AIG SOX Program Overview: Phases and Timing

IAG Assurance Advice Insight

Scoping

Timing: Kickoff after 10-K and will be re-evaluated if triggering events
Source: Scoping Files are maintained outside of BPA

Test of Design ("TOD")

Timing: Target is for all walkthroughs/TOD meetings to be completed by June 30 and documentation completion by July 21, with certain exceptions
Source: All TOD workpapers are maintained in BPA

Test of Operating Effectiveness ("TOE")

Timing: Refer to below Table
Source: All TOE workpapers are maintained in BPA

	Phase 1 Jan 1 - Jun 30 (70-75% of samples)	Phase 2 Jul 1 - Sep 30	Phase 3 / Rollforward Oct 1 - Dec 31
Target Completion Date	9/27/2019	11/27/2019	1/17/2020

Issue Evaluation

Timing: Issues are evaluated as identified and based on Issue Timeline Guidance
Source: Issues are currently in RITA & moving to BPA

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AIG SOX Program Overview: Scoping

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Materiality - $260M for 2019

- **ALL** materiality decisions must take into account both **Quantitative** and **Qualitative factors**
- For public companies most common benchmark is 5% of pre-tax NI
- As AIG was at a near break even in 2018 we consider several benchmarks including
  - Assets
  - Equity
  - Revenue

Business Unit Scoping

- BPC top level hierarchy balances (i.e. 395 GI US) are pulled from BPC and reconciled to the 10-K
- Each BU is analyzed by comparing below benchmarks for the BU to the consolidated AIG totals and by reviewing **qualitative risk factors (**i.e. process complexity, degree of change in people/systems/process and fraud risk)
  - Total Assets
  - Income (loss) before Income Tax
  - Earned Premiums
  - Loss Reserves
  - Incurred Losses
- Scoping is performed separately by BU teams for the shared services that impact all of the reporting entities, including Investments, Tax, HR

Determination of Scoped in Accounts

- Analyze K&A balances related to scoped in entities based on the $260M materiality and Qualitative factors

Consolidated Coverage Review

- When the scoping templates are completed, they are consolidated and reviewed to ensure that our overall coverage is adequate

AIG SOX Program Overview: TOD and TOE

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Test of Design

- Later sessions will cover TOD in greater details
- Main Objective is to understand the likely source of potential misstatements and conclude on the effectiveness of the design of scoped in controls
- Target Completion of walkthrough meetings was 6/30 and 7/21 for documentation, with limited exceptions.

Test of Operating Effectiveness

- Later sessions will cover TOE in greater details
- Main objective is to verify that controls are operating as designed
- Target dates set by phase 70-75% of samples to be tested in Phase I, with certain exceptions

	Phase 1 Jan 1 - Jun 30 (70-75% of samples)	Phase 2 Jul 1 - Sep 30	Phase 3 / Rollforward Oct 1 - Dec 31
Target Completion Date	9/27/2019	11/27/2019	1/17/2020

Issue Evaluation

- Effective ICFR provides reasonable assurance regarding the reliability of financial reporting for external purposes. If one or more **material weaknesses** exist, the company's ICFR cannot be considered effective.
- Management needs to evaluate the severity of a deficiency or combination of deficiencies by considering whether there is a reasonable possibility that the ICFR will fail to prevent or detect a material misstatement to conclude on the effectiveness of the ICFR.
- All SOX issues identified are entered into RITA (BPA being developed) and the severity of the deficiencies are evaluated
- Much more on Issue Evaluation in session to come

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PwC-Determining SOX Risks and Control

