Report to the Enterprise Risk Oversight Committee

Capital
Credit Risk
Asset Liability Management
Operational Risk
Enterprise-Wide Emerging Risks

LOANS
- Competitive pressures
  - Underwriting standards
  - Origination margins
  - Teaser rates
- Origination volumes
  - Overall volumes
  - ARM vs. fixed mix
  - Portfolio vs. sale
- Asset shortfall
  - The Bank currently has more projected funding than assets – requires:
    - Optimization
    - Evaluation of new diversification opportunities

DEPOSITS
- Shorter term CDs
  - Driven by flat yield curve
  - Better match with floating rate assets
  - Increased liquidity risk
  - Increased importance of retention strategies
- MMDA deployment
  - ACH
  - Decreases cost of funds but increases operating complexity
- Deepening and maturing the infrastructure to manage scale, complexity and renewals

RISK MANAGEMENT
- Building infrastructure ahead of growth
  - Most notably asset diversification
- Controlling loan quality and credit costs
- Managing environmental risks
  - Catastrophic risk
Capital

Report to the
Enterprise Risk Oversight Committee
Summary of Capital Management

- Capital levels remain sufficient for a “Well Capitalized” rating from our regulators.
- Due to superior risk management, capital levels have been decreased over time to provide a better return to our shareholders.
Regulatory Capital

- Tier 1 Risk-based
  - Current Year: 8.07
  - Last Year: 8.07
  - 2 Years Ago: 8.07
  - 3 Years Ago: 8.07
  - 4 Years Ago: 8.07

- Risk Based Capital
  - Current Year: 11.54
  - Last Year: 11.54
  - 2 Years Ago: 11.54
  - 3 Years Ago: 11.54
  - 4 Years Ago: 11.54

- Leverage
  - Current Year: 8.3
  - Last Year: 8.3
  - 2 Years Ago: 8.3
  - 3 Years Ago: 8.3
  - 4 Years Ago: 8.3
Peer Comparison

Tier 1 Capital Peer Comparison

ABC  Peer 1  Peer 2  Peer 3  Peer 4  Peer 5
8.07  8.33  7.98  8.26  9.1  8.53
Credit Risk

Report to the Oversight Enterprise Risk Committee
Summary of Credit Risk Management

• The loan portfolio is approximately evenly distributed between retail, commercial and industrial, and commercial real estate.
  – This provides diversification and a natural hedge against business cycle fluctuations.
• The commercial real estate portfolio is concentrated in raw land.
  – As the old saying goes – “You can’t get hurt with dirt!”
• Losses in the credit portfolio are near historic lows.
  – There has been a slight increase in recent quarters.
• The loan loss reserve coverage has been increasing as the level of non-performing assets has decreased.
  – The strengthening reserve further supports decreasing capital levels.
Commercial Real Estate

- Raw Land: 84%
- Income Property: 6%
- Construction: 10%
Asset Quality

Net Losses/ Avg Loans

Peer Comparison

Net Losses / Avg Loans
Market and Liquidity Risk

Report to the
Oversight Enterprise Risk Committee
Summary of Asset Liability Management

• Market consensus is that interest rates are going to increase over the next twelve months.
• The balance sheet is being positioned to take advantage of future rate increases.
• Market risk from trading activities remains low and well controlled.
Yield Curve Comparison

[Graph showing yield curve comparison with labels for 1 Month, 3 Months, 6 Months, 1 Year, 2 Years, 5 Years, 10 Years, 30 Years on the x-axis and percentages on the y-axis. There are two lines: one labeled 'Current' and another labeled 'Projected'.]
Earning Simulation

Year 1  Year 2

Base Case Down 200  Base Case Down 100  Stable Rates  Base Case Up 100  Base Case Up 200

Year 1

-25.00%  -20.00%  -15.00%  -10.00%  -5.00%  0.00%  5.00%  10.00%
Economic Value of Equity

-18.00%
-16.00%
-14.00%
-12.00%
-10.00%
-8.00%
-6.00%
-4.00%
-2.00%
0.00%
2.00%
4.00%

% Change from Base

Down 200  Down 100  Stable Rates  Up 100  Up 200
Value At Risk
Operational Risk

Report to the Oversight Enterprise Risk Committee
Summary of Operational Risk Management

• Information security remains a key risk area
• Certain technology and business projects are experiencing slippage
• Operational losses remain relatively low in amount individually and overall, and loss events manageable in number
• Banking operational process are generally within performance thresholds
**Key Operational Risk Indicators**

