap. It is not commercial or multi-family real estate coverage. And importantly, mortgage insurance is not directly impacted by changes in the value of secondary market structures. UGC's performance is highly correlated to macroeconomic events. In addition to our credit policies and underwriting standards, there's three principal drivers of performance in our business -- home price appreciation, better known as HPA, unemployment and interest rates.

HPA obviously negatively impacts high LTV loans in declining markets like we're currently experiencing. Unemployment, of course, affects the borrower's capacity to repay the mortgage, and adjustable rate loans are sensitive to changes in interest rates. In a poor housing or economic environment, these factors outweigh individual borrower characteristics in determining the portfolio performance.

UGC uses various risk mitigants to reduce performance volatility, including risk sharing such as captive agreements with our lenders. We also utilize reinsurance, including quota share reinsurance, on segments of the first and second-lien products. We use policy limits, particularly in the second-lien business, which generally has limits of 10% of the original balances in each policy, and there are various terms and conditions including fraud exclusion, among others.

This next slide is pretty important in that it provides a high-level overview of the financial model for mortgage insurance. As I mentioned earlier, mortgage insurance is an inherently cyclical business that is highly correlated to the fortunes of the housing market. Standard & Poor's published this slide last week and gave us permission to reproduce it in a teleconference, which depicts this cyclicality. The bars, which correlate to the left axis, show the projected ultimate claim rate of each policy year. The line correlating to the scale on the right axis shows the actual industry loss ratio by calendar year.

And the last time the industry went through this severe of a stress cycle was in the mid 1980s when loss ratios exceeded 100%. Some of you all that are old enough will recall, that was the collapse of the petroleum economy in the oil patch states and created a severe housing recession. It also led to the collapse of the savings and loan industry. This was then followed by an extended period of exceptional performance. And now, the industry has once again returned to high loss ratios as a result of the depth of this housing correction.

Cash flows in the mortgage insurance business consist of premiums, loss expenses and underwriting expenses. For any given policy year business, there is a mismatch in the timing of premiums and loss expenses as premiums are paid while the mortgages are in force and decline as they pay off, and loss expenses generally peak in years three and four of the policy life. And it's important to note that this structural mismatch in the timing of premiums and loss expenses is exacerbated during periods of stress in the housing and credit markets. And on the next slide, I have provided a graphical representation of this mismatch.

This graph shows the timing of premiums and loss expenses of a single policy year of business. The black dashed line shows the premium cash flow, which is paid while the mortgages are in force and decline as they pay off. The green solid line shows the distribution of loss expenses in a normal environment, while the yellow dashed line shows the loss expense distribution under a stress environment when they develop not only with increased frequency, but also earlier. And as you can see, the mismatch is magnified in times of market stress like we're currently experiencing.

As regards UGC's analysis of loss reserves, UGC conducts a rigorous quarterly loss reserve analysis with several levels of review and approval by senior executives at UGC and AIG. And it's important to note that mortgage guaranty accounting requires that reserves be established, based upon current delinquencies, but does not permit any provision for future delinquencies.

Financial performance in this business is best evaluated over a full housing cycle, usually 10 years, on average. Our product is priced to absorb market disruptions and for long-term profitability. Over the last 10 years prior to 2007 in a strong housing market, UGC has generated $3.4 billion in operating income, returned $685 million to AIG in dividends, and experienced a 27% loss ratio.

Now, I'd like to provide more detail about each of our portfolios, beginning with our first-lien business. The first-lien portfolio has $24.5 billion of net risk-in-force. It is critical to note that this is not expected future losses, but rather represents the maximum contractual liability that we would pay in the event that every single loan in the portfolio defaulted at the maximum claim amount, which of course is a highly improbable event. It is calculated as the notional amount of the mortgages currently insured multiplied by the insurance coverage. The average FICO score in this portfolio is strong at 696, and the delinquency ratio as of September 30th is 4.49.

Next, I'll show the distribution of some key credit characteristics in our portfolio beginning with FICO score. As indicated here, UGC insures primarily high credit quality loans with 67% of the loans greater than 660 and only 10% below 620. This next exhibit shows the first-lien distribution by product type. As you can see, 77% of the first-lien portfolio is in fixed-rate mortgages. Of the remaining 23% in adjustable rate loans, most are standard amortizing adjustable rate loans. Only 4% of the portfolio consists of potential negatively amortizing ARMs, commonly referred to as option ARMs.

You'll also note that 7% of the portfolio is interest-only loans, but most of these have fixed initial periods of five years or more and perform on par with our fixed-rate product.

This next slide breaks out the 23% of the portfolio that consists of ARMs by reset date. Note that 6% of the first-lien portfolio, which is 25% of the ARM portfolio, has already reset. And only 4% of the first-lien portfolio, or 17% of the ARM portfolio, will reset in this quarter and in all of 2008, and an additional 3% of the portfolio will reset in 2009.

This next distribution by channel demonstrates our strategy to remain an insurance provider of high-quality first-lien mortgages. To define these terms, flow business is insured on an individual, loan-by-loan basis as each loan closes. The bulk channel insures loans submitted in large groups and generally consists of high-risk products such as option ARMs, subprime and other non-traditional loans.

As a part of UGC's strategy to maintain a high-quality portfolio, we chose to be a minor participant in 2004 in the high-risk bulk channel with only 5% of our first-lien portfolio originated through these bulk submissions. This additional slide, which demonstrates the result of our high-quality strategy, shows the relative performance trend of UGC's first-lien portfolio versus that of the industry. And as you can see, UGC has traditionally enjoyed a favorable delinquency ratio as compared to our industry.

UGC has implemented several key risk initiatives beginning in 2006, which are improving the quality of our new business production. We tightened underwriting standards and guidelines. We increased rates in some of our business segments, and we further tightened portfolio concentration caps as the market moved in our direction. We're also beginning to experience a flight to quality with improved mortgage insurance penetration for the entire industry, meaning that there are fewer piggyback loans that are being originated. We've seen increased conforming, or Fannie and Freddie eligible, loan production. And we've seen improved -- we've experienced improved quality of our new business production.

Now, let's look at some details about our second-lien portfolio. The second-lien portfolio has $3.7 billion of net risk-in-force. Once again, it's important to note that this is not our expected future losses, but rather represents the maximum contractual liability that we would pay in the event that all of our maximum policy limits were exhausted, which again is a highly improbable event.

It is calculated as the notional amount of the original mortgages insured multiplied by the policy limits less claims that have already been paid. The average FICO score of 716 in this portfolio represents the very high credit quality that exists there, and the delinquency ratio is 0.96%. The portfolio distribution by FICO score shows that 89% of the second-lien loans have FICO scores above 660 and essentially none below 620.

Give you a little bit of background on our experience in this business. We have had 35 years of solid historical performance in our second-lien business. Our customers include major retail banks, mortgage bankers and credit unions. The strategy for second-liens has been complementary to our overall strategy.

As I mentioned earlier, UGC is a broad market participant expected to insure a wide array of mortgage products. As a result, in lieu of insuring the high-risk, first-lien bulk segment, UGC embarked on a strategy to expand its second-lien business to maintain its major customer relationships. As I said, we made the strategic decision to grow our second-lien business in a more meaningful way to maintain those relationships. However, in this unprecedented correction in the housing market, it has exacerbated the volatility of second liens even more than we expected. Although second liens constitute only 13% of UGC's domestic mortgage insurance risk, they account for a disproportionate share of our 2007 losses incurred.

It is important to note that second liens experienced default earlier than first liens due to the lack of a foreclosure requirement for claims to be paid. And as a result of this accelerated claims cycle, losses in this portfolio for our business are expected to work through much faster.

Significant tightening of product and program eligibility in our second-lien business beginning in the fourth quarter of 2006 is resulting in improved quality of our new business production. Beginning in late 2006 to address the volatility in this business, we've undertaken a number of significant initiatives to re-engineer this product. We've tightened the underwriting guidelines and credit policies. We've reduced the risk-retention levels. We've improved pricing in that business, and we've enhanced the portfolio risk management. As a result of this re-engineering, the remaining mainstream product, which has proven to be far less volatile, even in this current environment, will return to its historical profitability.

Now, having examined the characteristics in the portfolio, we can look at the expected future performance of our existing risk-in-force. This chart shows that the expected cash flows of future premiums and losses over the remaining life of the existing portfolio as of September 30th, based upon our current economic outlook. And in the left box is the analysis of our first liens.

For the current net risk-in-force of $24.5 billion, the expected future performance is as follows. We expect future losses of $1.4 billion. We have already established reserves in the amount of $500 million. Therefore, the remaining future losses are $900 million. However, these remaining future losses are expected to be offset by future premiums of $1.1 billion, and this is over the remaining life of the existing portfolio.