Performing TOD and TOE: BPA Required Documentation

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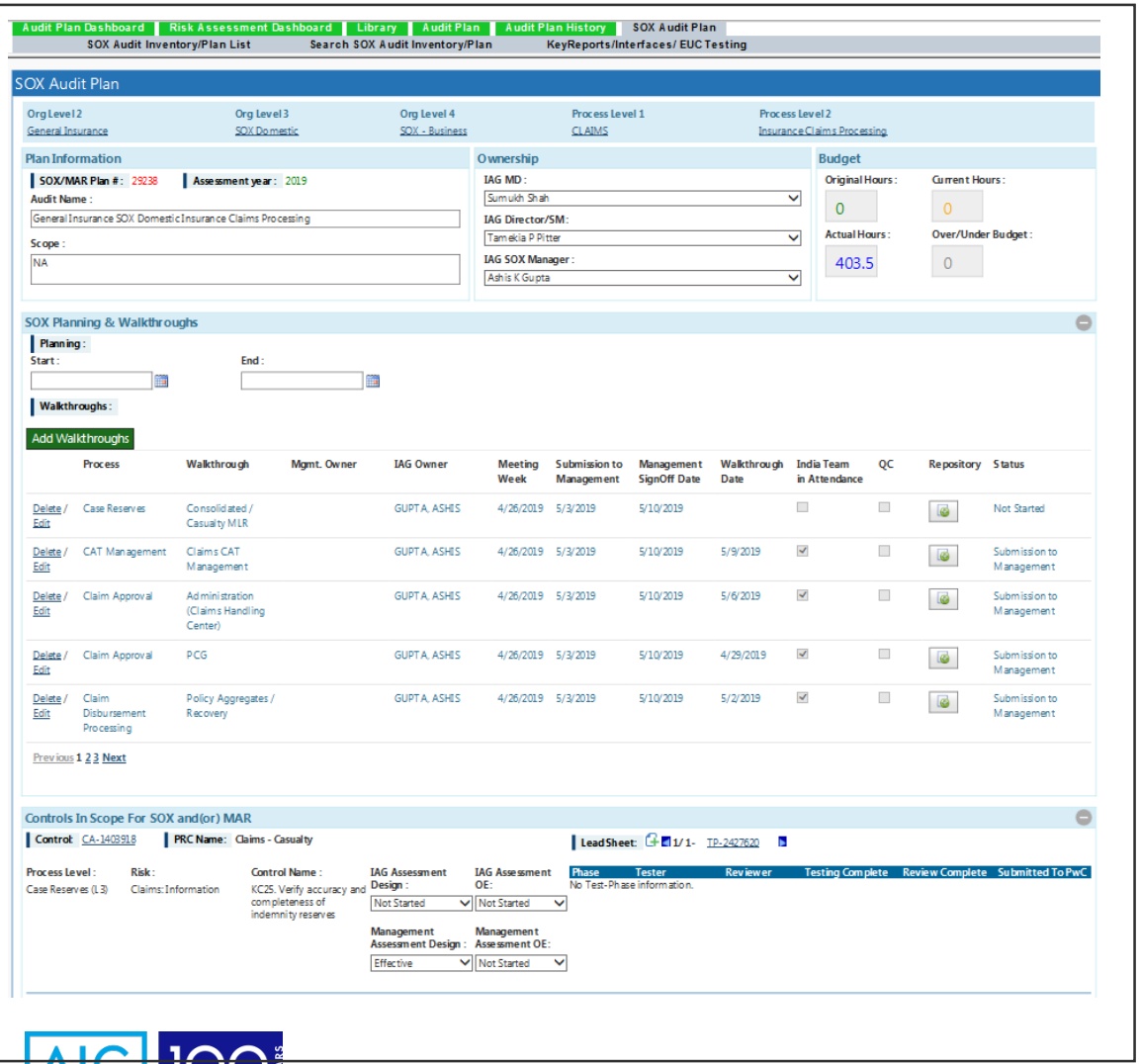
Several previous recorded trainings covered the fields, objectives and expectation. This will focus on overview of screens and the required attachments



Walkthrough/Process Level

Required:

-Process Flow using latest template (on Sharepoint site, included on resource slide)

-IT Narratives

Value Added:

-Non-IT Narrative

-Walkthrough Templates

-Control wording changes

-Any Process level documentation

Control/Test Plan

Details on following slides

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Performing TOD and TOE: BPA Required Documentation, Cont'd

