
**Recommendations of the
Independent Consultant
to American International Group, Inc.**

August 31, 2007

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	THE STRUCTURE AND PROCESS OF AIG’S COMPLIANCE PROGRAM	3
	A. Reporting Structure and Budget.....	4
	B. Risk Assessments	5
	C. Creation of Compliance Plans	6
	D. Implementation.....	8
	E. Monitoring of The Compliance Program	10
	F. Discipline	11
	G. Investigative Protocols.....	12
III.	ASSESSMENT OF SARBANES-OXLEY SECTION 404 INTERNAL CONTROLS.....	13
IV.	REMEDIATION	14
	A. Control Environment	14
	B. Risk Transfer	20
	C. Balance Sheet Reconciliations.....	29
	D. Derivative Hedge Accounting	35
	E. Accounting for Income Taxes	44
	F. Accounting Policy.....	50
	G. Legal Contingencies	78
	H. Logical Access Controls	89
V.	TRAINING FOR OFFICERS, EXECUTIVES AND EMPLOYEES THAT ARE INVOLVED IN ACCOUNTING AND FINANCIAL REPORTING FUNCTIONS.....	94
	A. Accounting and Financial Reporting Training.....	96

VI.	DISCLOSURE COMMITTEE ORGANIZATION AND REPORTING STRUCTURE.....	98
	A. Organization.....	98
	B. Reporting	98
VII.	INTERNAL AUDIT DIVISION.....	99
	A. Organization.....	99
	B. Reporting	99

I. INTRODUCTION

Pursuant to the Consent and Undertaking of American International Group, Inc. (“AIG” or “Company”) in Securities and Exchange Commission v. American International Group, Inc., No. 06 Civ. 1000 (LP) filed on February 17, 2006, the Agreement between the Attorney General of the State of New York and AIG and its subsidiaries dated January 18, 2006, and the Stipulation between AIG and the New York Department of Insurance dated January 18, 2006 (referred to hereinafter collectively as the “Consent”), AIG was required, among other things, to retain an Independent Consultant to conduct a comprehensive examination and review of a number of areas related to its operations. The Consent directs the Independent Consultant to make recommendations as to best practices to be followed in each of those areas. Further, the Consent tasks the Independent Consultant with monitoring the implementation of those recommendations over the remainder of the time period covered by the Consent.

On November 16, 2006, I was retained by AIG to serve as the Independent Consultant under the Consent. Since that time, along with a team of attorneys from Bryan Cave LLP and consultants from Eisner LLP, Huron Consulting Group, Inc., and Tiller Consulting Group, Inc., I have been conducting the examination and review called for in the Consent. In accordance with the timelines that have been agreed to by AIG, the Securities and Exchange Commission (“SEC”), the New York State Attorney General’s Office and the New York Department of Insurance, I am submitting my first set of recommendations in this matter. They cover the structure and process of AIG’s compliance function, an assessment of AIG’s controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, recommendations concerning the eight remediation work streams identified by AIG in its 2004 financial audit, a review of the training program AIG implemented concerning the requirements of the securities laws and related financial reporting issues, the organization and reporting structure of AIG’s Disclosure Committee, and the organization and reporting structure of AIG’s Internal Audit Division. On September 14, 2007, I will issue my recommendations concerning records management and at the end of September, 2007, I will submit a set of recommendations covering (1) substantive areas of the compliance program, including: anti-money laundering, antitrust, Office of Foreign Assets Control, Foreign Corrupt Practices Act, banking and consumer finance regulations, data security and privacy, political activities, insurance regulation, securities regulation, and employment law; (2) the effectiveness of the Complex Structured Finance Transaction Committee and the Transaction Review Committees; (3) the adequacy of AIG’s whistleblower procedures; (4) reforms related to corporate governance issues; (5) reforms related to the implementation of the Risk Transfer Policy; (6) reforms related to the Disclosure Committee; and (7) reforms related to Internal Audit Division.

In conducting the examination and review, it has not been my intention to prepare a critique of AIG’s past performance in the areas subject to examination and review. That is not what the Consent called for. Instead, I viewed the mandate to be forward looking and focused on how AIG is to conduct its operations in the future. AIG has represented that it has already implemented a substantial number of the recommendations relating to the eight remediation work streams, the Disclosure Committee, and Internal Audit Division. I have not had an opportunity to verify all aspects of that statement; however, it will be a focus of the monitoring process called for under the Consent. In issuing this set of recommendations, I set out all the best practice recommendations that I believe are applicable, regardless of whether AIG has implemented them. I do this to ensure

that the monitoring process provided for under the Consent will encompass a review of AIG's implementation of all the best practice recommendations for any given area.

In making this initial set of recommendations, I have not tried to write the specific policies and procedures or design each detail of the programs that AIG will need to satisfy the recommendations. Rather, I have set out the processes that AIG should establish, the issues that it should address, and the structures and lines of authority that I believe are necessary for each area covered by the recommendations. I have left it to AIG to design and implement these programs because the policies and procedures have to be AIG's policies and procedures if they are to have relevant application and lasting impact. Both AIG and I believe it is better for AIG to create its own policies and programs (subject to my approval and guidance during the monitoring phase). This will encourage AIG to take responsibility for the policies and programs and ensure that they are tailored to fit AIG's operations in the many jurisdictions where it conducts its business.

Before each set of recommendations I have listed the objectives the recommendations are intended to achieve. This is designed to help ensure that the monitoring focuses not just on the implementation of specific recommendations, but on whether those recommendations are, in fact, achieving the desired objectives. AIG is a large and complex company. There are few models upon which to base a set of recommendations for a company of its size, diversification, and global footprint. As a result, it is essential to keep the objectives in mind as we monitor the implementation of the specific recommendations. If we find that the accomplishment of the specific recommendations do not achieve these objectives, we intend to modify, add or eliminate specific recommendations until we find the combination of programs, policies, and procedures that achieve the stated goals.

Following the issuance of my recommendations, the Consent provides that I am to report on a quarterly basis on AIG's progress in implementing these recommendations. It is my intention to submit those reports one month after AIG files its quarterly and annual financial reports. By adopting this schedule, we will be able to review AIG's financial reports, as well as the reports of its independent auditors, and use those documents to inform our appraisal of AIG's progress in accomplishing the objectives set out in these recommendations.

II. THE STRUCTURE AND PROCESS OF AIG'S COMPLIANCE PROGRAM

Pursuant to Paragraph 4.A.1.a.iii of the Consent, the Independent Consultant is to examine and make recommendations concerning AIG's regulatory, compliance, and legal functions. For purposes of these recommendations, we refer to this as the "compliance" function and define it as the adherence to all applicable legal requirements (whether they are under U.S. or foreign laws, regulations, or other sources of legal obligations) and/or AIG policies related to applicable legal requirements.^{1/}

Once the organizational structure and reporting lines in this area have been established, the first step in the compliance process is the risk assessment. Like most companies, AIG confronts a wide range of risks that include and go beyond compliance risks. One of the core recommendations set out below is that AIG engage in a single, comprehensive risk assessment process that seeks to identify all risks that confront the Company. Once the risks have been identified, different parts of AIG will be assigned responsibility for addressing those risks. Those that fall within the category of compliance risks are within the area for which the Consent directs the Independent Consultant to make recommendations. Those outside the compliance area are not within the Independent Consultant's purview under Section 4.A.a.1.iii of the Consent.

In making recommendations concerning how to address AIG's compliance risks, it is anticipated that the vast majority of those issues will come under the purview of AIG's Office of Compliance ("OC"). There may, however, be a small number of compliance risks that are more appropriately handled by other parts of AIG's corporate structure (*e.g.*, Enterprise Risk Management ("ERM") or Human Resources ("HR")). While the recommendations that deal with the process for addressing compliance risks are directed to the operations of the OC, they also apply to the other parts of AIG's corporate structure to the extent that they are responsible for addressing compliance risks.

The basic design of the process to assess and address compliance risks focuses on controls operating in each jurisdiction in which AIG does business. The jurisdiction may be, for example, a state in the United States or a country in another part of the world. The key factor is that it is a governmental unit that exerts regulatory control over AIG's operations in a location. For the purposes of these recommendations, the operating units in each of these jurisdictions where AIG does business will be referred to as local operating companies ("LOCs"). It is from these locations that AIG conducts most of its business. Nevertheless, AIG also conducts its business through its segments, business units, divisions, and profit centers. To the extent those parts of AIG's structure need to control compliance risks beyond what is being done at the LOC level, these recommendations will apply to them as well.

^{1/} AIG has numerous operational policies that are not related to applicable legal requirements and, therefore, would not be considered as compliance oriented.

A. Reporting Structure and Budget

Objective: Provide independence to the compliance function while ensuring that compliance professionals work with business professionals so that AIG conducts its business profitably and in a manner that complies with applicable legal requirements and AIG policies.

1. AIG's Chief Compliance Officer ("CCO") will report to AIG's General Counsel and will regularly report to the Regulatory, Compliance and Legal Committee of the AIG Board of Directors.^{2/}
2. All other AIG compliance professionals, including those at the jurisdictional and LOC levels will report through AIG's compliance structure, and their job assignments will be dedicated exclusively to the compliance function.
 - a. Supervising compliance professionals will determine salaries and bonuses and will make hiring and termination decisions for compliance personnel.
 - b. Compliance professionals will have a matrix reporting relationship to the applicable business professionals who will provide input into decisions to hire compliance professionals and give detailed evaluations of their performance, including whether they effectively collaborate with the business professionals in helping the business achieve its financial goals while complying with all applicable legal requirements and AIG policies.
 - i. The business professionals' evaluations will be taken into account in setting compensation for the compliance professionals.
3. The budget for AIG's corporate and regional compliance programs will be developed and controlled by AIG's CCO and will be separate and independent from the business operation budgets.
 - a. The support segment of the OC will include, at a minimum, expertise in the following substantive areas: risk assessments, training, implementation and monitoring of compliance programs, Foreign Corrupt Practices Act, Office of Foreign Assets Control, privacy and data security, antitrust, financial services, insurance and reinsurance, anti-money laundering, and banking and consumer finance.
 - b. AIG will determine the number and geographic scope of its regions.

^{2/} A proposed organizational chart for AIG's compliance program is attached as Exhibit A.