In the right box is the analysis of our second liens. For the current net risk-in-force of $3.7 billion, the expected future performance is as follows. We expect future losses of $1 billion. We have already established reserves of $500 million, therefore, the remaining future losses equal $500 million. And once again, we expect future premiums of $700 million to offset that over the remaining life of the portfolio.

The major point here we want to reiterate is that the expected future losses are significantly below net risk-in-force, and future premiums are expected to exceed the future loss expenses on the existing portfolio.

So to summarize, I would like to re-emphasize that UGC is a broad market participant in a cyclical business that generates high returns in eight out of 10 years and underwriting losses in two out of 10 years, on average. UGC is expected to insure a wide range of products and serve our major customers in all housing environments. UGC has re-engineered its second-lien product, further tightened its first-lien eligibility guidelines and increased rates in select high-risk business segments.

While we have taken the appropriate steps in this market environment, UGC expects further deterioration in loss expenses for the remainder of 2007. We also expect that the downward market cycle in the housing market will continue to adversely affect our operating results until the domestic housing markets stabilize and as -- and this is likely to result in an operating loss in 2008 for us as well.

The quality of new business production is improving, driven by UGC's underwriting and eligibility adjustments, along with more rigorous underwriting standards that are taking place in the market by our customer base. And finally, UGC is well positioned to take advantage of the opportunities presented as the market emerges from this housing correction. The company has a strong capital base and is poised to continue its long-term profitable growth.

Thank you for your attention. And now, we'd be pleased to respond to your questions.

ERIC BERG, ANALYST, LEHMAN BROTHERS: Hello? Hello, thanks. Eric Berg from Lehman.

You've indicated that you expect fairly large losses on your second-lien portfolio, $1 billion or nearly a quarter of the $3.7 billion in principal risk-in-force. Yet, the delinquency ratio is very low. It's significantly lower than your first-lien delinquency ratio. How do you reconcile the fact that your -- that fewer than 1% of the loans by number are delinquent, and yet, you expect ultimate losses equal to a quarter of the principal outstanding?

BILLY NUTT: Well, first of all, our second-lien business was running a delinquency ratio probably one-fifth of that until this housing market correction began. And we also have an accelerated claims cycle in that business. And if you were to equate the delinquency ratio in the second-lien business, you need to multiply it at about five times to equal that of the first-lien business.

Len, what would you add to that?

LEN SWEENEY, CHIEF RISK OFFICER - UNITED GUARANTY CORP., AMERICAN INTERNATIONAL GROUP: Well, said another way, the loans are reported delinquent in an area of 90 days. The claim is paid at about 150 or 180 days. So in fact, the loans move through delinquency to claim payment exceptionally fast.

Billy's comment about the multiplication of the second mortgage delinquency is to account for the length of time that a first mortgage would be in a delinquent status while it goes through foreclosure, so somewhere in the neighborhood of three times to four times the first mortgage -- or the second mortgage delinquency would need to be done.

AL COPERSINO, ANALYST, MADOFF INVESTMENT SECURITIES: Okay. Al Copersino with Madoff, I have two quick questions. The first on Slide 26. I'm assuming the investment income positive offset would counteract the expense ratio negative offset is what I'm assuming. If you sum up the expected future premiums and the expected future losses here, it looks like a loss ratio of about 78%. That, of course, excludes any new business. My question is, that expected 78% loss ratio going forward on the current book as it is, over what period of time do you expect that to occur? That's cumulative, that loss ratio?

LEN SWEENEY: That portfolio we would expect would probably stay on the books another three to five years. That would be the normal runoff of mortgages as they prepay and the premiums and the losses will run through that life.

AL COPERSINO: Thanks. I have one quick follow-up then. If you look at slide nine, as you all are well aware, in the mid-80s and the early-90s, there was obviously a lag from claims incidence to, then, the industry's loss ratio. My question is, this time around, I assume that lag will also be there this time too, that we'll see loss ratios occurring in the years following the increase in incidence. Is there any chance though that that might be a little bit lessened this time? Are defaults coming through faster this time so that that increase in the loss ratio in the years after the incidence rise might not be quite as bad this time?

LEN SWEENEY: We think that's correct. Certainly in the second mortgage side, we would expect the losses and are seeing the losses going through the portfolio much quicker. In addition, we have several of the individual policies within the second mortgage business that have been driving a significant amount of the losses will be hitting their maximum policy limits, which will affect -- which will have a positive effect on that loss ratio.

And we would expect to see some recovery in the housing, and, at least, our forecast shows for some recovery to start beginning in the housing market in early 2009, which should have a positive effect. And then lastly, again, there's -- there is a significant improvement in the quality of the business that's being originated today, which will have a positive effect on loss ratios on a go-forward basis.

UNIDENTIFIED COMPANY REPRESENTATIVE: Just one more comment too to add to the earnings stream to remind you about Billy's comment and the charting here on the cash flows, what will happen out of that future look on these premiums and losses is the losses will occur earlier in the timeframe than the premiums. So, you'll see losses occurring probably in the next one to two to three years, with the premiums coming following that. This business has a long tail on the back end on the premiums that are received while the losses occur early in the cycle, and they're being exacerbated by the housing market.

DAN JOHNSON, ANALYST, CITADEL INVESTMENT GROUP: Thanks. Dan Johnson with the Citadel Investment Group. Can you talk a little bit about your house price appreciation assumptions you're using within this slide 26 and what sort of sensitivity we have to -- changes in those assumptions? Then, I've got a follow up as well.

BILLY NUTT: Len, why don't you give him all of our economic assumptions there?

LEN SWEENEY: Sure. I'd be happy to do that. The economic assumptions for the -- those forecasts on the losses, we consider an '08 environment very similar to that we've seen in '07, further home price declines in the neighborhood of 5% to 7%, unemployment creeping up although staying in the 5% range, some stabilization in the home inventories, which as you know now are at about a 17-year high. So, we would expect again a rough ride in '08 with some recovery beginning in '09 from a housing market perspective.

DAN JOHNSON: And then, the follow-up was, just giving the delayed nature of the accounting here, do you have a sense on 2009, whether there's a prospect for profitability? Or is that not likely?

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, yes, it's difficult to forecast that. I think we would say, '08's going to be from an operating income standpoint similar to '07 on a total-year basis. We're seeing some improvement in '09, so we would anticipate that we'd move to a smaller profit in the '09 timeframe coming out of the market with this current scenario.

BILLY NUTT: Yes. Our economic assumptions are that the housing market is going to show some signs of improvement in the latter part of '08, which should allow us to return to some level of profitability of '09. Should that -- should the housing market deteriorate beyond '08, then that could change certainly our outlook for '09.

DAN JOHNSON: Thank you.

JOSH SMITH: Hi, Josh Smith, CREF Investments. Two questions. First, how do you ensure that you are writing good business at this point in the cycle? Would you be willing to write less business if you -- if your housing forecast got significantly worse? I think you're okay for the stuff that's on the books, but my concern is that you write a lot more business, put a lot more risk in force, and then housing prices go down 10% to 20%. And then, I have a follow-up.

UNIDENTIFIED COMPANY REPRESENTATIVE: I think that was a good -- very good question. We would certainly -- two things. We would certainly be willing to write less business if, in fact, we saw the market continue to deteriorate in the housing movement to go beyond what we expect. I think it's important to note we saw that coming in the past. That explains our reason for a very small percentage of our book in the high-risk bulk segment of the business.

We had somewhere in the neighborhood of an $8 billion goal for bulk business in 2006. We wrote in the neighborhood of $2 billion and could have written $20 billion. We stayed away from the option ARM business in a meaningful way. So, the fact of the matter is, we would be willing to write less business on a go-forward basis.

Again, there are some good dynamics going on in the market. There's significantly more business being written that is eligible for sale to Fannie Mae and Freddie Mac GSC conforming product, which is generally a higher credit quality product. The persistency on the book, the staying power of the book has increased. So, we see some positive movement that makes us feel good about the return to profitability in the future.

BILLY NUTT: Yes. I would add that the significant re-engineering in our second-lien product came about as a result of the inherent volatility in that product. And given our assumption that the market is going to continue to deteriorate -- the housing market -- into 2008, we'll probably write one-third of the business in our second-lien product and are willing to give that product -- to give that product up if the market continues to deteriorate.

JOSH SMITH: Just quickly on the loan modifications. One of your competitors says -- has said that they're actively engaged in loan modification on GSC product. Is that true for us as well? And what is your view? I would -- presumably the Paulson proposal would be a huge benefit for the mortgage insurers, given that you only pay on foreclosure.

LEN SWEENEY: I think generally speaking, that's correct. Again, most of the focus with respect to the Paulson is on the 228, 327 subprime reset ARMs. Slightly over 1% of our risk-in-force falls into that category. So on a direct basis, it would have a limited impact on our book. I think the more meaningful impact on the market would, again, be the fewer homes going back into the inventory as a result of this effort, which would have a positive impact overall.