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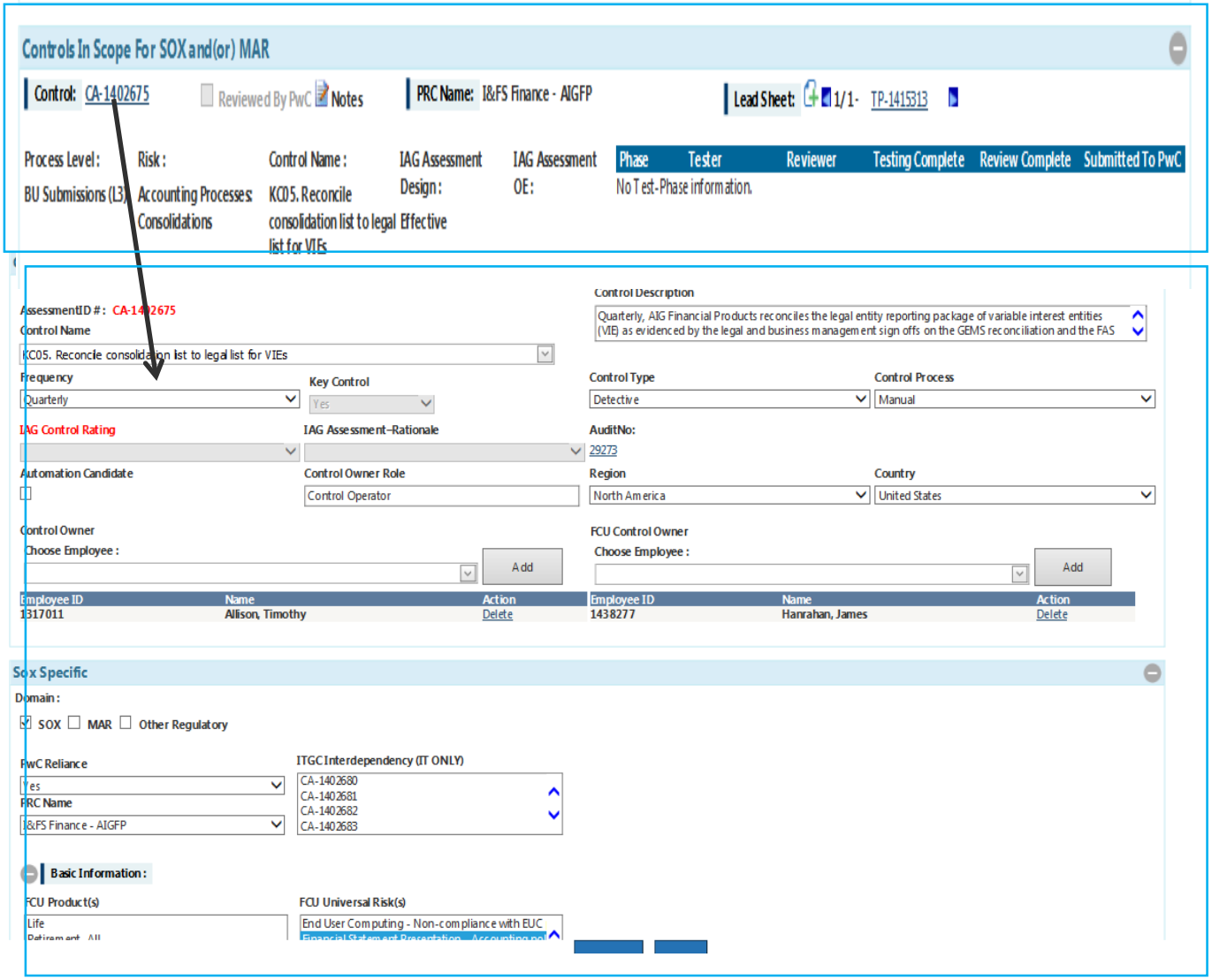


Control Information Screen

Screen captures control details, risks, assertions, Key ITD's and FS impact.