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Indicator</th>
<th>Quarter Last Year</th>
<th>Current Quarter</th>
<th>Proposed Threshold*</th>
<th>Further Analysis Recommended*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>Quarterly change in complaints filed</td>
<td>4%</td>
<td>0%</td>
<td>15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Compliance</td>
<td>2-qtr avg change in suspicious activity reports</td>
<td>17%</td>
<td>-2%</td>
<td>&gt;+15% / &lt;-15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Compliance</td>
<td>% of monitoring reviews past due &gt;60 days</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Compliance</td>
<td>% high risk customer deposits to total deposits</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>Yes</td>
</tr>
<tr>
<td>Compliance</td>
<td>% of regions missing their CRA lending targets</td>
<td>TBD</td>
<td>TBD</td>
<td>15%</td>
<td>TBD</td>
</tr>
<tr>
<td>Legal</td>
<td># lawsuits filed against ABC (Enterprise-wide)</td>
<td>4</td>
<td>1</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Operational</td>
<td>Employee turnover rate</td>
<td>7.7%</td>
<td>3.9%&lt;sup&gt;5&lt;/sup&gt;</td>
<td>10%</td>
<td>Yes</td>
</tr>
<tr>
<td>Operational</td>
<td>% of Audits rated Less than Satisfactory</td>
<td>23%</td>
<td>26%</td>
<td>20%</td>
<td>Yes</td>
</tr>
<tr>
<td>Operational</td>
<td>Critical system downtime</td>
<td>TBD</td>
<td>TBD</td>
<td>3%</td>
<td>Yes</td>
</tr>
<tr>
<td>Operational</td>
<td># of calls to Ethics Point (excluding tests)</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>Yes</td>
</tr>
<tr>
<td>Operational</td>
<td>Loan Repurchases</td>
<td>$0.7MM</td>
<td>$5.2MM</td>
<td>TBD</td>
<td>Yes</td>
</tr>
<tr>
<td>Operational</td>
<td>$ Reconciling items &gt; 90 days</td>
<td>$312,517</td>
<td>$513,053</td>
<td>$500,000</td>
<td>Yes</td>
</tr>
<tr>
<td>Info. Security</td>
<td># Phishing Attacks</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Info. Security</td>
<td># High Severity Incidents</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Info. Security</td>
<td>% of back-up tapes unencrypted</td>
<td>60%</td>
<td>10%</td>
<td>50%</td>
<td>Yes</td>
</tr>
<tr>
<td>Info. Security</td>
<td>% of laptops unencrypted</td>
<td>99%</td>
<td>75%</td>
<td>50%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Follow-ups to Recommendations for Further Analysis:**
- Audits Rated Less than Satisfactory: Driven primarily by documentation and security/access issues identified in various model validation audits.
- SOx Deficiencies: Driven by segregation of duties and account valuation issues; all corrected by next quarter.
- Unencrypted back-up tapes and laptops: Unencrypted back-up tapes KRI is back within threshold. Laptop encryption is still in process, with related issues included in high risk, past-due open issues.
## Summary of High Risk Open Issues that are Past Due

<table>
<thead>
<tr>
<th>Open Issue</th>
<th>Source</th>
<th>LOB</th>
<th>Current Action Plan and/or Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The information security risk assessment does not include all access controls over customer information.</td>
<td>Internal Audit</td>
<td>IT</td>
<td>Management will review the risk assessment for completeness.</td>
</tr>
<tr>
<td>Information Security – ABC Bank &amp; AIG are not enabling or enforcing the use of encryption or other security devices. (3 issues)</td>
<td>Internal Audit</td>
<td>ABC Bank AIG</td>
<td>Contractors are on-site rolling out the laptop encryption.</td>
</tr>
<tr>
<td>Security Awareness Program Training is not documented.</td>
<td>Internal Audit</td>
<td>ABC Bank</td>
<td>ITS will track their security training programs.</td>
</tr>
<tr>
<td>The compliance risk and control assessment should be enhanced.</td>
<td>Internal Audit</td>
<td>ABC Bank</td>
<td>An enhanced risk assessment process has been drafted and recently tested. This format, or a similar one, will be used by Compliance when performing risk assessments.</td>
</tr>
<tr>
<td>Corporate Security has not developed a comprehensive process to review and manage server incident logs.</td>
<td>Internal Audit</td>
<td>IT</td>
<td>Review process and procedures are being developed.</td>
</tr>
<tr>
<td>Error messages returned to users should be generic.</td>
<td>Internal Audit</td>
<td>IT</td>
<td>An implementation plan has been approved for completion by 6/30/07.</td>
</tr>
<tr>
<td>The enterprise-wide AML Program is not fully implemented.</td>
<td>Internal Audit</td>
<td>ABC Corp</td>
<td>An AML Officer has been appointed by will receive training in next quarter.</td>
</tr>
<tr>
<td>Model documentation for the Roll Rate and LGD models is not sufficient. (4 issues)</td>
<td>Internal Audit</td>
<td>Corp &amp; RE Lending</td>
<td>Documentation will be augmented to address the issues cited by Internal Audit.</td>
</tr>
</tbody>
</table>
## Overall Information Security Risk Level