4. The compliance budget for the jurisdictional and LOC compliance programs will be developed by the OC in consultation with the relevant business professionals.
 - a. Once such a compliance budget has been set, it cannot be modified without the approval of AIG's CCO.
 - b. Depending on the size and complexity of AIG's business in a particular jurisdiction, it may not need to appoint a separate compliance officer for the jurisdiction, provided that a single LOC compliance person is designated to serve as AIG's point of contact with its regulators in that jurisdiction and is charged with overseeing compliance issues throughout that jurisdiction.
 - i. AIG may need more than one compliance professional in a jurisdiction if required by local law.
 - c. Similarly, a compliance officer may, where appropriate, be responsible for more than one jurisdiction.
5. Compliance professionals will make incident reports and report all other relevant information regarding compliance issues to both the supervising compliance professionals and the relevant business professionals.
 - a. If the compliance incident or other relevant information concerns a matter that may not be appropriate for communication to the relevant business professionals (*e.g.*, allegations of wrongdoing by relevant business professionals or their superiors), the compliance professional should not report the information to the relevant business professionals if so instructed by the AIG CCO or her designee.

B. Risk Assessments

Objective: Conduct a single risk assessment that identifies all of AIG's risks.

1. Each LOC will conduct an annual, comprehensive risk assessment.
 - a. Each segment, business unit, division, and profit center will also conduct a risk assessment to identify areas of risk that have not been identified by their LOCs.
2. LOC business leaders in each jurisdiction where AIG does business will participate in the risk assessment.
3. Personnel involved in the risk assessment should, at a minimum, include individuals with expertise in the following areas: the relevant product lines, product development, sales and marketing, accounting, ERM, compliance, legal, HR, tax, information technology, and security.

4. The risk assessment process will be facilitated by personnel from compliance, legal, risk management, and HR (“Risk Control Functions”) in each LOC.
 - a. Each of these Risk Control Function employees will be trained in the risk assessment process.
 - b. Training will include instruction on U.S. and other legal requirements applicable to AIG’s global and business unit operations, AIG policies applicable to AIG’s global and business unit operations, and the process for identifying local legal requirements applicable to AIG’s operations for each jurisdiction in which it operates.
 - i. Once applicable local legal requirements have been identified, the LOC will maintain and update a database of those local legal requirements.
 - ii. This database will be available to the relevant AIG corporate Risk Control Functions.
5. Participants in the risk assessment process will conduct a thorough analysis of the LOC’s operations in the jurisdiction where it does business, focusing on, among other things:
 - a. Market risk,
 - b. Credit risk,
 - c. Strategic risk,
 - d. Insurance risk,
 - e. Reputational risk, and
 - f. Operational risks, including, but not limited to, compliance risk.
6. The risk assessment will identify all of the market, credit, strategic, insurance, reputational, and operational risks applicable to the LOC in the jurisdiction where it does business and provide an assessment of the magnitude of each risk.
7. Once the risks have been identified, the LOC will send the list of identified risks to the corporate Risk Control Functions. The corporate Risk Control Functions will determine which unit within AIG is best suited to work with the LOC to design appropriate controls for the identified risks.

C. Creation of Compliance Plans

Objective: Create a comprehensive compliance plan for each LOC that sets out effective controls for compliance risks identified in the annual risk assessment.

1. Once compliance risks have been identified and assigned to the compliance or other appropriate unit within AIG, AIG corporate, business unit, and regional personnel will provide assistance to the LOC and, to the extent necessary, any other part of AIG's structure, in developing appropriate controls for each identified compliance risk.
2. Considerations for developing controls for compliance risks should include:
 - a. Assessment of the current controls in place,
 - b. Determination if current controls and policies and procedures should be revised or replaced, or if new and additional controls are necessary, and
 - c. Staffing or support required for effective operation of the controls.
3. The OC's support segment will generate templates for controls and policies and procedures concerning global legal requirements and serve as a subject matter resource for the LOC.^{3/}
4. The regional substantive compliance professionals will provide expertise specific to their subject matter areas in that region and assist with customizing compliance controls, policies, and procedures for the LOCs.
5. Business unit compliance professionals will provide expertise specific to issues applicable to the business unit and assist with customizing compliance controls, policies, and procedures for the LOCs.
6. Jurisdictional and LOC compliance officers will adapt controls, policies, and procedures to their LOCs, using the substantive support provided by the OC's support segment, the regional substantive compliance officers, and business unit compliance personnel.
7. Regional, jurisdictional, and LOC compliance personnel will work with LOC and business unit personnel to ensure that proposed compliance controls, policies, and procedures are compatible with lawful business operations and the local environment.
8. Each compliance plan will be submitted to the OC for review and approval to ensure that the plan has adequately provided controls for addressing all identified compliance risks.

^{3/} In the few instances where a compliance function is assigned to a part of AIG other than the OC, that unit will be responsible for creating its own templates and engaging in the same processes described in Sections C through G of these recommendations.

D. Implementation

Objective: Communicate the substance and significance of compliance policies and procedures to all appropriate AIG personnel and appropriate third party agents and provide necessary training.

1. AIG will ensure that compliance policies and procedures are clearly drafted and translated into the local language, where necessary. The regional compliance officers will be responsible for ensuring that the translations are faithful to the spirit and intent of the policies and procedures.
2. All AIG personnel and appropriate third party agents will have ready access, whether in hardcopy or electronically, to all compliance policies and procedures that are relevant to their jobs. If compliance policies and procedures are posted on AIG's Intranet, they must be placed in an easily identifiable and accessible location.
3. AIG personnel and appropriate third party agents will receive training regarding all of AIG's policies and procedures concerning compliance matters relevant to their responsibilities.
 - a. Corporate, business unit, regional, jurisdictional, and LOC compliance and HR professionals will coordinate compliance training efforts to ensure that training provided by the OC, the business units, the regions, and the LOCs is complementary rather than duplicative or contradictory.
 - b. AIG will ensure that all compliance training is culturally relevant and provided, to the extent necessary, in the local language.
 - c. Compliance professionals will coordinate with HR and the business units to:
 - i. Determine which AIG personnel need to receive compliance training,
 - ii. Identify the type of compliance training each individual, including a new hire, needs to receive,
 - iii. Identify the best medium in which to provide the compliance training (*e.g.*, in person or web-based training),
 - iv. Ensure that employees receive all necessary compliance training, and
 - v. Document and track all compliance training that AIG personnel have received.
4. Compliance training provided to business personnel will:

- a. Explain why the training is relevant to the business unit and to the specific employee,
 - b. Describe the different contexts in which AIG personnel might encounter compliance issues that are the subject matter of training,
 - c. Provide concrete examples of compliance issues within the subject matter of training,
 - d. Give employees an opportunity to apply the principles that they have learned during training to hypothetical problems that illustrate the kinds of compliance issues employees may encounter in the jurisdictions and business units in which they work, and
 - e. State what the employee should do or who the employee should contact if he or she encounters compliance issues related to the subject matter of training.
5. Training provided to compliance personnel will cover, at a minimum:
- a. Substantive compliance issues applicable to the LOC.
 - b. Administration of the compliance program at the LOC.
 - c. The collaborative role of the compliance officers in facilitating the financial success of the LOC in a manner that complies with all applicable legal requirements and AIG policies.
 - i. This will include training concerning the products, services, and business goals of the LOC.
 - d. The reasons for an independent compliance function and how to exercise that independence.
6. Compliance budgets at all levels will provide sufficient funding to carry out the training described in this section.
7. AIG will ensure that the performance evaluations of all business personnel include appraisals of the extent to which they have contributed to the successful operation of AIG's and the LOC's compliance plan.
- a. Those evaluations will play a role in compensation and promotion decisions.
8. AIG's Chief Executive Officer ("CEO") will meet with his executive management team to discuss the implementation of AIG's corporate compliance program. This discussion should:

- a. Describe and explain the rationale for (1) changes in the reporting structure and budget process of AIG's compliance program and (2) the creation of a regional compliance structure,
 - b. Describe the role of AIG's compliance function in serving as a partner that assists the Company in conducting its business in a manner that complies with all applicable legal requirements and AIG policies,
 - c. Explain the continuing role of business professionals in evaluating the performance of compliance professionals, and
 - d. Explain that business professionals will be evaluated, in part, on their success at embedding and administering effective compliance programs in their businesses.
9. The CEO and/or president of each segment, business unit, division, profit center, and LOC will meet with their respective executive management teams to discuss the implementation of AIG's compliance program. This discussion should include the topics set forth in Section D.8 a through d.

E. Monitoring of The Compliance Program

Objective: Ensure that AIG develops methods to monitor the Company's adherence to compliance controls.

1. The OC will coordinate with AIG's Internal Audit Division ("IAD") to ensure that IAD's audits test adherence by AIG personnel to the requirements of the compliance plans.
2. While IAD audits will provide after-the-fact assessments of the level of adherence to the compliance controls, each LOC, with the assistance of regional, business unit, and OC personnel, will design procedures that will contemporaneously monitor adherence to those controls.
3. Contemporaneous monitoring methods and frequency will be tailored to the nature of the business activities being monitored, the local legal requirements, and the severity of any potential compliance risk. Such monitoring methods may include, but are not limited to:
 - a. Surveillance (call monitoring; reviewing correspondence and email),
 - b. Check lists of items to be reviewed by supervisors before approving a transaction,
 - c. Spot checks of files by supervisors, and
 - d. Software that requires the entry of specific data before a transaction can be completed.

4. The monitoring process will be described clearly in writing.
5. AIG personnel will be informed in writing that AIG will monitor and audit its businesses to ensure that AIG personnel are complying with all applicable legal requirements and AIG policies.
6. The results of all monitoring and audit reviews will be documented in a written report.
 - a. Written reports will be provided to the relevant compliance and business personnel who will assess the need to amend current controls or create new compliance controls.
 - b. Where compliance and business personnel identify a need to amend a current compliance control or create a new one, they will create an action plan that includes a deadline for completing any remedial measures.
 - c. Completion of action items will be tracked by the appropriate compliance professional and follow-up monitoring will be performed by compliance personnel.
 - d. IAD will receive all monitoring reports, action plans, and the reports of all follow-up monitoring.

F. Discipline

Objective: Ensure that AIG personnel are disciplined fairly and consistently across the Company and that such discipline is publicized as appropriate under the circumstances.