Fill out all fields

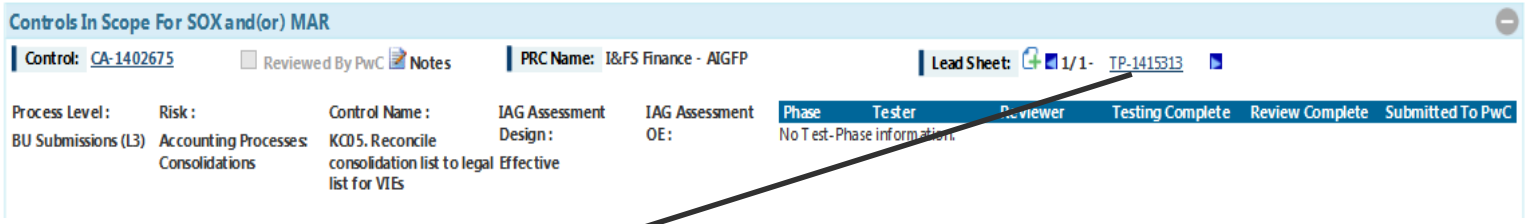
No required attachments

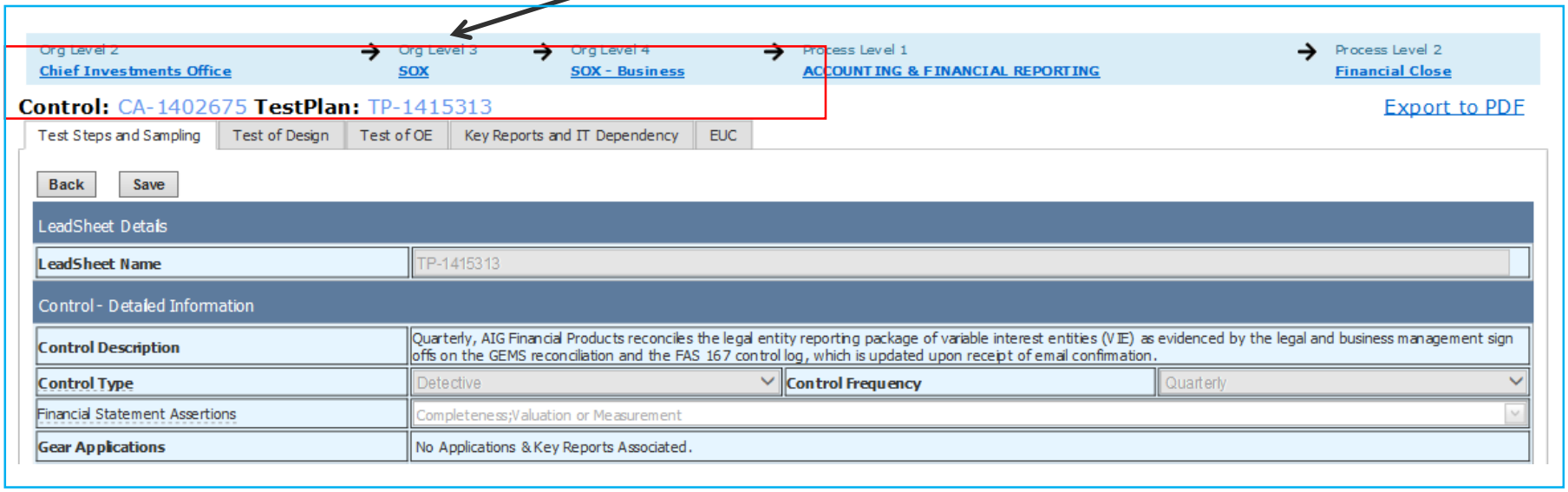
Performing TOD and TOE: BPA Required Documentation, Cont'd

IAG Assurance Advice Insight

Leadsheet

Test Plans split into 5 Tabs
1) Test Steps and Sampling
2) Test of Design
3) Test of Operating Effectiveness
4) Key Reports and ITD's (data linked from control screen)
5) EUC's (data linked from control screen)