<table>
<thead>
<tr>
<th>Risk</th>
<th>Aggregate Risk Level</th>
<th>Key Exposures</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unauthorized Modification</td>
<td>Moderate</td>
<td>Keystroke capturing resulting in fraud and loss of funds. Also, lack of compliance with FFIEC Authentication Guidance</td>
<td>Multi-factor authentication for Loan Origination System (LOS)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Phishing attacks resulting in fraud and loss of funds</td>
<td>Two-factor authentication for AIG staff remote access to ABC Corp private networks</td>
</tr>
<tr>
<td>Unauthorized Disclosure</td>
<td>Moderate</td>
<td>Lost or stolen laptops or backup tapes containing company or customer confidential information</td>
<td>Enterprise anti-phishing strategy for proactive detection and takedown</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Same exposures as Unauthorized Modification, as access must be achieved prior to modification</td>
<td>Enterprise laptop encryption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not blocking high-risk websites for all ABC Corp staff and locations. This can lead to security breaches resulting in unauthorized access to Irwin computers and private networks</td>
<td>Encrypted backup tapes containing non-public personal information (NPI)</td>
</tr>
<tr>
<td>Unauthorized Access</td>
<td>Moderate</td>
<td>Same exposures as Unauthorized Modification, as access must be achieved prior to modification</td>
<td>Same action plans as Unauthorized Modification, as access must be achieved prior to modification</td>
</tr>
<tr>
<td>Inability to Restore Business Operations Following a Disaster</td>
<td>Moderate</td>
<td>No tested business continuity/disaster recovery (BCP/DR) plan for AIG</td>
<td>BCP/DR plan and test exercise</td>
</tr>
<tr>
<td>Unauthorized Destruction</td>
<td>Low</td>
<td>Keystroke capturing resulting in unauthorized access, leading to destruction of core business applications or data</td>
<td>Two-factor authentication for staff remote access</td>
</tr>
</tbody>
</table>
Technology and Operations

Channel Metric Trends

Current Month Channel Metrics for All LOBs

Brick & Mortar

- All LOBs
  - Available: 26,355,682 mins / 100%
  - Outage: 110,592 mins / 0.42%
  - Network: 13,804 mins / 12%
  - Data Center: 2,823 mins / 3%
  - Non I&O: 93,965 mins / 35%

ATM-POS

- All LOBs
  - Available: 2,124,475,680 mins / 100%
  - Outage: 74,377 mins / 0.35%
  - Network: 6,991 mins / 0.32%
  - Data Center: 23,992 mins / 32%
  - Non I&O: 45,892 mins / 59%

Call Centers

- All LOBs
  - Available: 975,360 mins / 100%
  - Outage: 8,089 mins / 0.83%
  - Network: 5,020 mins / 52%
  - Data Center: 13,535 mins / 17%
  - Non I&O: 2,689 mins / 32%

VRU

- All LOBs
  - Available: 880,332 mins / 100%
  - Outage: 8,392 mins / 0.96%
  - Network: 343 mins / 4%
  - Data Center: 5,397 mins / 64%
  - Non I&O: 2,689 mins / 32%

Transmissions

- All LOBs
  - Available: 344,258 mins / 100%
  - Outage: 1,079 mins / 0.31%
  - Network: 0 mins / 0%
  - Data Center: 0 mins / 0%
  - Non I&O: 1,079 mins / 100%

Connections

- All LOBs
  - Available: 1,201,052 mins
  - Outage: 8,324 mins / 0.65%
  - Network: 0 mins / 0%
  - Data Center: 63% / 49%
  - Non I&O: 37% / 51%