1. The OC will work with HR to design policies and procedures to ensure that AIG personnel are disciplined in a manner that is consistent throughout the Company and complies with all applicable legal requirements.
2. AIG's disciplinary policies and procedures should provide for the involvement of appropriate compliance, IAD, legal, HR, and business professionals to ensure the consistent and fair application of AIG's disciplinary standards.
3. The OC, working with HR and business unit, regional, jurisdictional, and LOC compliance professionals, will design a procedure that ensures that information about disciplinary decisions is communicated to AIG employees and appropriate agents in a manner that informs them of the consequences of failure to adhere to compliance standards and, to the extent necessary, that protects the privacy of the individual who has been disciplined.

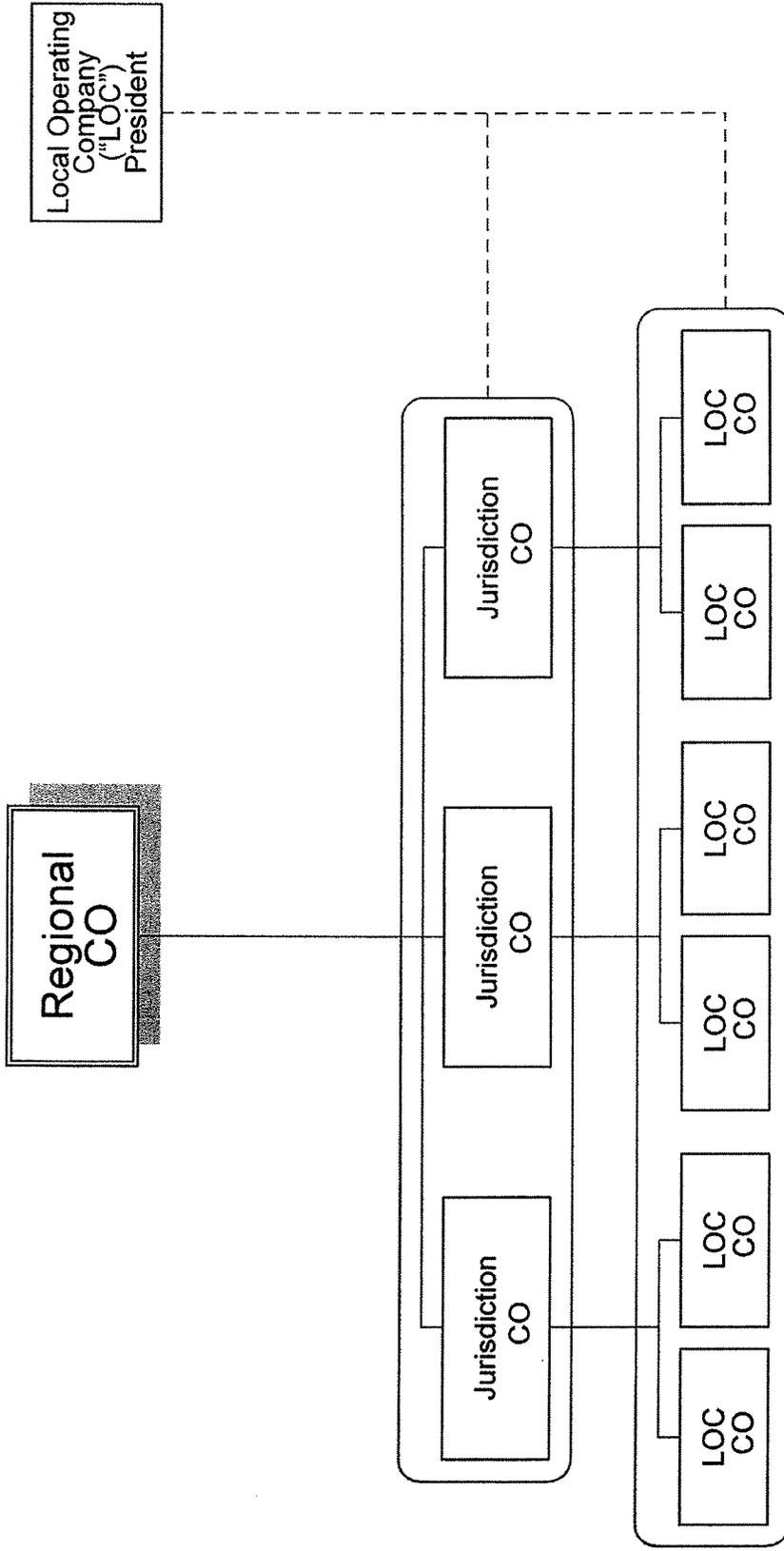
G. Investigative Protocols

Objective: Develop protocols for handling the investigation of alleged compliance incidents in an effective and lawful manner.

1. AIG will define categories of routine compliance issues that can be readily addressed at the LOC level.
 - a. The OC will design policies and procedures to govern how the Company handles routine compliance issues.
2. All other compliance matters should be referred to the OC.
 - a. If a routine matter cannot be adequately addressed at the LOC level, it should be referred to the OC.
3. The AIG CCO, or her designee, will determine the need to conduct further inquiry into the matter and will determine:
 - a. Whether the matter should be handled by in-house or outside counsel,
 - b. The level of supervision needed from the legal staff of the OC, and
 - c. The areas of expertise needed for the inquiry.
4. Whenever a compliance issue is identified, either from a whistleblower, compliance monitoring, regulatory review, internal investigation, or otherwise, business unit, regional, jurisdictional, and LOC compliance professionals and business leaders, working with the OC, will:
 - a. Determine the root cause of the matter,
 - b. Evaluate the effectiveness of existing controls and training related to the matter to determine whether and how existing controls were inadequate or circumvented,
 - c. Create new or revise existing controls and training, if necessary,
 - d. Revise the LOC's risk assessment, if necessary, and
 - e. Evaluate whether the matter is endemic to the business's operation or environment and determine whether adequate controls can be developed to permit the line of business to continue in a lawful manner.

EXHIBIT A

Proposed AIG Regional Compliance Organizational Chart



III. ASSESSMENT OF SARBANES-OXLEY SECTION 404 INTERNAL CONTROLS

Pursuant to Paragraph 4.A.1.a.i of the Consent, the Independent Consultant was tasked with conducting a “comprehensive examination and review” of AIG’s internal controls over financial reporting. That provision advised that the Independent Consultant could, “if appropriate, rely on AIG’s independent accountant’s attestation and report on management’s assessment of the effectiveness of AIG’s internal control structure and procedures pursuant to Section 404 of the Sarbanes-Oxley Act.”

After engaging in a review of the process employed by PricewaterhouseCoopers, LLP (“PwC”), AIG’s independent accountant, I have determined that it is appropriate to rely on its attestation regarding AIG’s assessment of the effectiveness of its internal control over financial reporting as summarized below.

As of December 31, 2004, 2005, and 2006, various material weaknesses relating to the AIG’s internal control over financial reporting had been identified and included in AIG’s assessment of its internal control over financial reporting. AIG management has concluded that these internal control deficiencies constitute a material weakness in AIG’s internal control over financial reporting.

AIG’s material weaknesses in internal control over financial reporting were considered by PwC in determining the nature, timing, and extent of the audit tests they applied in their audits of AIG’s 2004, 2005, and 2006 consolidated financial statements, and PwC’s opinion that AIG had not maintained effective internal control over financial reporting as of December 31, 2004, 2005, and 2006 did not affect their unqualified opinions on AIG’s consolidated financial statements as of December 31, 2004, 2005, and 2006.

In concluding that it was appropriate to rely on PwC’s attestation and report, we reviewed various work papers and other documentation regarding PwC’s work on the 2004, 2005, and 2006 audits. We also interviewed key PwC personnel concerning their determinations of appropriate materiality levels, how they determined which AIG entities were within the scope of the Section 404 testing, PwC’s test of the controls instituted by AIG, and its accumulation and assessment of any control deficiencies.

In the course of the work we performed in examining the remediation efforts of AIG for the material weaknesses and significant deficiencies identified in the 2004 audit of AIG’s consolidated financial statements, we interviewed a number of people at AIG and reviewed the materials that documented their remediation efforts. That work also informed our view regarding the reliability of PwC’s attestation and report on management’s assessment of effectiveness of AIG’s internal controls over financial reporting.

IV. REMEDIATION

A. Control Environment

Material Weaknesses 2004

AIG identified a material weakness relating to controls over the control environment as of December 31, 2004. AIG's Annual Report on Form 10-K for 2004 ("2004 10-K") stated that "Certain of AIG's controls within its control environment were not effective to prevent certain members of senior management, including the former Chief Executive Officer and former Chief Financial Officer, from having the ability, which in certain instances was utilized, to override certain controls and effect certain transactions and accounting entries. In certain of these instances, such transactions and accounting entries appear to have been largely motivated to achieve desired accounting results and were not properly accounted for in accordance with GAAP. Further, in certain of these instances, information critical to an effective review of transactions, accounting entries, and certain entities used in these transactions and accounting entries, were not disclosed to the appropriate financial and accounting personnel, regulators and AIG's independent registered public accounting firm. As a result, discussion and thorough legal, accounting, actuarial or other professional analysis did not occur."