Performing TOD and TOE: BPA Required Documentation, Cont'd

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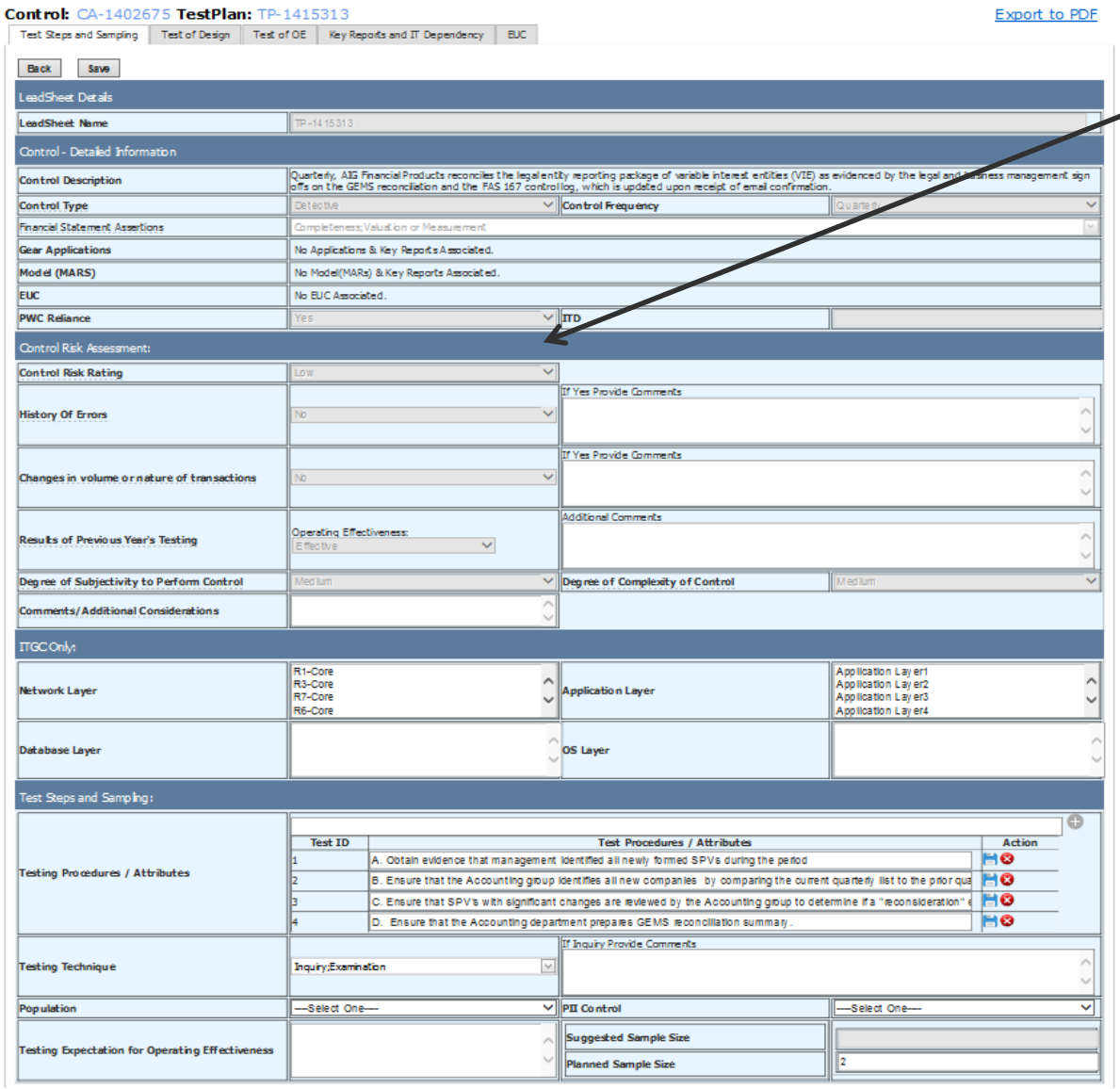

Control: CA-1402675 **TestPlan:** TP-1415313 Export to PDF

Test Steps and Sampling | Test of Design | Test of OE | Key Reports and IT Dependency | EUC

Back Save

LeadSheet Details

LeadSheet Name	TP-1415313

Control - Detailed Information

Control Description	Quarterly, AIG Financial Products reconciles the legal entity reporting package of variable interest entities (VIE) as evidenced by the legal and business management sign offs on the GEMS reconciliation and the FAS 167 control log, which is updated upon receipt of email confirmation.		
Control Type	Detective	Control Frequency	Quarterly
Financial Statement Assertions	Completeness;Valuation or Measurement		
Gear Applications	No Applications & Key Reports Associated.		
Model (MARS)	No Model(MARs) & Key Reports Associated.		
EUC	No EUC Associated.		
PWC Reliance	Yes	ITD	

Control Risk Assessment:

Control Risk Rating	Low		
History Of Errors	No	If Yes Provide Comments	
Changes in volume or nature of transactions	No	If Yes Provide Comments	
Results of Previous Year's Testing	Operating Effectiveness: Effective	Additional Comments	
Degree of Subjectivity to Perform Control	Medium	Degree of Complexity of Control	Medium
Comments/Additional Considerations			