BILLY NUTT: Yes. Net/net, it would be a positive for us. And we applaud any efforts that are being made to keep these families in their homes and to avoid foreclosure. And we do a lot of work with our lender customers to try to keep -- make every effort to keep these borrowers in their homes.

CRAIG GIVENTER, ANALYST, FIRST PRINCIPLES CAPITAL MANAGEMENT: Craig Giventer, FPCM.

For the first-lien book, could you decompose the future losses by product just to give us a sense as to what your expectations are by product as you build up the future losses?

LEN SWEENEY: If I'm being asked to answer it, I'm afraid I didn't hear the question.

BILLY NUTT: Well, it would be the cash flows that we provided on the first-lien business, broken down by product.

UNIDENTIFIED COMPANY REPRESENTATIVE: Major product.

BILLY NUTT: Okay. We don't--

LEN SWEENEY: Yes. I've got more information, quite frankly, on the future cash flows on a book year than on a product basis. Clearly, on a loss ratio basis, the -- what little business we have in the subprime, lower credit quality, would have a significantly higher loss ratio with our prime business, performing about on par. And the limited amount we have on the alternative A product would also be throwing off a higher percentage of those losses. But I don't have more detail for you on the profitability by product.

BILLY NUTT: We have those cash flows, and we can provide them as a follow-up.

DAN LIFSHITZ: Dan Lifshitz with Fir Tree Partners. With a lot of your competitors being one-line companies doing this and AIG's mortgage guaranty business part of a bigger, much more well capitalized company, are you seeing right now or do you expect to see any kind of flight to quality, where you're going to capturing a lot more of this business going forward and taking it from the, quote/unquote, "weaker players" in the markets?

BILLY NUTT: We are beginning to experience a flight to quality as our lender customers, the big financial institutions, are carefully considering their counter-party risk. We think that that will continue, and we think that that's going to benefit United Guaranty Corporation and AIG. It also allows us, as these lenders move in our direction, it gives us a little more negotiating power in terms of the terms of trade under which we insure that business.

DAN LIFSHITZ: Great, thank you.

DONNA HALVERSTADT, ANALYST, GOLDMAN SACHS: Donna Halverstadt from Goldman Sachs. Two questions. One is on slide 26, where you're showing expected future losses and premiums. Do you expect any benefit from captive arrangements? And if so, how much? And then, the second question is back on slide 13 where you show operating income from 1997 through 2006. If we had that data from 1984 through 1989, what would we see that your experience was in those years?

BILLY NUTT: Do you want to take the captive question?

LEN SWEENEY: Yes. We do anticipate benefit of the -- from the captives in the 2008 and 2009 timeframe. These losses are starting to hit the attachment points in our captive trust balances. We anticipate that in '08, it'll probably provide I'd say around $100 million in benefit in the '08 timeframe. And I would say maybe double that in the '09 timeframe as the claims start to hit those attachment points.

So, those are -- those captive agreements, as you may be aware, are basically excess of loss reinsurance agreements. And as these claims rights start to increase, we expect benefit out of those captives for both '08 and '09. As far as performance from '84, I don't have those in front of me today, but we can get back to you on those.

BILLY NUTT: You would, no doubt, see similar curves. Obviously, we experienced a major housing correction in the oil patch states in 1985, 1986 and 1987. Loss ratios for the industry went far above 100% and then began to settle back down as that housing correction came to a close. We saw, once again, another small correction in California in 1990 and 1991 with the contraction in the aerospace industry there, which created some unemployment. But that housing correction was bailed out by a reduction in interest rates.

ANDREW KLIGERMAN, ANALYST, UBS: Andrew Kligerman, UBS. Just a real quick one on these captives, what percent of the portfolio has the captive reinsurance?

LEN SWEENEY: I'm sorry. You probably know the numbers.

UNIDENTIFIED COMPANY REPRESENTATIVE: It's about 72%.

LEN SWEENEY: It's about 70% of our portfolio, captive reinsurance.

ANDREW KLIGERMAN: Okay. And then, just a more general question, you had some discipline on the ARMs on not buying bulk. Could you give a sort of window into what you were thinking about the second-lien loans at the time and why we could be confident --

BILLY NUTT: Sure.

ANDREW KLIGERMAN: -- that that wouldn't happen again, and maybe actually the same question for Win Neuger. You added a fair amount of '07 and '06 business. What was your thinking at that point in time? Because you look at financial products, and they clearly were running in the other direction.

BILLY NUTT: Len, why don't you take the -- our strategy on the second lien?

LEN SWEENEY: Sure.

BILLY NUTT: And Win can --.

LEN SWEENEY: Well, I think we probably stressed it as much as we possibly could in the presentation that we are a broad market participant, expected to insure a broad range of products through all market cycles. We have relationships with major lenders throughout the country. The expectation is that you will -- that you will accept a wide variety of their product.

We opted against going deeper into the credit spectrum in the subprime, and in fact, made the decision to support some of those major customers with high credit quality, second-lien product. Again unfortunately, that product did stress significantly worse than we would have imagined during this current housing cycle.

But again, the re-engineering that we have done has really gotten us back to our knitting. We're focused on lower LTV, HELOC product. We've eliminated a lot of the third-party originated stated income, purchase money, high LTV product. And quite frankly, even during this current environment, that product is performing fairly well. It is stressed, but it's performing fairly well and profitably during this time. So, we think we've cut out the right product, and we're back to our knitting on a go-forward basis.

UNIDENTIFIED COMPANY REPRESENTATIVE: Let me add to just what Len said too is that kind of the decision there was, do you want to insure option ARM products, subprime product that had FICO scores in the average of 620 range versus did you want to insure second liens that were high quality with FICO scores above 700?

Now, even though we sat there and went into that decision with our eyes wide open, we priced that second-lien business about four times higher than what we typically would price it at. It has stressed far worse than what we expected in this environment.

But, I'd also remind you that a lot of the business that we chose not to insure, the option ARM bulk business, has really yet to fully develop. So, it's a long ball game. We're not sure yet whether the idea or the strategy to insure second liens was the best. But we feel good that insuring high credit quality, second-lien business was a better decision than doing some low-quality option ARM that we still have yet to see how it'll perform in this.

BILLY NUTT: And we think that we're confident that the -- as the losses develop in that bulk channel, that our decision will have been the better decision in the long run. But, time will tell.

WIN NEUGER: And Andrew, in terms of the investment portfolio, we clearly did change our process. As Martin said and as Richard documented, at that time -- we do talk to each other. And we have a very different portfolio than AIG Financial Products. So, what we were doing is within the direct RMBS portfolio, making sure that the degree of subordination in our portfolio went up significantly.

If you remember on the one chart that Richard showed, in 2004, we had our -- off the top of my head, if I remember, 16% subordination. And now in the last couple of years, that's been running up in the low 20s. So, it's significantly more subordination. And remembering that it's a very different portfolio than the CDO structures that we have in Financial Products where we basically said, there was no degree of subordination that we wanted to continue to write.

BILLY NUTT: I think we have time for just one more question before we break for lunch.

CHARLIE GATES, ANALYST, CREDIT SUISSE: Charlie Gates, Credit Suisse. On Table Number 26, the remaining future losses of the $900 million, I'm assuming that one, that number is pretax to the second. Is an incorrect way to look at this, the net of expected future premiums versus those losses? Or, what's the correct way to look at it?

LEN SWEENEY: They are pre-tax, and I think that is the correct way to look at it, because over the life of the business, it's the net of the premiums less the loss expenses paid.

CHARLIE GATES: So, the timing would be roughly similar?

LEN SWEENEY: No. No really, the loss is going to come early.

BILLY NUTT: That's the point we want to make.

CHARLIE GATES: What is the point? I missed the point.

BILLY NUTT: The point is, is the losses -- the losses, particularly in an environment -- the severe environment that we're in now come in much faster than the premiums. Most of the premiums in the first-lien business are paid on a monthly basis by the borrower over the life of the loan. And so, those premiums are going to come in after -- most of the premiums will come in after we receive most of the losses.

CHARLIE GATES: But once again, my $1.4 billion is here, remaining future losses, adding together the first and second lien, that's a pre-tax number. So post-tax, I'm looking at $1 billion roughly?

BILLY NUTT: Right.

CHARLIE GATES: Thank you.

MARTIN SULLIVAN: (inaudible - microphone inaccessible). Yes, the curve is on Page 11.

CHARLIE GATES: Yes.

BILLY NUTT: Right.

CHARLIE GATES: Yes. If you take that --.

MARTIN SULLIVAN: (inaudible) of the losses and how the premium flows in over a longer period of time.

BILLY NUTT: Right now, under our current economic assumptions over the remaining life, we're going to receive losses of $1.4 billion and collect premiums of $1.8 billion.