AIG's Reported Status:

2005: Remediated

CONTROL ENVIRONMENT

BEST PRACTICE RECOMMENDATIONS

Objective:	Preparation of reliable, accurate published financial statements.
CE1 Best Practice Recommendation:	<p>Develop formal, comprehensive financial statement review procedures to identify, accumulate, track, and assess recorded and unrecorded adjustments for the purpose of identifying possible material misstatements to the year-end and quarter-end financial statements.</p> <p>Such procedures should include, but not be limited to:</p> <ul style="list-style-type: none"> • Templates designed to capture: <ol style="list-style-type: none"> 1. transactions applicable to the current period that were not recorded, 2. transactions applicable to prior periods that were not recorded, 3. transactions applicable to prior periods that were recorded, and 4. a summary calculating the quantitative impact of the above using both the “roll over” and “iron curtain” approaches as required under SEC Staff Accounting Bulletin (“SAB”) No. 108; • Analytical reviews should be performed on the balance sheet and the income statement of LOC in order to identify transactions that may not have been elevated to the Office of the Comptroller; • A narrative explaining the quantitative and qualitative impact on the individual line items and the financial statements taken as a whole; • Steps to ensure that entries required to be recorded as a result of the above procedures are recorded by the appropriate entities in the appropriate periods; and • Steps to identify the causes of misstatements so that appropriate remediation steps can be taken to ensure that such errors will not reoccur. <p>Concurrent with the development of such procedures, the Company should develop an education program to facilitate dissemination of these review procedures and ensure accounting and finance employees understand and apply them correctly.</p>

CONTROL ENVIRONMENT

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none"> • Control related standards and procedures are appropriate. • Preparation of reliable, accurate published financial statements. • Development of information systems is based on a strategic plan for information systems – linked to the entity’s overall strategy – and responsive to achieving the entity-wide and activity-level objectives. • Acquire sufficient number of qualified personnel.
CE2 Best Practice Recommendation:	<p>The Company should develop a comprehensive corporate accounting and financial reporting plan that includes, but is not limited to:</p> <ul style="list-style-type: none"> • Prioritizing corporate initiatives based on the degree of susceptibility to errors occurring in the financial statements, • Performing an assessment of current accounting and financial reporting systems throughout the Company and developing a plan to upgrade and integrate such systems, and • Performing an assessment of the sufficiency of current financial reporting and accounting personnel, in both number and technical competency. <ol style="list-style-type: none"> 1. Management should develop personnel competency models based on hard skills (<i>e.g.</i>, technical knowledge of General Accepted Accounting Principles (“GAAP”), SEC and regulatory reporting requirements) and soft skills (<i>e.g.</i>, leadership, decision-making abilities, problem-solving abilities, and communication) for financial reporting and accounting personnel. 2. Competency models should be used to perform an analysis of the adequacy, quantitatively and qualitatively, of current and future personnel based on the Company’s long-term initiatives. 3. Recruiting priorities should be aligned with areas of weakness. 4. Formal succession plans should be developed for key accounting and finance personnel to maintain business continuity. <p>The plan should be based on creating and sustaining effective corporate accounting and financial reporting initiatives.</p>

CONTROL ENVIRONMENT

BEST PRACTICE RECOMMENDATIONS

Objective:	Staff receives adequate feedback regarding their performance and career development.
CE3 Best Practice Recommendation:	<p>Performance evaluations that determine the compensation of Standard Internal (“SI”) reporting package companies’ leaders should include, but not be limited to:</p> <ul style="list-style-type: none">• Compliance with the AIG Accounting Policy and Procedural Guidance Manual,• Completion of projects and other initiatives supporting the remediation of internal control deficiencies, and• Ability to appropriately respond to risks included in the Company’s global risk assessment and identify new risks resulting from changing business conditions.

CONTROL ENVIRONMENT

BEST PRACTICE RECOMMENDATIONS

Objective:	Appropriateness of the entity's organizational structure.
CE4 Best Practice Recommendation:	<p>Segment CFOs should report directly to the corporate CFO, with matrix-reporting to the segment CEO. SI reporting package company CFOs should report directly to the segment CFO, with matrix-reporting to the SI reporting package company CEO.</p> <p>Annual salary adjustment and bonus awards of segment CFOs should be commensurate with other similarly situated executives and be decided by the corporate CFO with input from the segment CEO. The annual salary adjustment and bonus awards of SI reporting package company CFOs should be commensurate with other executives at their respective companies and be decided by the segment CFO with input from SI reporting package CEO.</p>

CONTROL ENVIRONMENT

BEST PRACTICE RECOMMENDATIONS

Objective:	Accumulation and evaluation of internal control deficiencies.
CE5 Best Practice Recommendation:	<p>Create mechanisms and tools to facilitate consistent categorization and reporting of internal control deficiencies. Internal control deficiencies should be summarized in one place using a Summary of Aggregated Deficiencies (“SAD”) and maintained in a SAD database to facilitate review and assessment. Such mechanisms and tools to assist with consistency in reporting and facilitate comparability of internal control deficiencies across local operating companies should include, but not be limited to:</p> <ul style="list-style-type: none"> • Requiring LOC management to report internal control deficiencies using uniform templates having fields that allow for internal control deficiencies to be sorted and reported based on various criteria, such as identification of the origin of the internal control deficiency (<i>e.g.</i>, SOX 404 testing or audit adjustments); identification of internal control deficiencies by LOC; assessing each deficiency’s potential for, or actual magnitude of, errors in the financial statements; and identification of effective compensating controls for each internal control deficiency, • Applying appropriate thresholds to evaluate internal control deficiencies at the LOC level. An internal control deficiency that may be immaterial at the corporate level could be material at other levels within the Company. Such internal control deficiencies should be addressed and remediated at the various levels within the Company even if they do not have a material effect on the consolidated financial statements of the Company. In the event there is a dispute regarding whether an internal control deficiency exists, resolution procedures should be established to settle such matters, and • Creating procedures ERM should perform to elevate and communicate issues to the Sarbanes-Oxley Steering Committee.

B. Risk Transfer

Material Weakness 2004

AIG identified a material weakness relating to controls over risk transfer evaluation as of December 31, 2004. The 2004 10-K stated that “AIG did not maintain effective controls over the proper evaluation, documentation and disclosure of whether certain insurance and reinsurance transactions involved sufficient risk transfer to qualify for insurance and reinsurance accounting. These transactions included Gen Re, Union Excess, Richmond and certain transactions involving AIG Re, AIG Risk Finance and AIG Risk Management. As a result, AIG did not properly account for these transactions under GAAP, resulting in a misstatement of premiums and other considerations, incurred policy losses and benefits, net investment income, reinsurance assets, deferred policy acquisition costs, other assets, reserve for losses and loss expenses, reserve for unearned premiums, other liabilities, and retained earnings.”

AIG’s Reported Status

2005: Remediated

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.
RT1 Best Practice Recommendation:	<p>Create and institutionalize a formal risk transfer policy for direct insurance, assumed reinsurance and ceded reinsurance. The policy should include, but not be limited to, the following elements:</p> <ul style="list-style-type: none"> • Accounting guidance on the application of risk transfer criteria; • A discussion of risk transfer evaluation; • Documentation requirements, including: <ol style="list-style-type: none"> 1. An assessment of insurance risk and the reasonable possibility of realizing a significant loss, 2. A description of the economic intent of the contract in the underwriting file, 3. Checklists or other tools that provide examples of characteristics or contractual features that mitigate risk transfer, and 4. Guidelines for actuarial review of transactions, including requirement that such review be performed in a manner consistent with professional standards and provide an opinion on the actuarial component of the risk transfer determination; • A listing of prohibited transactions; • Any consultation requirements, including escalation and approval requirements, and Complex Structured Finance Transaction Committee (“CSFTC”) review and approval requirements; • A quarterly representation letter regarding risk transfer matters from the senior-most executive officer and senior-most financial officer of each LOC; • A glossary of terms used in the policy; and • An option to create a safe harbor that documents the risk transfer assessment and its sufficiency for a product or group of similar products. Those contracts that do not meet a safe harbor should be subject to the layers of review as outlined in the consultation requirements.

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
RT2 Best Practice Recommendation:	The Risk Transfer Policy should require LOCs to obtain approval from the Office of Accounting Policy (“OAP”) regarding Risk Transfer Policy interpretations that may impact financial reporting for non-standard transactions that are significant either individually or in the aggregate.

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.
RT3 Best Practice Recommendation:	<p>The Risk Transfer Policy should provide a definition of AIG's governing contract principle that includes, but is not limited to:</p> <ul style="list-style-type: none">• A description of the required relationship of the underlying policies,• A description of how the underlying policies are to be linked, and• The nature of the risk transfer analysis required at an individual and bundled policy level. <p>The definition of AIG's governing contract principle and its basis in accounting literature should be documented with review and approval by OAP.</p>

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.
RT4 Best Practice Recommendation:	The risk transfer analysis of any direct insurance contract or group of contracts must determine if related reinsurance cessions are going either directly or indirectly to the insured. If the reinsurance cession is going either directly or indirectly to the insured, the direct insurance risk transfer sufficiency evaluation must consider its impact.

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.
RT5 Best Practice Recommendation:	The Risk Transfer Policy should provide statutory accounting guidance to the extent the risk transfer sufficiency assessment under statutory accounting would differ from GAAP accounting.

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Provide information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.
RT6 Best Practice Recommendation:	<p>Safe harbor documentation should serve as the tangible documentation evidencing compliance with the Risk Transfer Policy and include an analysis substantiating the sufficiency of risk transfer. The documentation should adhere to Risk Transfer Policy documentation requirements, and should also include, but not be limited to, expected cash flow scenarios and an actuarial evaluation of insurance risk transfer, as well as addressing the reasonable possibility of realizing a significant loss.</p> <p>The safe harbor documentation should describe the product or group of similar products, document the presence or absence of risk limiting features, and outline other parameters the business unit believes are required to support the sufficiency of risk transfer.</p> <p>Any premium requirements for a safe harbor should be clearly stated within the documentation and state whether the premium threshold is based on gross or net written premium. A discussion of the basis for choosing a premium threshold at that level should be included.</p> <p>Safe harbor documentation should be reviewed and approved by SI reporting package companies' CFO and Chief Underwriting Officer and corporate Actuarial Department at inception and at least annually thereafter, or when a product changes.</p>

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Employees receive adequate training to discharge their responsibilities effectively.
RT7 Best Practice Recommendation:	<p>AIG should develop and implement procedures to monitor compliance with the Risk Transfer Policy. These monitoring procedures should be separate and distinct from any compliance review conducted by IAD.</p> <p>Monitoring should be conducted on a routine basis and include, but not be limited to, validating the following:</p> <ul style="list-style-type: none">• That the underwriting file describes the economic intent of the contract,• That any characteristics or contractual features that might mitigate risk transfer are fully described, supported, and documented,• That actuarial reviews of the transactions are completed as required,• That safe harbors are utilized in compliance with applicable procedures, and• That the sufficiency of risk transfer is determined prior to binding a policy.

RISK TRANSFER

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Staff receives adequate feedback regarding their performance and career development.• Control related standards and procedures are appropriate.
RT8 Best Practice Recommendation:	Management production and compensation metrics should eliminate any possible incentive to record financially oriented transactions as insurance.

C. Balance Sheet Reconciliations

Material Weakness 2004

AIG identified a material weakness relating to controls over balance sheet reconciliation as of December 31, 2004. The 2004 Form 10-K stated that “AIG did not maintain effective controls to ensure the accuracy of certain balance sheet accounts in certain key segments of AIG’s operations, principally in the Domestic Brokerage Group. Specifically, accounting personnel did not perform timely reconciliations and did not properly resolve reconciling items for premium receivables, reinsurance recoverables and intercompany accounts. As a result, insurance acquisition and other operating expenses, premiums and insurance balances receivable, reinsurance assets, other assets and retained earnings were misstated under GAAP.”