ITGC Only:

Network Layer	R1-Core R3-Core R7-Core R6-Core	Application Layer	Application Layer1 Application Layer2 Application Layer3 Application Layer4
Database Layer		OS Layer	

Test Steps and Sampling:

Testing Procedures / Attributes

Test ID	Test Procedures / Attributes	Action
1	A. Obtain evidence that management identified all newly formed SPVs during the period	
2	B. Ensure that the Accounting group identifies all new companies by comparing the current quarterly list to the prior qua	
3	C. Ensure that SPV's with significant changes are reviewed by the Accounting group to determine if a "reconsideration" e	
4	D. Ensure that the Accounting department prepares GEMS reconciliation summary.	

Testing Technique	Inquiry;Examination	If Inquiry Provide Comments	
Population	---Select One---	PII Control	---Select One---
Testing Expectation for Operating Effectiveness		Suggested Sample Size	
		Planned Sample Size	2

Test Steps and Sampling Screen

- Most data is brought over from Control Information Screen.
- Remaining data needs to be filled in if data does not exist.

Main Objective is to create/update Test Steps

No required attachments

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Performing TOD and TOE: BPA Required Documentation, Cont'd

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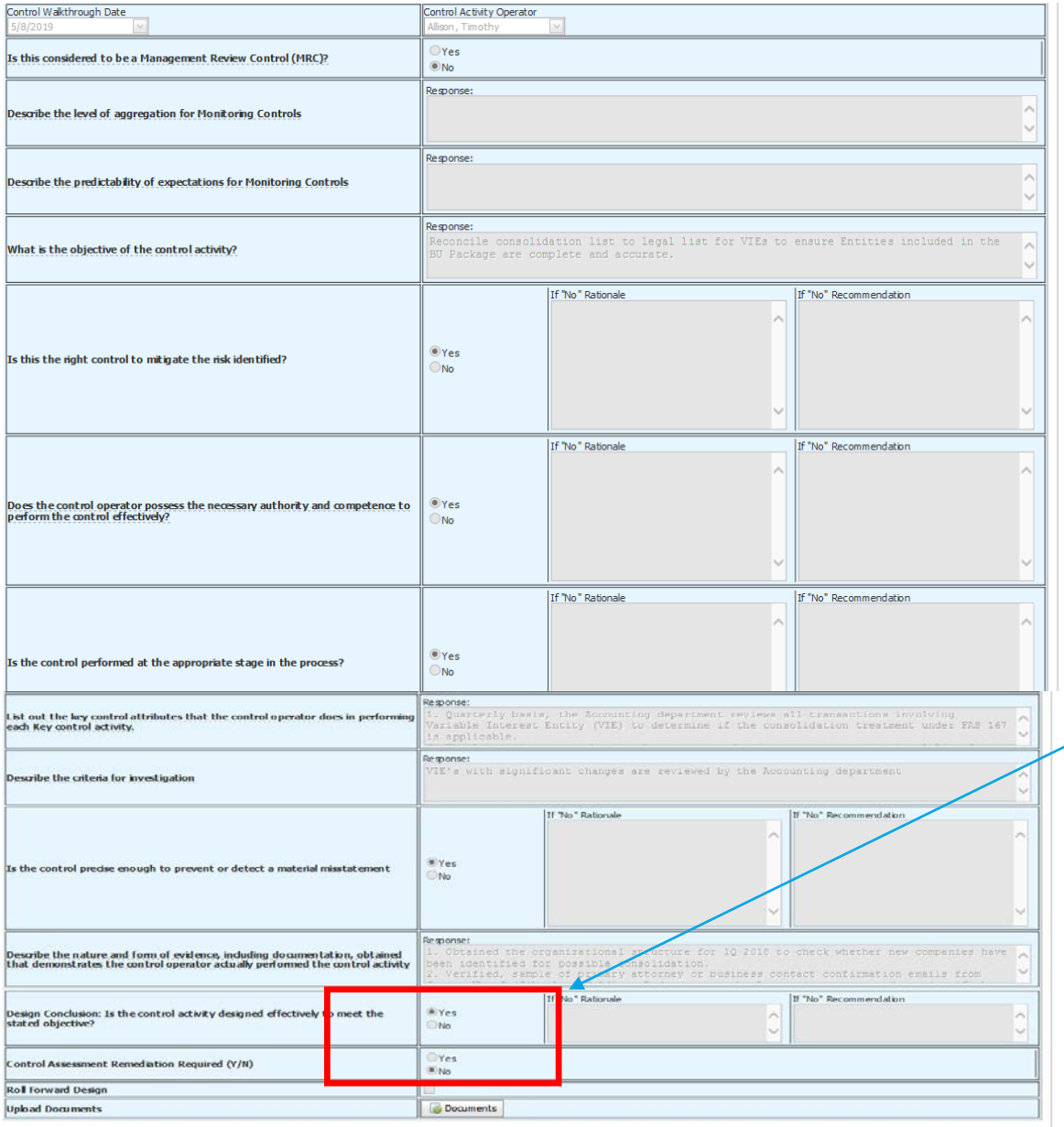