UNIDENTIFIED COMPANY REPRESENTATIVE: If you look at that curve, Charlie, we're kind of in the middle of that hump there. So as we go forward, you'll have the losses coming first, and then the premiums out of the life of the mortgages.

MARTIN SULLIVAN: Thank you very much, Billy. Ladies and gentlemen, so we can get back on time, lunch is being served in the second floor. My colleagues will show you the way to the room. And if I could ask you to be back in 35 minutes in the hope that you'll really be back by 45 minutes, that will be great so that we can stay on time and not get too far behind schedule. Thank you very much, indeed.

(BREAK)

MARTIN SULLIVAN: Ladies and gentlemen, can I ask you to take your seats please? Thank you, very much. If I could just ask you to quickly take your seats, the one thing I will promise you is that, you will be out of this room at 3 p.m., because they will throw us out of this room at 3 PM. So, there is a definitive stop time. Thank you very much, indeed. Without any further ado, I'm going to hand over to Rick Geissinger, who will walk us through our Consumer Finance operations. Rick, the podium's yours.

RICK GEISSINGER, CEO - AMERICAN GENERAL FINANCE, AMERICAN INTERNATIONAL GROUP: Thank you. Well, I'd like to say at the outset that I was remarried on Saturday, and I'd like to thank you all for coming to my honeymoon. It's my pleasure to present the -- our Consumer Finance business. This is our traditional opening slide. We were founded in 1920 in Evansville, Indiana, acquired by AIG in August of '01, acquired a mortgage company in '03 a mortgage broker company in the UK in January of '07.

As always, our product mix is very broad. We offer just about every kind of personal loan product that you can think of. We've got a 1,500+ branch network that we're continuing to grow, two million customers and a national wholesale real estate operation, and I'll talk a little bit about.

Our strategic fit within AIG is that we're not correlated from an earnings point of view to the insurance businesses, for example. And then, there are product distribution synergies where we try to cross-sell AIG products and vice versa.

For example right now, we have an active program trying to sell AIG auto insurance. The insurance guys in turn have access to our retail dealer base, which is 28,000 merchants around the country to sell them insurance. And we also have one of the strongest returns on equity in the corporation. Our objectives each year, and they have been the same for many, many years, are to grow earnings of 15% or more a year and have an ROE of 15% or more and to manage credit quality within established target ranges that have been agreed to by various senior officers of AIG.

The target ranges you see in the bottom of this slide, we established in December of 1997 and made them public at a meeting similar to this. And we can operate this business at an RO -- at meeting our ROE targets of 15% or more and our growth goals, if we operate in these ranges, or if we do even better if we're operating below these ranges. We have not changed these ranges since December of 1997. So, they've been in effect for ten years.

Our portfolio mix changed to more real estate in the '04 and '05 period. But then, we felt that the real estate market was softening in the summer of '05. We made appropriate adjustments to our underwriting and to our growth strategies and emphasized more on our non-real estate products and our retail products since that time.

We did not chase the market down. We did not compromise our underwriting standards, and we didn't offer some of the exotic products that have already been talked about today. And that result is, our real estate portfolio is declining a bit as a percent of the total. That's fine with us. Our non-real estate product is our most profitable, and that's -- has year-over-year growth of about 11% this year, and we're continuing to market that hard.

In terms of credit quality, these are our major product lines. And the total, you can see, delinquency is up slightly. I'm going to show it to you by product against the target ranges in a minute. You can see, it's up just a little bit through the third quarter of '07. The total portfolio still is in the -- a little bit over 2% range. Real estate is also just a little bit over 2%. So, our credit quality remained strong during the period that we're going through with a difficult real estate market.

In terms of our reserve loan losses, it's up a little bit, reflecting the growth in our portfolio. Our charge-offs are just a little over 1%, and I think in the third quarter, 1.15%. And our coverage ratio of that reserve to charge-offs is a very strong 2.1%, and that's very strong by industry as well.

Many of you have seen this slide of our branch network. We're geographically very dispersed. The concentration in California is approximately the same share of G&P that California is to the United States. So, we don't -- we're not critically concerned about the concentration. And you can see in most of the other states that we're very well diversified around the country.

In terms of our real estate businesses, we continue to be a major subprime portfolio lender through our branch network. We also originate purchase and either seller-retained loans in two other platforms, Wilmington Finance, which is our mortgage company and MorEquity, which services centrally in Evansville and maintains a portfolio of real estate loans as well. We track 350 markets, real estate markets, on a monthly or quarterly basis, depending on when we get data. Our Credit Policy Committee meets at least once a month, and we review the data, the current data. We make appropriate changes to our underwriting standards when we see trends in the market that we don't like.

For example we saw, a couple of years ago, a lot more non-owner occupied investor kind of -- in properties in places like Phoenix and suburbs, Las Vegas, the coast of Florida and so forth. And so, we made the appropriate adjustments in those markets at that time. And we don't have credit quality problems in those markets today as a result. We do that every month to quarter in 350 markets and adjust our underwriting standards, and we do that continuously.

What makes us different than what you read in the newspapers a lot is really all summarized in the first bullet. We're a first mortgage, principally, fixed-rate lender, full income documentation, 30-year am, owner occupant almost entirely, single family residence and less than the market maximum LTV for loans. We control all this centrally through our risk management system. And if we do a bulk purchase, which we do occasionally, we re-underwrite to our standards every single loan that we're buying. And so, that keeps us exactly where we want to be in terms of our purchased portfolio.

Lots of experience in this business, we've been in it for 87 years, and we -- given the trends that we've seen in the last now, almost two and a half years, we did not chase the market down in terms of credit quality when that started to happen in the second half of '05. We never offered some of the exotic products like negative-am loans and option ARMs and so forth, and we're not dependent on securitization and gain on sale accounting for either our profitability or our funding.

Branch operations model, the average branch has five or six people in it, and we have what we call a high-touch philosophy. We want to try to touch our customers as often as we can and to build that relationship, and I think that gives us a better ability to grow. But, I think it gives us a very thorough understanding of the credit quality of our individual borrowers.

Very well trained personnel, we've invested tens of millions of dollars in our training system, and we have a centralized risk management system that we've built, beginning in 1996. We think it's the best in the industry. We think that a core competency in this business is to have your own credit model so you know what's in them. You know how they work and so, for all of our products, we've built credit-scoring models over the years that are proprietary.

And very importantly, the last bullet there, our branch management and all the way up through the divisional management, part of their compensation -- they can earn up to 100% of salary in bonuses, but they can't -- they must meet certain credit quality standards, or they don't even get in the game. And that has served us well over the years.

Just a quick look at the continuity in our company, this is the average length of time with the company at different levels all the way up to the senior directors of operations, each of whom run about 25% of the company. A lot of continuity, we're very much a promote from within. And so, we have a very strong culture and a very strong discipline, and that's part of why I think our credit quality performance is as good as it is.

I won't talk much about this, because there's been a lot of conversation about it already. We agree with many of the comments that were made. The only thing I'd add is that the regulatory environment has gotten more difficult in the last 9 to 12 months, and that's been a factor too that I think is going to -- and I think already has reduced credit availability and some liquidity in the marketplace.

The result of these actions that we took back in the summer of '05 and since then is that it reduced our loan growth significantly. You can see that we were running $1.4 billion, $1.2 billion in the first couple of quarters of '05. The actions we began to take resulted in very nominal growth during that period, even negative growth in the third and fourth quarter of '06. We were writing some business, but the standards that we maintained and kept in place reduced our growth, and we consciously made that trade-off with the approval of senior management.

Some of the mitigating factors in our portfolio, 97% is full income documentation, 87% are fixed rates, only about 10% of our portfolio, and not even that, will reset between now and the end of '08. But, one of the underwriting standards that we maintained discipline on was to underwrite ARM loans to a fully-indexed, fully-amortizing rate in order for people to qualify for those loans. We didn't underwrite the teaser rates or anything else. It was fully-amortizing, fully indexed rates, and I think that served us well in maintaining credit quality as well.

We don't delegate underwriting if we buy a portfolio, and as I have mentioned, we didn't get into the exotic products. We never do negative-am loans, for example. We stayed a way from non-owner occupied properties. We have a little bit of that, but not that much. And if you compare that performance to the overall marketplace, the difference is obvious. And our delinquency is running a little over 2%, and the overall marketplace is now in the area of 17%. So, we're proud of that track record and expect to continue to perform with excellent credit quality.

The next couple of slides, I'm not going to belabor. We thought you'd be interested in having these. The outstandings by product are in the upper left. The target ranges for each product, and I'm going to show you three or four of these, are on the upper right. And you can see that in the case of real estate that we're below the target ranges in both delinquency and charge-off. The lower left is a static pool analysis. And yes, we did write some business in '06 and some '07, although it was a greatly reduced rate. It's performing a little worse as is the rest of the marketplace.