AIG’s Reported Status

2005: Material Weakness

2006: Significant Deficiency

BALANCE SHEET RECONCILIATIONS

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Reconcile books and records to ensure internal consistency.• Preparation of reliable, accurate published financial statements.
R1 Best Practice Recommendation:	<p>Create and institutionalize a formal accounting policy for balance sheet reconciliations. This policy should include, but not be limited to, the following:</p> <ul style="list-style-type: none">• Designating responsible personnel for the oversight of the reconciliation process,• Identifying the individual balance sheet accounts that should be reconciled to the general ledger on a regular basis,• Specific instructions on preparing reconciliations, and• Reviewing and monitoring reconciliations at the corporate and LOC levels.

BALANCE SHEET RECONCILIATIONS

BEST PRACTICE RECOMMENDATIONS

Objective:	Continuation of business processes and operations.
R2 Best Practice Recommendation:	Detailed instructions on how to prepare specific account reconciliations should be documented and describe the specific procedures to follow in reconciling various accounts. These instructions may vary depending on the account to which they apply.

BALANCE SHEET RECONCILIATIONS

BEST PRACTICE RECOMMENDATIONS

Objective:	Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.
R3 Best Practice Recommendation:	The Company should ensure that all entities are compliant with the Company's balance sheet reconciliation accounting policy by monitoring and performing quality control activities. These activities should include, but not be limited to, the deployment of quality control personnel to all entities and improvements to the methods used to determine the scope of quality control reviews.

BALANCE SHEET RECONCILIATIONS

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions.• Continuity of business processes and operations.
R4 Best Practice Recommendation:	Create a new position responsible for monitoring the overall reconciliation process and being the point of contact for reconciliation related issues and/or inquires for all LOCs. This position should be independent of the existing remediation team and should remain in place until the Company is able to implement and sustain appropriate policies, procedures, and controls surrounding the reconciliation of balance sheet accounts throughout the Company.

BALANCE SHEET RECONCILIATIONS

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic events, such as liabilities involving judgments and estimates, are well controlled.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.
R5 Best Practice Recommendation:	<p>A Financial Accounting Standards Statement No. 5, <i>Accounting for Contingencies</i> (“FAS 5”) reserve monitoring process related to balance sheet reconciliations should be established to ensure that the appropriate accounting treatment is applied as unreconciled balances are resolved.</p> <p>As significant balances are resolved, the remaining reserve balances should be charged to the income statement immediately to prevent unnecessary reserve balances from remaining on the balance sheet and possibly distorting future earnings. Adequate financial statement disclosure should accompany the release of unnecessary reserve balances to earnings.</p>

D. Derivative Hedge Accounting

Material Weakness 2004

AIG identified a material weakness relating to controls over the hedge accounting for derivatives as of December 31, 2004. The 2004 Form 10-K stated that “AIG did not maintain effective controls over the evaluation and documentation of whether certain derivative transactions qualified under GAAP for hedge accounting, resulting in a misstatement of net investment income, realized capital gains (losses), other revenues, accumulated other comprehensive income (loss) and related balance sheet accounts.”

AIG’s Reported Status

2005: Material Weakness

2006: Remediated

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
D1 Best Practice Recommendation:	<p>Create and institutionalize a formal AIG accounting policy that provides guidance on accounting for derivatives and hedging activities and certain hybrid financial instruments (<i>e.g.</i>, embedded derivatives). This policy should include, but not be limited to, providing guidance on the types of derivative instruments permitted under the Company’s risk/investment strategy, the definition of and accounting treatment for embedded derivatives, the types of hedges allowed under corporate policy, and the requirements under Financial Accounting Standards No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> (“FAS 133”) to qualify for hedge accounting.</p>

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
D2 Best Practice Recommendation:	The Company should create a document that describes each approved hedging strategy (<i>i.e.</i> , Strategy Memoranda) outlining the eligible hedged items and eligible hedging instruments that can be applied to each approved hedging strategy.

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Acquire sufficient number of appropriately qualified personnel.• Preparation of reliable, accurate published financial statements.
D3 Best Practice Recommendation:	Retain qualified, experienced personnel knowledgeable in FAS 133 at both the corporate and SI reporting package company level.

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
D4 Best Practice Recommendation:	The OAP should be responsible for evaluating and approving new hedging strategies before implementation and approving any amendments to existing hedging strategies throughout the Company.

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Control related standards and procedures are appropriate.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
D5 Best Practice Recommendation:	Establish controls to provide reasonable assurance that AIG Financial Products Corp. (“AIG-FP”) captures the transactional data necessary to properly account for derivative transactions in compliance with FAS 133.

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Control related standards and procedures are appropriate.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
D6 Best Practice Recommendation:	Develop an automated solution that allows for the application of hedge accounting for AIG-FP's hedging relationships in a systematic and controlled manner and in accordance with the requirements of FAS 133. Features of the solution should include, but not be limited to, filtering rules that segregate which derivative instruments and hedged items are eligible for FAS 133 accounting, a matching algorithm that is responsible for identifying "highly effective" hedging relationships, the ability to perform the prospective and retrospective tests of effectiveness and the ability to automatically generate journal entries and the required documentation under FAS 133.

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
D7 Best Practice Recommendation:	For purposes of performing the prospective and retrospective assessments of hedge effectiveness, the risk management strategy should require historical changes in fair values of the hedged item and hedging instrument be obtained from a data sample that is consistent with the intended duration of the hedge. Such guidance should be stated in the Company's accounting for derivatives and hedging activities policy.

DERIVATIVE HEDGE ACCOUNTING

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Control related standards and procedures are appropriate.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
D8 Best Practice Recommendation:	Create a centralized function that is responsible for overseeing that the application of FAS 133 by non-AIG-FP entities is performed in a controlled manner that is consistent with GAAP. Responsibilities of the central function should include, but not be limited to, providing initial accounting guidance to LOCs, ongoing accounting support including quarterly assessments of hedge effectiveness and ineffectiveness, preparation of required FAS 133 documentation and preparation of journal entries.

E. Accounting for Income Taxes

Material Weakness 2004

A material weakness relating to the controls over income tax accounting was identified as of December 31, 2004. AIG's 2004 Form 10-K stated that "AIG did not maintain effective controls over the determination and reporting of certain components of the provision for income taxes and related deferred income tax balances. Specifically, AIG did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculations and related deferred income taxes and to monitor the differences between the income tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the differences to the deferred income tax balances. As a result, deferred income taxes payable, retained earnings and accumulated other comprehensive income were misstated under GAAP."

AIG's Reported Status:

2005: Material Weakness

2006: Material Weakness

INCOME TAXES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions.• Record the effect of all tax transactions or economic events completely and accurately.• Preparation of reliable, accurate published financial statements.
IT1 Best Practice Recommendation:	<p>The Company’s corporate Tax Department should be a centralized tax oversight function that operates in both a compliance and control capacity.</p> <p>In its compliance capacity, the corporate Tax Department’s roles and responsibilities should include, but not be limited to, preparing corporate income tax and other returns, setting corporate tax policy, and ensuring that the Company is aware of new developments in tax law.</p> <p>In its corporate tax control and oversight role, the corporate Tax Department should develop corporate tax positions and strategies, assist LOCs in their implementation of those positions and strategies, and provide transparency in income tax and financial reporting.</p> <p>The corporate Tax Department should hire tax personnel at the LOCs and on a regional basis. Such personnel should be responsible for local tax issues and implementing corporate tax initiatives. Such personnel should have a dual reporting relationship to the corporate Tax Department and the LOC’s CFO.</p>

INCOME TAXES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Acquire sufficient number of appropriately qualified personnel.• Preparation of reliable, accurate published financial statements.
IT2 Best Practice Recommendation:	Retain sufficient qualified, experienced personnel knowledgeable in Statement of Financial Accounting Standards No. 109, <i>Accounting for Income Taxes</i> and other corporate tax compliance matters.

INCOME TAXES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Record the effect of all tax transactions or economic events completely and accurately.• Preparation of reliable, accurate published financial statements.
IT3 Best Practice Recommendation:	<p>The Company should develop and maintain a deferred tax inventory of the differences between the GAAP basis and tax basis of all assets and liabilities for all material entities. The deferred tax inventory should be used to:</p> <ul style="list-style-type: none">• Determine and reconcile cumulative temporary tax differences,• Calculate and resolve any unreconciled deferred tax balances,• Provide the information required for financial statement disclosure, and• Form the basis for the creation of tax balance sheets for all material entities. <p>The Company should implement web-based and systems integrated global tax provision software that can automatically record the Company's book to tax to statutory differences on a prospective basis.</p>

INCOME TAXES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Appropriateness of the entity's organizational structure.• Preparation of reliable, accurate published financial statements.
IT4 Best Practice Recommendation:	The purpose and need for each existing and new legal entity should be evaluated in order to eliminate unnecessary entities and make the income tax reporting process manageable.

INCOME TAXES

BEST PRACTICE RECOMMENDATIONS

Objective:	Identify and purchase from vendors capable of meeting the entity's needs.
IT5 Best Practice Recommendation:	The corporate Tax Department should have a pre-approved list of qualified income tax service providers from which LOC CFOs can choose.

F. Accounting Policy

Significant Deficiency 2004

AIG identified a significant deficiency in the area of Accounting Policy in connection with its assessment of internal controls over financial reporting as of December 31, 2004.

This significant deficiency arose as a result of the Company's failing to continually update its accounting policy manual for new pronouncements and updated authoritative guidance on existing pronouncements. In addition, the accounting policy function was inadequately staffed and viewed as a research function rather than a control function. The Company also failed to maintain contemporaneous documentation regarding the resolution of accounting issues.