Control Walkthrough Date: 5/8/2019	Control Activity Operator: Allison, Timothy		
Is this considered to be a Management Review Control (MRC)?	○ Yes ◉ No		
Describe the level of aggregation for Monitoring Controls	Response:		
Describe the predictability of expectations for Monitoring Controls	Response:		
What is the objective of the control activity?	Response: Reconcile consolidation list to legal list for VIEs to ensure Entities included in the BU Package are complete and accurate.		
Is this the right control to mitigate the risk identified?	◉ Yes ○ No	If "No" Rationale	If "No" Recommendation
Does the control operator possess the necessary authority and competence to perform the control effectively?	◉ Yes ○ No	If "No" Rationale	If "No" Recommendation
Is the control performed at the appropriate stage in the process?	◉ Yes ○ No	If "No" Rationale	If "No" Recommendation
List out the key control attributes that the control operator does in performing each Key control activity.	Response: 1. Quarterly basis, the Accounting department reviews all transactions involving Variable Interest Entity (VIE) to determine if the consolidation treatment under FAS 167 is applicable.		
Describe the criteria for investigation	Response: VIE's with significant changes are reviewed by the Accounting department		
Is the control precise enough to prevent or detect a material misstatement	◉ Yes ○ No	If "No" Rationale	If "No" Recommendation
Describe the nature and form of evidence, including documentation, obtained that demonstrates the control operator actually performed the control activity	Response: 1. Obtained the organizational structure for 1Q 2018 to check whether new companies have been identified for possible consolidation. 2. Verified, sample of primary attorney or business contact confirmation emails from		
Design Conclusion: Is the control activity designed effectively to meet the stated objective?	◉ Yes ○ No	If "No" Rationale	If "No" Recommendation
Control Assessment Remediation Required (Y/N)	○ Yes ◉ No		
Roll forward Design	☐		
Upload Documents	Documents		

TOD Screen

- Key fields are included to help conclude on the effectiveness of design.
- All fields are required

TOD Documentation

Required:
-Walkthrough Supporting WP's

Value Added:
-Walk-through test of one
- Additional Control Level documentation (WT Template/narrative)

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Performing TOD and TOE: BPA Required Documentation, Cont'd