But, if you look at the top light blue line, even though it's up a little bit, it's following a similar pattern now. And -- but it's still at only 2% in terms of delinquency, and that -- it's -- that's better than the target we have for this product. Accumulate charge-offs, which is the bottom right box, we're tracking, just like we have for the business we've done for the last five or -- five years or so.

This is the branch real estate. It's at the bottom of the target range. It's a little below. Charge-offs continue to be performing very well. If you look at the two bottom charts, you can see that a little bit similar experience on the branch side as in the centralized portfolio. But still, we're better than targeted, and the lines are tracking nicely. This is our centralized portfolio. Same story, credit quality is below the target ranges, a little bit worse performance in what we did in the '06 vintage, but still it's peaking at about 2% delinquency, which is a terrific rate and is better than our targets

Real estate owned is up a little bit. At the end of -- a year ago it was a little over $50 million or I should say at year-end '06. It's now a little bit less than $100 million. And that's up from about 35 basis points against the portfolio to approximately 49 or so basis points at the end of the third quarter. We've had a minor increase in losses as a result of that and the time to sale of a property hasn't changed much. It's averaging right around 7 1/2 months. It fluctuates a little bit from month to month and there's some seasonality. But it hasn't changed that much. It hasn't expanded to any great degree

So in summary, at the end of the third quarter, our real estate portfolio was about $19 billion, 19.5 billion compared to $19.2 in the second quarter. We've maintained our disciplined underwriting and throughout the real estate boom. That's -- that resulted in lower volume, as I showed you, but we're better than our targeted delinquency and charge-off rates and better than the industry experience delinquency and charge-off rates.

We think, like some of my colleagues mentioned, that the real estate market will continue to be difficult, probably at least until next summer. Maybe there'll begin to be some improvement after that, but it could go longer and maybe through a lot of '08. But, we will maintain our discipline and get through what's a difficult period.

But, what I think that means is that for a company like us, who's has performed well in a disciplined, risk-management system that there's a lot of opportunities here. We're well capitalized. We've got a strong parent. We have access to the medium-term funding markets, and we're well positioned in the industry. And I think there's just going to be a lot of really interesting and attractive opportunities.

I will say that we -- we've been offered billions of dollars worth of portfolios -- and maybe beginning late first quarter or second quarter. And we used the disciplined approach that we have. In some of the portfolios, we would bid on 11% of it, or we'd bid on 17% of it. And most of the response we got to that was, and the horse you rode on. So, we did none of those deals. People were trying to unload their trash.

But now what's starting to happen with over 150 competitors having withdrawn or closed their businesses is that good deals, very attractive deals that I think are going to be very attractively prices, are starting to bubble up. Our pipeline right now of deals, whether it's portfolios or people that want to have a strategic alliance flow arrangement with us or even whole companies or asset purchases of a whole company without buying the company and the attendant liabilities.

It is as full as it's been at any time in the last ten years, and there's some really attractive deals that we're working on right now. So, we think there's opportunity in the marketplace now, and we're actively working on the good opportunities that we see.

So with that, there's a lot of supplemental information in your packet. I encourage you to look at it if you like, and myself and my colleagues -- let me introduce them. The first guy is Ray Brown, who is our Chief Credit Officer. Next is Don Breivogel, who is our Chief Financial Officer, and next to him is our Treasurer -- Vice President and Treasurer, Bryan Binyon. So, we'll be happy to answer any questions.

JAY GELB: Thanks. It's Jay Gelb at Lehman Brothers. I believe initially in the opening presentation, there was an outlook of a modest profit for consumer finance in 2008. If you could walk us through some of your underlying assumptions there, and then also if you could give us any more insight in terms of what expectations your current loan loss reserve is baking in, that would be helpful as well. Thank you.

RICK GEISSINGER: The second part, I didn't get the question.

JAY GELB: The loan loss reserve, if you could give us some insight in terms of your underlying assumptions there in terms of what would happen with the residential real estate market and still make that reserve adequate?

RICK GEISSINGER: Okay.

JAY GELB: Thank you.

RICK GEISSINGER: On the first part of the question, this has been a very unusual year for us. Our fundamentals are sound, but there's been a lot of unusual items. I think somewhere 12 to 15 of them of some significance. And you all know about those. They're all in our Qs, so you can look them up if you want. I won't go through any laundry list. At -- so, that's really impacted our profitability.

If you normalize our P&L for all of those unusual items, some significantly positive, more negative than the positive, year-over-year, our normalized change in earnings is about 16%, 16% down. And that's due to a number of factors. Real estate volume is off. Our mortgage company business is off significantly, just like the rest of the market. Margins in that business have been squeezed. The margins in our branch business have been squeezed.

But, I'm expecting once we get out of '08 and all the unusual things that happened to us that we're going to return to the kind of performance that you all have seen over the last ten years. Don, could I ask you to -- Don or Ray, comment on the loan loss reserve?

UNIDENTIFIED COMPANY REPRESENTATIVE: I'll start. When you look at our loan loss reserve, it's actually got three components to it. It's -- we have a migration and a Monte Carlos quantitative aspect to it. We did have a separate reserve for Hurricane Katrina. And then finally, we overlaid a qualitative reserve from -- around that.

So when you look at it, literally the models bake in the vast majority of what you need from a reserving standpoint. But then, you also have to have -- add that qualitative nature. So, we sit down with our sales and some of the senior management of AIG on a quarterly basis and say, okay, when you look at the models, what might be missing? And how much additional reserve would we need around that? So, it's a very interactive and very robust process. And if you look at the slide that we showed earlier, you'll see we've maintained a very strong reserve throughout this cycle, and you can expect that to continue.

JAY GELB: I guess on the -- looking at this from a average cumulative downturn in the U.S. housing prices, what is your loss reserve assuming?

UNIDENTIFIED COMPANY REPRESENTATIVE: When we model that out, we assume a 13% peak-to-trough drop in housing prices and ignore any appreciation that has been realized in the portfolio prior to making that 13% drop. In other words, if we booked a loan in 2004, we have not implied that there's been any appreciation in the value of that house. And then, we'll haircut at 13%. That's what goes into the model to then determine what we think our exposure is down the road. That in turn feeds the discussions for the loan loss reserve.

RICK GEISSINGER: And I'll add to that. The comment I made about we track 350 markets on a regular basis and then we manage our underwriting market by market when appropriate, all of that shows up in the migration analysis that these guys are talking about. And so, that's -- that gets right into how we determine the appropriate allowance for loan losses.

DAVE SOCHOL, ANALYST, LEVIN CAPITAL STRATEGIES: Good afternoon, Dave Sochol, Levin Capital, I was just curious, going into '05 as part of the budgeting process as you began to forecast, at least to your boss, that you were going to go from a $1 billion quarterly run rate of growth to basically flat to down just how that discussion took place.

And then, maybe either you or maybe it's more the CEO discussion, it does strike me that as you were pulling back from a lot of risky markets, for example in the -- or in contrast, your mortgage insurance operation was going into second lien and other businesses that you clearly saw as not the place to do it. So, I'm trying to understand at the top of the house just sort of, how do you share best practices, insights and just, I guess, more powerfully use all the information that you have as a franchise?

RICK GEISSINGER: You mean within the company?

DAVE SOCHOL: Within AIG broadly, Financial Products, Mortgage Insurance, -- within AGF, but then also more broadly within AIG.

DAVE SOCHOL: Look, two questions, one, just how it works when you decide not to grow your business and what kind of feedback incentives and push backs you get when you say you're not going to grow? Second question being that you clearly took a more conservative stance, which at least, to my naive eye, it looks like it was not shared broadly in other parts of the organization. And, how do you prevent that from happening in the future since there -- I just would have thought that you would look at things more collectively.

RICK GEISSINGER: Well the process, it starts at the bottom in American General Finance. Ray's got a department that probably has, give or take, 15 to 20 people that are analyzing the marketplace, analyzing trends in our portfolio. We do it by product. We do it by geographic market. And that's just a massive amount of analysis that goes on every month.

So, it starts with that. Then, we have input from the people that are running the divisions around the country. And then, our Credit Policy Committee meets at least once a month and sometimes more often than that, depending on the issues that we're looking at. And I chair that Committee. Most of our senior officers are on it. Ray is responsible for the agenda for that committee. And we review probably 120 pages worth of data and graphs at every single one of those meetings. And they're thoroughly discussed and to the extent that changes need to be made, then we either make them on the spot, or we ask Ray and his people to do more analysis.

Now to the extent that there are trends there that are out of the ordinary, then I'll pick up the phone. Or, I come to New York pretty regularly and talk to Bill Dooley, who's my boss. And we'll discuss whatever the issue seems to be, the positive or negative.

Let me you an exemption -- an example of that. Our -- the guys in our mortgage company, this is probably now a year and a half plus ago, really barely wanted to do negative-am option ARMs, because in California, that was depending on who you talked to, 40% or 50% of the market. And the guys in that business in California felt that they weren't being competitive. I don't like that product. I don't think it's good lending. It was negative-am lending up to 115 LTV. I don't think that's good lending. But, there was a very significant opportunity we were passing up as a result of that.