AIG's Reported Status:

2005: Significant Deficiency

2006: Significant Deficiency

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP1 Best Practice Recommendation:	Establish an OAP as the governing body that issues AIG accounting policies and oversees the proper application of these policies.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Adequately communicate across the organization and provide complete and timely information that is sufficient to enable people to discharge their responsibilities effectively.• Preparation of reliable, accurate published financial statements.
AP2 Best Practice Recommendation:	The Director of Accounting Policy should be appointed as a voting member of the CSFTC, the Financial Statement Disclosure Committee (“FSD”) and the AIG Derivatives Committee.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objectives:	<ul style="list-style-type: none">• Acquire sufficient number of appropriately qualified personnel.• Preparation of reliable, accurate published financial statements.
AP3 Best Practice Recommendation:	OAP should have regional offices. Each regional office should be staffed with personnel knowledgeable about GAAP and, to the extent applicable, International Financial Reporting Standards (“IFRS”). These people should be responsible for providing LOCs within their region with accounting advice and direction.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Acquire sufficient number of appropriately qualified personnel.• Preparation of reliable, accurate published financial statements.
AP4 Best Practice Recommendation:	<p>The Company should hire additional qualified accounting personnel in OAP and at the LOC level to fill positions and assist with the preparation of financial statements.</p> <p>The most qualified candidates should have all of the following technical skills: knowledge of GAAP, applicable industry experience, the ability to speak English and an applicable foreign language and, to the extent applicable, IFRS expertise. These technical skills are desired, but not required in all instances. Recruiting efforts should be driven by weaknesses in existing LOC employee skills and technical knowledge. Candidates may have gaps in their skills that can be augmented in other manners (<i>e.g.</i>, translators could be used in lieu of hiring bilingual personnel).</p>

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP5 Best Practice Recommendation:	<p>The Company should implement a program that is focused on internally developing employees at the LOC level into GAAP and, to the extent applicable, IFRS knowledgeable accounting professionals.</p> <p>Candidates for this program would be LOC accounting/finance personnel who are willing to relocate to AIG headquarters for a 12-18 month period and work as residents in OAP. Upon completion of their residency, they would return to the field.</p>

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	Appropriateness of reporting relationships.
AP6 Best Practice Recommendation:	Once regional OAPs have been established, graduates (past and future) of the residency program should be assigned there as staff to regional offices and have a direct reporting line to the corporate OAP. They may also be assigned to significant LOCs, under appropriate circumstances.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Adequate feedback to staff regarding performance and career development.• Appropriateness of remedial action taken in response to departures from approved policies and procedures or violations of the code of conduct.• Preparation of reliable, accurate published financial statements.
AP7 Best Practice Recommendation:	<p>The Company should designate a person at the LOC level who is responsible for elevating non-standard and significant transactions to OAP and for preparing the appropriate accounting memoranda for such transactions. For smaller or non-significant LOCs, the designation of the local CFO or comptroller in this role is acceptable. For significant LOCs, an individual other than the local CFO or comptroller should be appointed. This individual will have a dual reporting relationship to OAP and the LOC CFO.</p>

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions.• Preparation of reliable, accurate published financial statements.
AP8 Best Practice Recommendation:	<p>SI reporting package company personnel should be responsible for adhering to and implementing the AIG Accounting Policy and Procedural Guidance Manual and have ultimate responsibility for financial statements and all supporting financial accounting conclusions. All SI reporting package company accounting personnel should have the responsibility to elevate significant and non-standard accounting issues. Failure to do so can be grounds for discipline, including, but not limited to, dismissal.</p> <p>OAP is a consulting and oversight mechanism and resource for the SI reporting package company personnel in fulfilling their responsibilities under the AIG Accounting Policy and Procedural Guidance Manual.</p>

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	Adequately communicate across the organization and provide complete and timely information that is sufficient to enable people to discharge their responsibilities effectively.
AP9 Best Practice Recommendation:	The AIG Accounting Policy and Procedural Guidance Manual should be maintained in an easily identifiable and accessible format/medium. It should be in a medium that enables users to perform key-word searches or otherwise quickly identify and access applicable policies.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
AP10 Best Practice Recommendation:	A reference to the authoritative guidance that the policy addresses should be provided in the forepart of each AIG accounting policy.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	Comply with applicable laws, regulations and Company policies.
AP11 Best Practice Recommendation:	<p>The Company should identify statutory accounting and reporting requirements applicable to each of its LOCs and make such information available to the relevant accounting and finance personnel. LOC accounting personnel should advise OAP of positions taken and seek OAP's concurrence when statutory accounting differs significantly from generally accepted accounting principles or practices.</p> <p>The LOC should monitor updates from appropriate sources and ensure that their prescribed and permitted practices are current.</p>

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
AP12 Best Practice Recommendation:	<p>The AIG Accounting Policy and Procedural Guidance Manual should be reviewed and updated on a current basis to ensure that all policies and procedures are consistent with GAAP. Any updates made to the AIG Accounting Policy and Procedural Guidance Manual should be contemporaneously disseminated to accounting and finance personnel. Local CFOs, comptrollers and those designated under AP7 should be included in accounting policy training as appropriate. The Company should maintain records of accounting policy updates, reviews, and training.</p>

ACCOUNTING POLICY

BEST PRACTICES RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Employees receive adequate training to discharge their responsibilities effectively.• Preparation of reliable, accurate published financial statements.
AP13 Best Practice Recommendation:	The Company should establish training requirements and standards for employees involved with accounting policy and financial reporting. Adherence to these training requirements and standards should be tracked and be part of periodic personnel performance reviews and evaluations. The training curriculum should include topics such as GAAP, local statutory accounting principles, product level training, and, to the extent applicable, IFRS.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Provide information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.• Employees receive adequate training to discharge their responsibilities effectively.• Preparation of reliable, accurate published financial statements.
AP14 Best Practice Recommendation:	The Company should hold annual and quarterly comptrollers meetings during which professional education on new accounting pronouncements is provided and best practices are shared among business units.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic transactions, such as accounts involving judgments and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.
AP15 Best Practice Recommendation:	The Company's Accounting Policy and Procedural Guidance Manual uses the terms "significant" and "non-standard" as guidelines for which types of transactions require a heightened degree of financial reporting review and thus necessitate elevation to OAP. The Company should provide interpretive guidance of these phrases to avoid inconsistent interpretation and application.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic transactions, such as accounts involving judgment and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.
AP16 Best Practice Recommendation:	<p>The Company should provide checklists and other protocols to help accounting and finance personnel perform the necessary accounting and financial reporting research for non-standard and significant accounting transactions (<i>e.g.</i>, accounting for leasing transactions, mergers & acquisitions). These tools can include, but are not limited to, commercially available financial statement disclosure checklists and GAAP interpretive literature and guidance.</p>

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP17 Best Practice Recommendation:	The Company should create and implement templates for the documentation of accounting issues that are non-standard and significant. These templates should guide the preparer as to form, content, and required approvals. Such documentation templates should include, but not be limited to, an introduction/overview section, an accounting analysis section, a section on the conclusions reached, and require supporting documentation.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.
AP18 Best Practice Recommendation:	Extend the comment period for updates, modifications, and additions to the AIG Accounting Policy and Procedural Guidance Manual from 15 days to 30 days in order to provide accounting and finance personnel with adequate time to respond.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Provide information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.• Preparation of reliable, accurate published financial statements.
AP19 Best Practice Recommendation:	OAP should make technical accounting materials (including interpretations by OAP) available to accounting and finance personnel throughout the Company.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP20 Best Practice Recommendation:	LOC accounting and finance personnel should prepare supporting documentation for all significant and non-standard transactions. All such documentation should be reviewed and approved by OAP. This documentation should be prepared on a contemporaneous basis.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic transactions, such as accounts involving judgments and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.• Provide information to the right people in sufficient detail on time to enable them to carry out their responsibilities efficiently and effectively.
AP21 Best Practice Recommendation:	OAP should establish procedures for the submission and review of non-standard and significant transactions that the LOCs elevate to its attention. Records of such submissions should be maintained by the OAP, including a log which will show the source of the submission, the date it was submitted, a description of the submission, a description of the disposition, and the date of the disposition. The Company should develop standards to determine which issues require elevation to the Audit Committee of the Board of Directors.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.
AP22 Best Practice Recommendation:	The Company should develop an easily accessible and usable database application to house accounting and financial reporting decisions reached by OAP. The database should contain information regarding technical accounting memoranda that are issued, including a description of the accounting issue it addressed and the relevant GAAP guidance. This database application should be used for resolving similar accounting issues and should enable an authorized user to perform keyword searches of accounting topics to identify relevant memoranda.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP23 Best Practice Recommendation:	<p>The Company should create a committee to resolve any disputes arising from differences in professional opinion regarding accounting and financial reporting issues.</p> <p>Meetings and determinations of the committee should be documented, retained, and disseminated to LOC CFOs. Documentation should include, but not be limited to:</p> <ul style="list-style-type: none">• The attendees in any meeting(s) at which accounting or financial reporting issues are reviewed,• A written record of all issues presented for the Committee’s review,• The determinations made about those issues and the reasons for those determinations, and• Any conditions attached to the approval of an accounting or financial reporting issue.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Adequately communicate across the organization and provide complete and timely information that is sufficient to enable people to discharge their responsibilities.• Preparation of reliable, accurate published financial statements.
AP24 Best Practice Recommendation:	Frequent meetings between the Company's external auditors and executive accounting personnel, including, but not limited to, the AIG Comptroller and Director of Accounting Policy, should be held to ensure timely communication of accounting and financial reporting issues.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP25 Best Practice Recommendation:	SI reporting package companies' comptrollers, CFOs and CEOs should be required to certify on a quarterly basis that they have read the AIG Accounting Policy and Procedural Guidance Manual, that the companies are in compliance with all aspects of the AIG Accounting Policy and Procedural Guidance Manual, and that the financial records, reports, and statements are maintained and reported in accordance with the AIG Accounting Policy and Procedural Guidance Manual or, in the absence of a specific AIG accounting policy, in accordance with GAAP and the appropriate statutory requirements.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Internal audit activities are control risk driven.• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy AIG Accounting Policy and Procedural Guidance Manual.• Preparation of reliable, accurate published financial statements.
AP26 Best Practice Recommendation:	IAD's annual work plan should include audits specifically designed to test that accounting conclusions reached on transactions by the LOCs are consistent with the guidance provided in the AIG Accounting Policy and Procedural Guidance Manual.

ACCOUNTING POLICY

BEST PRACTICE RECOMMENDATIONS

Objective:	Establish channel of communication for reporting suspected improprieties.
AP27 Best Practice Recommendation:	The purpose of the compliance helpline as a vehicle to anonymously communicate violations and non-adherence to the AIG Accounting Policy and Procedural Guidance Manual should be reinforced. All employees of the Company should receive training on the helpline's most effective use for reporting accounting violations. To the extent permitted by law, there should be one helpline number for all purposes in AIG, with staff appropriately trained to refer calls to appropriate helpline personnel for the specific issues raised by the call.