Web Services

- All LOBs
  - Available: 1,191,876 mins / 100%
  - Outage: 9,933 mins / 0.83%
  - Network: 0 mins / 0%
  - Data Center: 6,292 mins / 63%
  - Non I&O: 3,641 mins / 37%

Channel Metric Trends for All LOBs

Brick & Mortar

- Avg. Availability: 23,073,367 mins
- Avg. Outage: 199,265 mins / 0.01%
- Network: 12% / 7% / 9%
- Data Center: 3% / 74% / 10%
- Non I&O: 85% / 19% / 81%

ATM-POS

- Avg. Availability: 235,690,080 mins
- Avg. Outage: 58,448 mins / 0.02%
- Network: 9% / 32% / 14%
- Data Center: 64% / 41% / 1%
- Non I&O: 32% / 36% / 21%

Call Centers

- Avg. Availability: 1,053,746 mins
- Avg. Outage: 9,100 mins / 0.01%
- Network: 62% / 9% / 4%
- Data Center: 17% / 36% / 31%
- Non I&O: 21% / 55% / 65%

VRU

- Avg. Availability: 350,812 mins
- Avg. Outage: 1,085 mins / 0.00%
- Network: 0% / 0% / 0%
- Data Center: 0% / 0% / 0%
- Non I&O: 100% / 100% / 100%

Transmissions

- Avg. Availability: 134,080 mins
- Avg. Outage: 7,242 mins / 0.05%
- Network: 0% / >1% / 0%
- Data Center: 13% / >1% / 0%
- Non I&O: 87% / 100% / 100%

Connections

- Avg. Availability: 26,355,682 mins
- Avg. Outage: 32,647 mins / 0.12%
- Network: 6% / 23% / 78%
- Data Center: 63% / 49% / 35%
- Non I&O: 37% / 51% / 61%

Web Services

- Avg. Availability: 1,201,052 mins
- Avg. Outage: 8,324 mins / 0.01%
- Network: 0% / 0% / 4%
- Data Center: 63% / 49% / 35%
- Non I&O: 37% / 51% / 61%
Project Management Office
- Status of Major Project Initiatives -

**Project At Estimate** is the percent of completed projects delivered at or under the Approved Estimated Hours.

<table>
<thead>
<tr>
<th>Project At Estimate</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>= 35%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Projects Delivered</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exactly At Estimate</td>
<td>0 0.0%</td>
</tr>
<tr>
<td>Under Estimate</td>
<td>12 35.3%</td>
</tr>
<tr>
<td>Over Estimate</td>
<td>22 64.7%</td>
</tr>
<tr>
<td>Completed Projects</td>
<td>34</td>
</tr>
</tbody>
</table>

**Project At Estimate Variance** is the percent of projects delivered within +/- 10% of the Approved Estimated Hours.

<table>
<thead>
<tr>
<th>Project At Estimate Variance</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>= 44%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Projects Delivered</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within +/- 10% of Approved Estimate</td>
<td>15 44.1%</td>
</tr>
<tr>
<td>More than 10% Under Approved Estimate</td>
<td>5 14.7%</td>
</tr>
<tr>
<td>More than 10% Over Approved Estimate</td>
<td>14 41.2%</td>
</tr>
</tbody>
</table>

**At Estimate (34%)**
- Under Estimate: 35.3%
- Over Estimate: 64.7%
- Exactly At Estimate: 0.0%

**At Estimate Variance (43%)**
- Between 0 and 10% Over: 23.5%
- More Than 10% Over: 41.2%
- Between 0 and 10% Under: 20.6%
- More Than 10% Under: 14.7%
Operational Risk Loss Event Data

Current Quarter

Operational Loss by Event Type
(Sum/Percentage/Count)

- **EL1 Internal Fraud**: $999,633 (5% - 4)
- **EL2 External Fraud**: $1,777,730 (36% - 114)
- **EL3 Employment Practices & Workplace Safety**: $1,743,504 (34% - 295)
- **EL4 Clients, Products & Business Practices**: $90,750 (0% - 1)
- **EL5 Damage to Physical Assets**: $999,633 (4% - 10)
- **EL6 Business Disruption & Systems Failure**: $855,186 (21% - 10)
- **EL7 Execution, Delivery & Process Management**: $91,471 (0% - 1)