So, I went to see Bill in New York and I said, I just want to tell you, the trade-off that we're making here and why. And we discussed it at some length on a couple of occasions actually, and he agreed with me that that's not something that we should do, that it wasn't good lending. And we will sacrifice market share in California as a result of that.

We sit down periodically with the enterprise risk management people, Bob Lewis and Kevin. We do that on a pretty regular basis and review portfolio trends. Ray and I'll come to New York and spend whatever time is appropriate to review trends in our portfolio by product, a lot of static pool analysis by product, a lot of geographic analysis and again, broken by product. And so, it's a very thorough, many eyes look at what we're doing, but it starts at -- in -- at the lower -- in the lower part of AGF.

BOB LEWIS, SVP, CHIEF RISK OFFICER, AMERICAN INTERNATIONAL GROUP: Hi. I'm Bob Lewis. I was going to mention this when I got up after Rick has finished, but the questions on the table. So, I'd be happy to address that as well. At the corporate level, AIG does have a very active enterprise risk management process.

And one of the things that we do on a -- as an ongoing matter is that we do share information across the corporation, of course appropriately share information across the corporation. And we have, at the top level, a number of auspices that are involved in that, one of the most important being the Credit Risk Committee of AIG, which is comprised of the highest level of financial executives in the firm.

Many of these executives run businesses like the ones that you're talking about, Bill Dooley, Win Neuger, Richard Scott, et cetera. And that's where we talk about trends. Now, AIG is a decentralized organization, and our business executives make decisions on businesses to achieve risk-adjusted returns over their -- in their business models, over their cycles and in their businesses. What we do at the holding level is to ensure that that's done with integrity, done with quality and that the aggregation of those risks do not rise to anything that would be a concentration of risk at the AIG level.

So, we might have volatility or cyclicality in some of our businesses, but over the long term, we are -- we feel confident that we vet the issues. We do vet the risks and the return elements. And we preserve our core entrepreneurial, decentralized process of making business decisions with risk as a certain key element into that. So, we can talk about that a little bit later, but we do have quite an active holding company, enterprise risk management, which is holistic and does share information across the corporation.

ALEX BLOCK, ANALYST, YORK CAPITAL: [Alex Block] York Capital. Just kind of curious, in your non-res and your retail businesses, if you've seen any kind of follow-on consumer pressure, whether you kind of plan on higher charge offs than normal in those businesses? If you could just talk a little bit about that.

UNIDENTIFIED COMPANY REPRESENTATIVE: The answer is not really. They're up a little bit as -- if you go back through those product charts that I showed you, you can see that it's up a little bit, but it's at the bottom of the target range, so we could tolerate increases in both delinquency and charge-offs in those products.

What started to happen earlier this year, and we planned for it in the fourth quarter of last year, was that we thought that the real estate market was going to slow down, that the re-fi boom was going to slow down. And people that had re-fied their home mortgages, but still needed some new money were going -- were not going to want to re-fi a mortgage because rates at that point were higher and they want to keep that low-rate mortgage and so that's when we began pushing very hard, our non-real estate business and products. And they're our most -- that's our most profitable product. So that was a good thing for us. As I said, it's up 11% year-over-year, so we're very pleased with that. I guess we're to our final question, I'm getting the hook here.

RAY JOSEPH, ANALYST, CAPITAL RESEARCH: Ray Joseph, Capital Research. If you look at all the different segments that you have here, it looks like you've been outperforming your targets for delinquency and charge offs for non-real estate, real estate as well as retail. And I think if you were to look at the Q, it would show that your earnings and ROE are something north of 20%. So when we consider the next couple of years of normalization back to these target ratios and getting closer to 15% ROE? Or is there a reason that you can continue to earn your ROE north of 20% in this business?

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, I think it's going to improve and we have a semi-final draft of our '08 plan and it's going to be a long ways closer to these targets, maybe the bottom end of some of them, but it depends a bit on how the real estate -- as the real estate market evolves and how long the trends that we see now are going to continue. And as I've said, I think it's going to last at least until the Summer of '08 and maybe through the end of '08.

So -- and we had a lot of unusual things happen this year, so we're looking to rebuild the profitability of this company, beginning in '08 and even more powerfully in '09. And as I had said, I want to emphasize, again, there's lots of opportunities that are starting to show up at our doorstep that look very, very attractive. Some of them were farther along than others, but they're the kind of customers we want, the kind of credit quality we want, the pricing that seems to be available is very attractive and so that's going to help our growth and those portfolios -- some of those portfolios, if we win the bid, we're going to put them right into our branch network and then they'll start building a relationship of cross marketing our other products, which is what we've been successful at in the past. Thank you very much. And again, thanks for sharing my honeymoon.

MARTIN SULLIVAN: Thanks. All right. With -- ladies and gentlemen, just down to our last presentation now. Over the last two conference calls, you've certainly heard the name Bob Lewis and you've certainly heard the voice of Bob Lewis. So now you get to see Bob Lewis. So Bob, you're the last session, I will leave it to you and Kevin to bring us home. Thank you.

BOB LEWIS: Thanks Martin and just wanted to make sure everybody understood that I have very good organization skills, I have been working very, very closely with the businesses to put today together and achieved the objective that there's very little time left for me when I got up here. So -- but seriously, I'm glad that we had a chance today to get the businesses out in front of you to present their businesses because AIG is a very large and varied organization and it has been a good opportunity to do that.

What I would like to spend just a few minutes on, and we have that hard stop here coming up shortly, but just to give you a little bit of an overview of what we do at the enterprise level on risk management.

I think it's good to put risk management in context and risk management at AIG starts with the culture. And I think if you look at AIG over its history, and certainly just had a very small part of AIG's history up in front of you, but if you look at AIG's history, I think you can realize that AIG in its culture does not have an appetite for undue concentrations of risk. So if you look at our performance over the last number of years and I just put a few years up here, and overlay on that some of the disasters or catastrophes that have occurred in various parts of AIG's businesses, whether it's natural catastrophes, financial market meltdowns or whatever it is, you can see that AIG's earnings now have approached or exceeded our cost of capital in all of those years. You could not achieve that if there were an appetite in the corporation to take undue concentrations of risk that one would affect our earnings and worse than that, our capital.

So that's the underpinning to show that the culture at AIG, in my view, is a very healthy one, starting from the businesses up to the corporation of a risk appetite, which is, I think, controlled and appropriate for a strong financial firm as AIG is.

So what differentiates us? And I think many of the businesses have said this and been a consistent story throughout the day. One is that AIG underwrites as a principal. We emphasize our own risk analysis and our own assessments. We do not primarily rely on any other source to make our underwriting decisions. We base it on our own work. We invest to match our liabilities and avoid, therefore avoiding having to sell into illiquid markets. We are principals and we invest to match the business models of our businesses. We avoid inappropriate risk concentrations across businesses and portfolios. And we -- and the company supports the culture of integrated risk management at all levels of the corporation.

Now what is -- we have a multi-layered approach at AIG. Obviously there are many risk categories that we look at, credit risk, market risk, insurance risk, both in general and in the life insurance side, operational risk management, liquidity risk management and we have a centralized as well as a decentralized approach. And all of these risk management activities and rigors start in the businesses. That's where risk -- the accountability and responsibility for risk is assumed. And it rises up to the corporate level.

Now we have enterprise risk management functions here in New York that cover all of the segments of our risks and we also have enterprise risk management functions regionally around the world. This complements the work that's being done in the businesses. We have -- we manage these concentrations of risk across all the segments and risk categories and by the interrelationship of risks. And what I mean by the interrelationship of risks is that the enterprise risk management function in AIG is not siloed. So we do not have a credit risk function, which is completely distinct from the market risk function or the insurance risk function. Our process is integrated. We have a lot of back-up support, both quantitatively, as far as quants and modelers as well as qualitatively as far as analysts, that can run the gamut across these risks.

So where -- we're in deep and liquid markets and therefore market risk issues stop and where qualitative analysis and analysis of the spoke transactions and stuff take over is not a black and white demarcation line, it is a continuum. So we have an enterprise risk management function that sees that continuum and has colleagues that work together in that continuum of risk. So that integrated process, I think, helps AIG very much to understand its risks.

We have, up at the holding company level, a number of processes, then committees, ultimately ending up in our reporting to the Board of Directors. And this just shows you on the left-hand side, where we have within enterprise risk management, we have function in these risk areas, credit market insurance risk, operational risk, spending a lot of time on economic capital and then down in financial reporting, Sarbanes-Oxley, which is a sub-set of operational risk, remediation of any deficiencies that have been -- that arise and also AIG's view of any complex structured finance transaction that could subject AIG to heightened risks, legal risk, regulatory risk, reputational risk, accounting risk, that sort of thing.