G. Legal Contingencies

Significant Deficiency 2004

AIG identified a significant deficiency in the area of Legal Contingencies in 2004. The significant deficiency arose as a result of ineffective lines of communication between corporate (both corporate legal and corporate comptrollership) and the SI reporting package companies regarding the reporting of legal matters with potential financial reporting or disclosure ramifications. The Company failed to provide proper channels and guidance to SI reporting package companies to facilitate communication of legal contingency issues with corporate comptrollership and corporate legal.

AIG's Reported Status:

2005: Remediated

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
LC1 Best Practice Recommendation:	Create and institutionalize a corporate policy that provides guidance on accounting for contingencies in conformity with FAS 5.

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Selection and application of accounting policies are in conformity with GAAP and, to the extent applicable, statutory requirements.• Preparation of reliable, accurate published financial statements.
LC2 Best Practice Recommendation:	The Company should make its definitions, examples, and standards within the AIG Accounting Policy for Contingencies consistent with FAS 5.

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Employees receive adequate training to discharge their responsibilities effectively.• Preparation of reliable, accurate published financial statements.• Comply with the applicable laws, regulations and company policies.
LC3 Best Practice Recommendation:	<p>The Company should provide clear instructions to employees on how to recognize situations or events that indicate a reasonable likelihood of litigation, governmental investigation or inquiry, or administrative proceeding.</p> <p>The Company should instruct employees to report to internal counsel or compliance officers any such situations or events that indicate a reasonable likelihood of litigation, governmental investigation or inquiry, or administrative proceeding.</p>

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Provide information to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.• Significant non-routine and non-systematic events, such as liabilities involving judgments and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.
LC4 Best Practice Recommendation:	<p>Create and formalize a standard quarterly legal contingencies reporting process for use by SI reporting package companies to report legal contingencies to corporate legal and corporate comptrollership. Such process should include, but not be limited to:</p> <ul style="list-style-type: none">• Quarterly reports that local general counsel representatives provide to corporate legal, and• Quarterly assessments of legal contingencies that SI reporting package companies provide in their standard internal reporting package to corporate comptrollership.

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Accounting for transactions is consistent and performed in accordance with the AIG Accounting Policy and Procedural Guidance Manual.• Adequately communicate across the organization and provide complete and timely information that is sufficient to enable people to discharge their responsibilities effectively.• Preparation of reliable, accurate published financial statements.
LC5 Best Practice Recommendation:	<p>The scope of legal matters that are reported to corporate legal should include matters emanating from all SI reporting package companies, including AIG corporate. This should be accomplished by creating a formal litigation report and corresponding template to be completed and submitted to corporate legal on a quarterly basis for all litigation matters that are deemed to be “significant.”</p> <p>The reporting template should have sections, including, but not limited to, the named AIG entity, a short summary of the action, a description of the factual/procedural background, a listing of claims asserted, any new legal theories or claims, and a status update. All SI reporting package companies should complete this template on a quarterly basis. For those entities that have no matters to report, a submission nonetheless should be required.</p>

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic events, such as liabilities involving judgments and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.• Reconcile books and records to ensure internal consistency.
LC6 Best Practice Recommendation:	<p>The Company should develop a formal process to ensure that corporate legal obtains all necessary information from the local operating company general counsel to (1) monitor the status of matters already known that are being supervised by corporate legal and (2) support the quarterly legal contingencies reporting process.</p> <p>The formal process should include, but not be limited to, identifying:</p> <ul style="list-style-type: none">• Roles and responsibilities of each party regarding the reporting and monitoring of legal contingencies, including the communication of time frames and documentation requirements,• Information required to be communicated, and• Frequency and manner of communication (<i>i.e.</i>, verbally or written).

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	Continuation of business processes and operations.
LC7 Best Practice Recommendation:	Corporate legal should create and formalize a standard quarterly legal contingencies reporting process. Such process should include, but not be limited to, the documentation of: <ul style="list-style-type: none">• Routine procedures and actions for activities supporting corporate legal’s legal contingencies report creation process, including distribution to the appropriate individuals,• Standards to identify and elevate the most significant litigation matters facing the Company, and• Report completeness testing performed in conjunction with corporate comptrollership.

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic events, such as liabilities involving judgments and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.• Reconcile books and records to ensure internal consistency.
LC8 Best Practice Recommendation:	Create and formalize a quarterly review process for potential and pending legal matters between corporate legal and corporate comptrollership. The process should include, but not be limited to, a comparison of legal contingencies reported to corporate legal and corporate comptrollership. Any discrepancies identified should be discussed and resolved immediately.

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	<ul style="list-style-type: none">• Significant non-routine and non-systematic events, such as liabilities involving judgments and estimates, are well controlled.• Preparation of reliable, accurate published financial statements.
LC9 Best Practice Recommendation:	Establish a review and assessment process for determining which legal contingencies and subsequent events regarding legal contingencies require disclosure in the Company's financial statements. The process should include, but not be limited to, a committee that includes executive officers of the Company that meets at least quarterly to discuss necessary accruals and disclosure issues related to legal contingencies (<i>i.e.</i> , FSD).

LEGAL CONTINGENCIES

BEST PRACTICE RECOMMENDATIONS

Objective:	Adequately communicate across the organization and provide complete and timely information that is sufficient to enable people to discharge their responsibilities effectively.
LC10 Best Practice Recommendation:	Establish a process to communicate legal contingency matters to AIG's Board of Directors. The process should include, but not be limited to, a quarterly report and presentation by corporate legal summarizing the most significant litigation matters facing the Company.

H. Logical Access Controls

Significant Deficiency 2004

AIG identified a significant deficiency in the area of Logical Access Controls in connection with its assessment of internal controls over financial reporting as of December 31, 2004. The significant deficiency arose as a result of the Company's failure to consistently address issues regarding the ability to sufficiently control and monitor access to systems, data, transactions, and computing resources.

AIG's Reported Status:

2005: Significant Deficiency

2006: Significant Deficiency

LOGICAL ACCESS CONTROLS

BEST PRACTICE RECOMMENDATIONS

Objective:	Only authorized users are permitted to access the Company's information systems.
AC1 Best Practice Recommendation:	<p>Create and institutionalize a formal logical user access policy. The policy should include, but not be limited to, the following elements:</p> <ul style="list-style-type: none"> • Organizational Framework: Define the scope of the policy: <ol style="list-style-type: none"> 1. Applicability to internal and external parties (<i>i.e.</i>, AIG Standards Compliance), 2. Applicability to User Managed Applications (such as end-user developed applications or vendor packages), and 3. Permitted instances and the procedures to undertake for allowed exceptions. • Identity Management Requirements: System privileges (<i>i.e.</i>, access to a system or an application and one's rights within that system or application) should be stored in a central location that provides the ability to review (1) who has access to a system and (2) which system each employee can access and their rights within that system. System privileges should be defined at a standard level, such as job classification, and include appropriate segregation of duty controls. • User Authentication: Define how the system or application is accessed. User authentication should include, but not be limited to, password requirements (<i>e.g.</i>, length and character type) and security around remote access. • User Authorization: Define who owns the data and who can access it. This should include, but not be limited to, establishing data ownership requirements, creating system administrator functions and granting system access privileges. • Data Classification: Prescribe requirements for classifying data (<i>e.g.</i>, employee, sensitive, and customer) and establish distinct security standards for each data classification. • Perimeter Security: Define how data is protected, such as developing firewalls. • Monitoring Activities: Require the creation of an audit trail to monitor access to systems and applications. Examples include reviewing user and system administrator access of (or attempts to access) data and systems, the duration of the session and the tasks completed. The policy should also establish procedures to address a security event (<i>i.e.</i>, an unauthorized attempt to access systems or applications and restricted data).

LOGICAL ACCESS CONTROLS

BEST PRACTICE RECOMMENDATIONS

Objective:	Management’s support for the development of necessary information systems is demonstrated by the commitment of appropriate resources – human and financial.
AC2 Best Practice Recommendation:	<p>The Company should establish a Project Management Office (“PMO”) that is responsible for overseeing the successful implementation of the Logical User Access Policy throughout the various LOCs. The PMO responsibilities should include, but not be limited to:</p> <ul style="list-style-type: none">• Monitoring the progress of LOCs against established implementation timelines,• Managing the overall project to ensure projects are assigned and completed within budget,• Proactively disseminating project information (<i>e.g.</i>, required control objectives that must be met and applicable Company policies) to all LOCs,• Identifying, managing and mitigating project risk, and• Ensuring that the solutions implemented by the LOCs are of acceptable quality.

LOGICAL ACCESS CONTROLS

BEST PRACTICE RECOMMENDATIONS

Objective:	Only authorized users are permitted to access the Company's information systems.
AC3 Best Practice Recommendation:	<p>The Company should utilize automated technologies and solutions to the extent practicable to implement the Logical User Access Policy. Areas lending themselves to automated solutions include, but are not limited to:</p> <ul style="list-style-type: none">• AIG Standards Compliance: Technology that facilitates an audit of Logical User Access Policy compliance and supports enforcement of established standards.• User Managed Applications: Technology designed to enhance or integrate end-user developed applications or vendor packages into existing systems to support compliance with the Company's Logical User Access Policy. The tools should support centralized security administration, including identity management.• Identity Management: Solutions for the creation of a repository containing employee identity information that is linked to system privilege information (<i>i.e.</i>, access to system or application and one's rights within the system or application). Automated tools should also facilitate periodic reviews of system privileges, including the ability to determine that assigned system privileges are appropriate.• User Authorization: Technology that facilitates secure passwords and system administrator access, including monitoring and tracking activity.• Monitoring Activities: Solutions that create an audit trail to monitor access to systems and applications.

LOGICAL ACCESS CONTROLS

BEST PRACTICE RECOMMENDATIONS

Objective:	Management's support for the development of necessary information systems is demonstrated by the commitment of appropriate resources – human and financial.
AC4 Best Practice Recommendation:	<p>Establish an information technology security position that is responsible for overseeing and ensuring that the Company is in compliance with the Logical User Access Policy. This person should report to the Deputy CCO who is responsible for privacy and data security. The responsibilities of this individual should include, but not be limited to:</p> <ul style="list-style-type: none">• Managing the development and ongoing maintenance of the Company's Logical User Access Policy,• Providing guidance to the business units regarding the Logical User Access Policy,• Ensuring that the Company's information systems comply with the applicable legal requirements both in the U.S. and in each country where AIG has operations, and• Investigating and resolving security incidents.