And then this -- these processes at the holding company, working with the businesses, then roll up through various committees, which by and large are review bodies, made up of executives across segments, across functions in AIG that look at these risks, look at the reports and then maintain a dialogue about risk and then ultimately our major risk exposures and concentrations then are reported up through our various committees of our Board of Directors. So it is an integrated process of the business of senior management at the corporate level through then a dialogue that is cross-disciplinary, finally to the Board of Directors. And this allows us then a process by which we can communicate across risk silos.

Kevin McGinn, our Chief -- our Credit Officer, Kevin and I both have banking backgrounds, a couple of decades each, on average, over a couple of decades, of experience in the banking industry before joining AIG. Kevin's been with us about eight years. I've been with AIG about 14 years. We and our professional staff have been through a number of cycles.

Kevin's going to spend a couple of minutes just telling you what we do on the credit side in all of these businesses very briefly to maintain oversight. But most importantly we have portfolio reviews where all businesses in AIG, including all of these today, that have exposure to any sort of credit exposure but specifically to mortgages, at least once a year and, depending on risk, more frequently than that, come and have portfolio reviews of their business in front of the Credit Risk Committee which, as I said, is made up of this interdisciplinary group of executives in the corporation.

That is a very, very strong and key part of our risk management process which allows us to ask about businesses, risks, products, transactions so that something is starting to cut across lines or get complex we have an ability to see that. That gives me a lot of comfort at AIG that we know where we have the risk, we know where it's being managed and how it's being managed and we can put competencies to the places we need to put competencies to, to make sure that we're watching and monitoring risk appropriately. So I'll turn it over to Kevin for a few remarks briefly on what we do in the various risk areas.

KEVIN MCGINN, VP, CHIEF CREDIT OFFICER, AMERICAN INTERNATIONAL GROUP: Good afternoon. I'm just going to take a couple of seconds because I only have a couple of seconds. But if you had to ask who at AIG has the shortest Christmas list in terms of getting Christmas cards every year, you're looking at him. The credit guys are always not the most popular people in the company. I'm Kevin McGinn, I'm the Chairman of the Credit Risk Committee and I also run the AIG Inc. Credit Risk Management team. We're about 20 Credit Officers and analysts around the globe, we have offices in London, Tokyo, we're building an office now in Hong Kong and the bulk of my team is in New York.

Essentially the Credit Risk Committee of AIG really sets the credit risk tolerances. Essentially we approve all the major credit policies for the company, we approve and recommend to Martin Sullivan the house limits that we set across all the different alba gores of the company. Those house limits are set for corporates, financial institutions, sovereigns, by asset class and the CRC which meets every month is comprised, as Bob was mentioning, of all the senior credit executives of AIG. It's a very actively attended committee where we go through a whole number of issues. We talk about emerging trends and concerns. It's a lot of fun too because come of the company Presidents pick on each other, which is always sort of fun. And it's a very, very robust process.

In addition, we approve an alert list which essentially freezes some of our exposures that require the companies, the business units to come up to our team to get approval for any of the exposures on any areas where either there is a concentration that's building that we may not be especially comfortable or we want to manage, or credits that are simply slipping in credit quality.

Bob mentioned the portfolio review process and I have actually four slides that I'll leave for you to read. But one for each of the units to show exactly the process that we go through with each of the business units and also it describes in depth exactly what the CRC portfolio review for each of those units is. Most of the mortgage businesses that you've heard about today actually have to go through that process quarterly. They sit down with myself and my team and go through all emerging trends and we discuss problems and issues and recommend to the CRC adjustments in credit risk tolerances as we go along.

I just want to mention on the way, by the way, Joe Cassano mentioned this morning and I just want to confirm this about the relationship that we have with AIG Financial Products. The Super Senior business of AIGFP is a business that we have been really involved with from the very inception of the business over ten years ago, initially through Bob when he was Chief Credit Officer of the corporation and since I took over in the middle of 1994.

But essentially every single Super Senior transaction does come down to our Committee. AIG Financial Products doesn't have credit authority really to approve that on its own. We challenge Joe and his team on, we basically challenge his assumptions, we stress the book, we run some independent tests to make sure that all the assumptions that he's made are valid and we indeed approve those transactions. Some of them are of a size that require the further sign off by either Bob or Steve and in some cases, if they go into very high amounts, by Martin Sullivan himself. So that's a very, very active process.

Let me just sum up by saying that part of what a good credit risk management team does is try to minimize credit losses across the company. We think we succeed in doing that, we have a highly seasoned staff, most of the people that work for me and with me have over 20 years experience in either the banking or insurance industries. We're very involved with all of the businesses, not just the financial service ones and the mortgage ones but the insurance companies as well, and we actively communicate across the company our concerns, the trends that we're spotting and the concerns that we have. We're the gloomy Guses of the company, we have to be. That's our job and we think we run a pretty effective process for the benefit of AIG. Thank you.

BOB LEWIS: Thanks, Kevin. We I think have a couple of minutes for a question or two so we'll be happy to take your questions.

ALAIN KARAOGLAN, ANALYST, BANC OF AMERICA SECURITIES: Alain Karaoglan, Banc of America Securities. I guess I just want to follow up on a question that was asked this morning to Joe about capital on AIG Financial Products and he referred us to this session to talk about it. If I recall from the spring, AIG Financial Products had 2.1 billion of capital and most of that was debt as opposed to equity. With the charge off how should we think about the capital of AIG Financial Products? And what does it mean from an overall AIG point of view, and maybe Steve wants to address that. Does it mean you need to put the additional capital in it or the rating agencies ask you to put more?

STEVE BENSINGER, CFO, EVP, AMERICAN INTERNATIONAL GROUP: Okay I'll try to try to address that as Chief Risk Officer as opposed to the Chief Accountant of the corporation. One, AIG is not taking any charge off on AIG financial products business. What we have recorded is an unrealized change in valuation of those underlying derivative contracts.

But getting to the capital, as far as the risk is concerned, AIG Financial Products has sufficient capital to run its business. When we look at the Super Senior business that Joe described, and he went through in great detail the rigorous and very conservative modeling that goes through to look at the expected and unexpected losses in that business, what I think we all should come away from is saying that, to an extremely high degree of confidence, there is no expected loss in that portfolio. In fact it is underwritten so that there would be no loss at an extreme confidence level.

Now if we bring that over into AIG's capital assessments and capital modeling from an economic perspective, that's exactly what we're trying to do at the corporation as a whole is determine how much risk capital we need and how much we have against making sure, at an extremely high confidence level, that AIG has sufficient capital to meet its obligations. And we have to stress the FP business far beyond that threshold before we see a first dollar of loss. So economically there is not a lot of capital exposed in that business compared to how AIG looks at things.

So the other capital constraints that we have are of course the rating agencies, as we look and we work with them. And that is really an ongoing and very constructive dialog between the two to determine how they see things and how they model things compared to how we see things and how we model things. And we will have sufficient capital up at FP to meet their requirements. Understand also that FP's transactions are guaranteed by AIG Inc. So their capital really is our capital and more importantly our capital is their capital.

GARY RANSOM: Gary Ransom from Fox-Pitt Kelton, I had a question on if things go wrong, after checking everything to make sure it's diversified and if things don't turn out the way you want, what your options are available to take action on that. And I have a general question and a specific one. The general one is just if things are more correlated than you think and things start to go wrong in more areas, what options do you have? And then the specific part of the question is, within what we've just witnessed over the past few months with the mortgage environment getting worse, what changes in thought process, or what actions have you actually taken to address that?

UNIDENTIFIED COMPANY REPRESENTATIVE: Okay, that's a good question and I assume your question about what we can do is a question at the corporate level. Well one, as we said, AIG is a highly diversified organization. So we will have times when not all pistons are firing and not all businesses are performing at the best scenarios that we would envision for these businesses. As we see trends we actively manage our business, we actively manage risks, we can use all the available instruments that there are in the marketplace to deal with those sorts of things.

First we have an available for sale portfolio of very, very large size and diversity in our investment portfolios and they are monitored on a daily basis as to what are emerging trends and what we need to do about things. We actively manage those portfolios and we have a large team of people that it is their job to, if you will in your words, not be caught with trends where there's nothing to do.

If you take AIG Financial Products, part of our rigorous portfolio review has to do with how they see things developing. And they have in the past been effective in hedging or laying off further layers of risk as they've seen things move a little bit in the opposite direction. So they've been able to execute that. What we do at the top of the house really is to look at risks on an aggregate basis to add those up and to look at them across segments and to make sure that we do not see that there is an untoward risk concentration in any one area.

Now, in our capital management we're looking more through the development of our economical model which we have been public about describing. In that economic capital model we're having -- we're developing a more rigorous and ongoing review of the inter-relationships of risks. The real benefit to diversification. And through that model we will see the benefit and the risks of concentrations and the diversification of our businesses.