V. TRAINING FOR OFFICERS, EXECUTIVES, AND EMPLOYEES THAT ARE INVOLVED IN ACCOUNTING AND FINANCIAL REPORTING FUNCTIONS

Pursuant to Paragraph 4.A.1.a.vi of the Consent, the Independent Consultant is to examine and make recommendations concerning the training and education program that AIG agreed to “establish and maintain” for certain “Mandatory Participants.”^{4/} As set forth in the Consent, AIG is required to provide the Mandatory Participants training in the following areas:

- (a) The obligations imposed on AIG by the federal securities laws, including AIG’s financial reporting and disclosure obligations;
- (b) proper internal accounting controls and procedures;
- (c) discovering and recognizing accounting practices that do not conform to GAAP or that are otherwise improper; and
- (d) the obligations assumed by, and responses expected of, the Mandatory Participants upon learning of improper, illegal or potentially illegal acts relating to AIG’s accounting and financial reporting.^{5/}

On October 24, 2006, attorneys in AIG’s corporate law department and its Domestic and Foreign General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management segments with responsibility for, or oversight of, AIG’s accounting, financial reporting, or disclosure obligations and FAS 5 determinations (collectively, “AIG Counsel”) and compliance personnel from both AIG’s Office of Compliance and the segments listed above (collectively, “Compliance Professionals”) attended a day-long program that consisted of the following presentations: (1) Periodic Reporting Under the Securities Exchange Act – Parts I and II, (2) Offers and Sales of Securities Under the Securities Act of 1933, (3) Obligations Assumed By, and Responses Expected of, the Mandatory Participants Upon Learning of Improper, Illegal or Potentially Illegal Acts Relating to AIG’s Accounting and Financial Reporting, and (4) a video and panel discussion regarding the ethical obligations of in-house counsel.

On October 25, 2006, AIG Counsel and Compliance Professionals were joined by AIG senior management^{6/} and AIG financial managers and executives, charged with overseeing AIG’s

^{4/} The Consent defines Mandatory Participants as:

- (a) officers, executives, and employees of AIG and its subsidiaries who are involved in the oversight of accounting and financial reporting functions;
- (b) all employees in AIG’s legal division with responsibility for or oversight of AIG’s accounting, financial reporting or disclosure obligations; and
- (c) other senior officers and executives of AIG and its subsidiaries, as proposed by AIG and approved by the Consultant. Consent at Paragraph 4.D.2.

^{5/} Consent at Paragraph 4.D.3.

^{6/} The list of management participants included the following:

- All executive officers of AIG,
- Senior officers of AIG’s Foreign and Domestic General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management segments,
- Other senior officers performing corporate functions, including: Vice Presidents for Corporate Affairs, Claims, and Strategic Planning,

accounting and financial reporting, including managers involved in AIG's GAAP and STAT accounting and SEC reporting.^{7/} The entire group received training in the following areas: (1) Proper Internal Accounting Controls and Procedures, (2) Discovering and Recognizing Improper Accounting Practices, and (3) Obligations Imposed by New York and Other State Insurance Laws. AIG Counsel and Compliance Professionals received separate additional training in (1) Proper Internal Accounting Controls and Procedures and (2) Obligations Imposed by New York and Other State Insurance Laws. Management and financial reporting personnel received separate training in (1) Obligations Assumed By, and Responses Expected of, the Mandatory Participants Upon Learning of Improper, Illegal or Potentially Illegal Acts Relating to AIG's Accounting and Financial Reporting, (2) Periodic Reporting Under the Securities Exchange Act, and (3) Offers and Sales of Securities Under the Securities Act of 1933 and State Securities Laws.

Prior to the conference, AIG provided the Independent Consultant with drafts of the materials that were to be presented to the Mandatory Participants, a list of conference participants, and a memorandum explaining AIG's criteria for selecting conference participants. The Independent Consultant reviewed and made comments to the materials. He requested, and AIG confirmed, that members of AIG's CSFTC would attend the training. Based on his review of these materials and his attendance at the two day conference, the Independent Consultant finds that, although AIG needs to improve the training it provides in the future to Mandatory Participants, the Company has satisfied the requirements stated in Sections 4.D.2 – 3 of the Consent. The Independent Consultant's recommendations for improving the training required under the Consent are set forth below.

-
- AIG's Director of Taxation and other senior tax personnel,
 - AIG's Director of Internal Audit and other senior audit personnel,
 - The heads of AIG's Corporate Communications and Investor Relations Departments and other senior personnel within those departments,
 - Non-lawyers with FAS 5 responsibilities, and
 - Senior claims personnel.

^{7/} The list of financial reporting personnel included the following:

- AIG's Comptroller and segment CFOs,
- Accounting policy directors,
- General audit and internal audit directors,
- AIG's Head Actuary and senior actuarial management,
- Treasury personnel,
- Director of Investor Relations,
- Director of Taxation and senior tax managers, and
- Line executives with responsibility for certifying to the accuracy of SI financial reporting packages.

A. Accounting and Financial Reporting Training

Objective: Ensure that mandatory participants, including members of the CSFTC, receive effective training in AIG's Accounting, Financial Reporting, and Disclosure Obligations.

1. HR should work with the appropriate AIG personnel to ensure that (1) AIG correctly identifies new and existing employees who are Mandatory Participants, (2) all Mandatory Participants receive the required training, and (3) receipt of training is documented.
2. New hires who are Mandatory Participants should receive the required training as a part of their new hire orientation training.
3. Mandatory Participants must receive training in AIG's accounting, financial reporting, and disclosure obligations as described by the Consent at least every two years.
4. Training may be conducted in person or be computer or web-based.^{8/}
 - a. Whether or not training is in person or web based, Mandatory Participants should have an opportunity to ask questions about the material being presented.
5. Regardless of the medium by which training is provided, it must (1) be tailored to the needs of the Mandatory Participants, (2) present the required subject matter in an engaging and comprehensible manner, and (3) satisfy the requirements for effective training set forth in Sections D.4. a through e of the Independent Consultant's compliance recommendations. Namely, training must:
 - a. Explain why it is relevant to the business unit and to the specific mandatory participant,
 - b. Describe the different contexts in which AIG personnel might encounter accounting, financial reporting, and disclosure issues that are the subject matter of training,
 - c. Provide concrete examples of accounting, financial reporting, and disclosure issues within the subject matter of training, that are tailored to the jurisdiction and business unit in which the Mandatory Participant works,

^{8/} As described above, AIG required that Compliance Professionals and AIG Counsel attend two days of training and that all other Mandatory Participants attend a full day of training, both of which took place in a conference facility at the Grand Hyatt in New York City. Although there are advantages unrelated to the purpose of the Consent in having Mandatory Participants receive this training at the same time, in person, in a group setting (*e.g.*, facilitating team building and better communication among AIG personnel with financial reporting obligations), it should be left to AIG's discretion to determine whether the benefits of providing training in this manner is commensurate with its costs.

- d. Give Mandatory Participants an opportunity to apply the principles that they have learned during training to hypothetical problems that illustrate the kinds of accounting, financial reporting, and disclosure issues Mandatory Participants may encounter in the jurisdictions and business units in which they work, and
- e. State what a Mandatory Participant should do or who a Mandatory Participant should contact if he or she encounters accounting, financial reporting, or disclosure issues.

VI. DISCLOSURE COMMITTEE ORGANIZATION AND REPORTING STRUCTURE

Pursuant to Paragraph 4.A.1.a.ii of the Consent, the Independent Consultant is to examine the organization and reporting structure of AIG's Disclosure Committee. The Consent provides that AIG must ensure that (1) a Disclosure Committee is established to assist AIG's CEO and CFO in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by AIG, (2) the committee include among its members AIG's CCO, Chief Accounting Officer, and General Counsel, and (3) the Disclosure Committee meet and confer prior to significant SEC filings and the issuance of earnings press releases.

A. Organization

The Disclosure Committee should include not only those key individuals within the Company responsible for reporting as specified in the Consent (*i.e.*, the CCO, Chief Accounting Officer, and General Counsel), but also seasoned business and accounting professionals knowledgeable about the Company's overall business as well as its primary or key business units. The inclusion of such individuals on the Disclosure Committee will help ensure that Disclosure Committee members have an understanding of the Company as a whole which will facilitate the Committee's materiality determinations. Additional members of the General Counsel's and the corporate Comptroller's offices, senior corporate actuaries, and senior personnel from IAD, Treasury, Claims, Reinsurance, Investor Relations, and ERM should also serve on the Disclosure Committee. Identification of these offices and reporting persons should be clearly set forth in a written document.

B. Reporting

The Disclosure Committee should have a clearly articulated policy and procedure for reporting its findings, not only in connection with required periodic reports but also with respect to other potential required disclosures (*e.g.*, press releases, current reports on Form 8-K, etc.). The Company should identify in writing to whom the Disclosure Committee will report its disclosure recommendations. It is important that there be defined lines of responsibility for the various potential disclosure obligations, and if the Disclosure Committee does not report directly to the CEO and CFO that the persons to whom the Disclosure Committee does report have direct access to the CEO and CFO.

VII. INTERNAL AUDIT DIVISION

Pursuant to Paragraph 4.A.1.a.ii of the Consent, the Independent Consultant shall examine the organization and reporting structure of AIG's IAD and make recommendations as to best practices in this area.

A. Organization

IAD should have a centralized corporate structure with regional and local offices throughout the Company. The Company should ensure that adequate personnel and other resources are made available to implement the IAD audit plan. IAD personnel should have appropriate experience and proficiency in the substantive areas they are assigned to audit.

B. Reporting

The mandate of IAD should be set by the Audit Committee. To maintain its independence, IAD should report operationally to the Audit Committee of the Board of Directors and administratively to the CFO. The budget for IAD's operations should be approved by the Audit Committee, after seeking input from the AIG CFO and other senior management. The compensation of the Director of IAD should be set by the Audit Committee, after seeking input from the AIG CFO and other senior management. IAD should present its annual audit plan to the Audit Committee. IAD findings should be monitored by the Audit Committee to ensure prompt and appropriate resolution.