Add to that though, stress testing, and one of the committees that we brought up here, the Financial Risk Committee, is engaged in actually defining stress scenarios and the reason I think that's very important, that the key executives in the corporation are defining risk scenarios is that they understand which risk scenarios really could damage AIG if they were to occur. And we are running the corporation by those stress tests. And that's an ongoing process, to, if you will, inform us and validate our modeling activity. To make sure that the capital risks that we see through a model is tested against real stress scenarios.

So we run our business of course actively on an ongoing basis and so we manage our capital on an ongoing basis. It's not a static amount of capital that will hold the book forever, it's something that we manage actively.

UNIDENTIFIED AUDIENCE MEMBER: We're there any specific changes in thinking or in how you are operating from the corporate level, out during this mortgage crisis that's unfolded?

UNIDENTIFIED CORPORATE REPRESENTATIVE: Well, during the mortgage crisis, I think Kevin mentioned, there was a growing concern about the, if you will, the heat that was growing in the mortgage business over the last several years. And that discussion was taken and the corporation was discussed. Of course, how that affects each part of the corporation is different, depending on what their business model is, how they approach their distribution and how they approach their risks. And I think that borne out in the conversations today.

And where in one business like UGC, you have the way your business model is and your distribution is allows you to affect things at the margin, but not -- I guess a difference of managing a ship on the seas as opposed to having something that you can slam on the breaks like you could in the financial markets. So we run our businesses and their different business models and there are different distribution models.

But we did have dialogue on that and what was done in the investment side as far as going up tier in quality and redoubling their efforts on the underlying assets, what FP did, I think is -- and what AIGGF did, I think is symptomatic, or telling, or evidence of an effective risk management of the overall trends. We didn't respond to them in the same ways but we responded to them I think effectively.

UNIDENTIFIED AUDIENCE MEMBER: I have a question for Steve or Martin, whoever wants to answer. If you can talk about your capital strategy for the three operating businesses that you have discussed today? Where you intend to be cautious, maybe pull capital, where you see an opportunity to inject even more capital given the improving pricing conditions? And then also, if you see an opportunity in terms of M&A in any of these areas given depressed evaluations for a lot of the competitors?

STEVE BENSINGER: Okay, that's a dynamic question and I can't give you a specific answer as I usually can't on this topic. But what we're doing is, in each of the businesses that is affected by these dynamic market conditions, is we have surveillance going on on, what are the opportunities? What's happening in the different markets? How are they being affected by consistent market conditions throughout the U.S. housing market and perhaps the global housing market, depending on the area of the world that we're looking at? And evaluating those opportunities on what I'll call a fungible risk adjusted-return basis. So, where we will add capital is where we believe the opportunities are the greatest from a risk-adjusted return standpoint. At this point in time we are trying to keep our powder dry.

We've talked about how we assess our overall capital position, we just talked about it in early November. We have said we have somewhere in the 15% to 20% range or so of excess capital on a conservative basis according to our own internal economic capital modeling. How we use that excess capital and deploy that excess capital will be dependent upon the opportunities we see in all of these businesses and not just these businesses but the entire spectrum of the portfolio of businesses.

So, Martin made a point, he used the analogy of fisherman at the dock with the rod ready to cast. We're not going to cast and reel it in until we believe that we have the right catch out there and that it meets all of our criteria. So that's how we look at it. It's very dynamic. I can't tell you right now which one. You heard Rick talk about all of the opportunities that they are seeing in Consumer Finance. You heard Joe Cassano talk about the pipeline of financial products. You heard our investment professionals talk about the fact that right now there is a disconnect in our view between value and economics. All of those areas make it right for opportunities and how we actually deploy our capital will be dependent on how we assess those specific opportunities relative to one another. I think that's the best I can tell you at this point in time, it's very active, it's constant. Martin, did you want to add anything?

MARTIN SULLIVAN: I think what I would add Steve, is that where there are opportunities we are going to deploy the capital, there is no question about that. As Joe articulated in the first session this morning, we are seeing a very full pipeline in AIGFP with better attachment points, with better pricing and obviously he came to see me some time ago and I gave him a green light to continue to pursue those opportunities. Again, Rick just mentioned in the Consumer Finance presentation, the opportunities that are coming our way and the pricing that we are finding relatively attractive and we're looking obviously to close some of those transactions. So where opportunities arise there is no issue in us deploying capital where we think it's intelligent. Perhaps I should just clarify what Steve said, he actually made reference to 21%, he meant 21 billion, by the way, just in case, you didn't get that number right. So it was 21 billion. So I think we've got time for one more question I think.

STEVE BENSINGER: And I guess I would add to that that one of the ways to look at concentration is that we have capacity to look at these opportunities. We're not at a point where, as a Chief Risk Officer that I would turn down these opportunities because we're full up, we are not.

MARTIN SULLIVAN: Steve just corrected me again, he said he was talking percent of the overall. So we got it right eventually.

I think Jerry's got one question at the back there.

JAY GELB: Jay Gelb from Lehman. If I could just ask on the guidance, for over the five years. Can you give us a sense of whether in 2008 and 2009 where you will be relative to that five-year guidance in terms of EPS growth and return on equity? And I figured the last question is the one I have to ask, thank you.

MARTIN SULLIVAN: Well, I'm glad you did Jay, because I'd have been disappointed. We offered something in response to everything, we listened to your requests for that. Obviously we feel we can grow the organization organically at 10% to 12% over the next four or five years. Obviously, as I've mentioned there will be volatility in those numbers. We're in a risk taking business. I can't determine if the wind is going to blow or not going to blow and I've said many times earthquakes are not seasonal. So there is going to be volatility in those numbers. As Win articulates very clearly every conference call, target partnership incomes in the 10% to 15% range. As you know, in the first quarter and second quarter of this year we exceeded those quite substantially. SO there are going to be some variations and volatilities in that number. But we think over a period of four or five years that's a reasonable growth rate that we think we can achieve organically and obviously we will be targeting higher returns on capital as we redeploy the surplus capital that we have. So I think they're realistic targets. You've been asking for targets and you have them, I knew it wouldn't be enough but it's okay.

JAY GELB: If I could just follow on, how much are share buy backs taken in account in the EPS growth outlook?

STEVE BENSINGER: What we have assumed is that we are continuing to generate excess capital over that five-year period. We are assuming deployment of that excess capital to a reasonable extent and also a certain amount of excess capital maintained. So we're not necessarily assuming any specific number of buy backs.

What we're assuming is that a certain amount of the excess capital will be utilized either through capital management, share repurchases, dividend changes, also through organic growth risk taking, leveraged differences and potentially acquisitions. SO you can't model specifically how we're going to be utilizing the excess capital we're generating, but it's sort of a dynamic model that takes into account the fact that there is a certain percentage that we will keep powder dry, and there is a certain percentage that we will utilize in a more leveraged way.

MARTIN SULLIVAN: All right Charlie, it's the second-last question from Jerry then. I know Charlene is getting very nervous because I know we're going to be asked to leave, but Charlie, we don't want to be thrown out of this investor conference.

UNIDENTIFIED AUDIENCE MEMBER: I just had one question sir. First, a statement, you did a real good job today. But here's my question, to what extent is this 10% to 12% possible growth in earnings, the next several years, tempered by the direction of commercial lines, property, casualty insurance underwriting?

MARTIN SULLIVAN: Well you know there is a little bit of a headwind as we've described in previous calls, in the P&C business but it comes down to risk selection and opportunity. And if we get the risk selection right we extend the distribution channels that we are working on building out. As we've spoken about many times, Chris and Kevin have worked very hard to expand distribution in North America through regional and national brokers to obviously offset to some degree the dependence on the major brokers, that strategy is working. Obviously AIU is a multi-distribution company, so I believe that if we stick to our knitting and we expand our distribution, we get our risk selection right that can play a meaningful role in that growth rate over the next four or five years.

Ladies and gentlemen if I can just take two minutes to conclude. First of all, I would like to thank each and every one of you for attending. Today we've given you an awful lot of information, there is still even more to read in the appendices in the handouts that you've been given and I would encourage you to work your way through it. Hopefully this afternoon we have demonstrated once again the amount of talent that we have in AIG.

As someone sitting in the audience and looking at my colleagues presenting throughout the day, I couldn't be more proud of what they've done. They really are the A-team and they clearly are a credit to the organization. Hopefully we have demonstrated that we have the controls in place and that we have tremendous opportunities out there that each segment you've heard from today are looking at very carefully. And again, where it is intelligent to do so we will execute those opportunities.

But more importantly, hopefully today we've demonstrated why we're different and why we're better and why we believe we should be treated as such. So, again, if you have any questions please call Charlene. We'll try and answer them as best we can. Thanks very much indeed.

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