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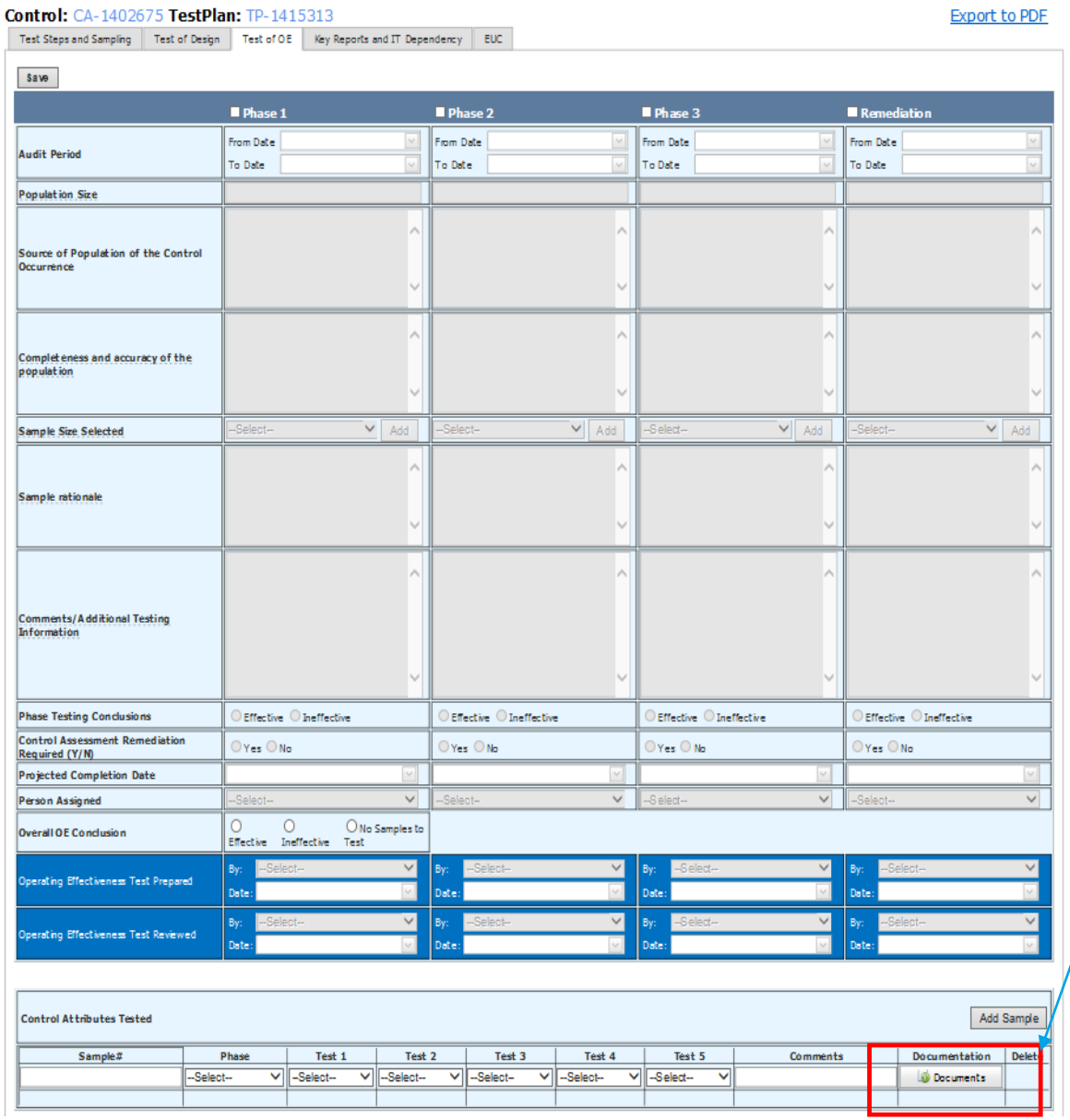

TOE Screen

- To evidence testing of operating effectiveness and conclusions by Phase
- Select the Phase related to testing and fill out all fields. Our approach to C/A testing will impact required WP's. (i.e. Mgt Control: Reference Control, Key Report Testing, SOX independent testing)

TOE Documentation

Required:

Population Support:
attach to sample #1
-Population sample was obtained from (if applicable)
-Completeness testing (if applicable)

Sample Support:
-All supporting documentation to evidence operating effectiveness of control will vary based on control and nature.

PwC Completeness and Accuracy of Source Data

Sufficiency of Evidence: Risk

Focus on Risk

- Risk Assessment underlies the entire audit process including scoping, the selection of controls to test and the determination of evidence necessary for a given control.
- For each control tested the evidence necessary to persuade the auditor that the control is effective depends upon the risk associated with the control or the risk that the control might not prevent or detect a material weakness.
- As the risk increases the evidence that the auditor should obtain increases.

Control Risk Factors:

As discussed earlier risk factors considered that affect the control risk include, but are not limited to:

- Nature and material of potential related misstatements
- Inherent risk associated of associated accounts and assertions
- Changes in volume or nature of transactions
- History of errors or fraud (i.e. exceptions, SAB 99's, deficiencies)
- Effectiveness of Entity Level Controls
- Nature of Control and Frequency of occurrence
- Subjectivity of the control (Judgment/Estimates)
- Complexity of the control

Sufficiency of Evidence: Risk, Cont'd

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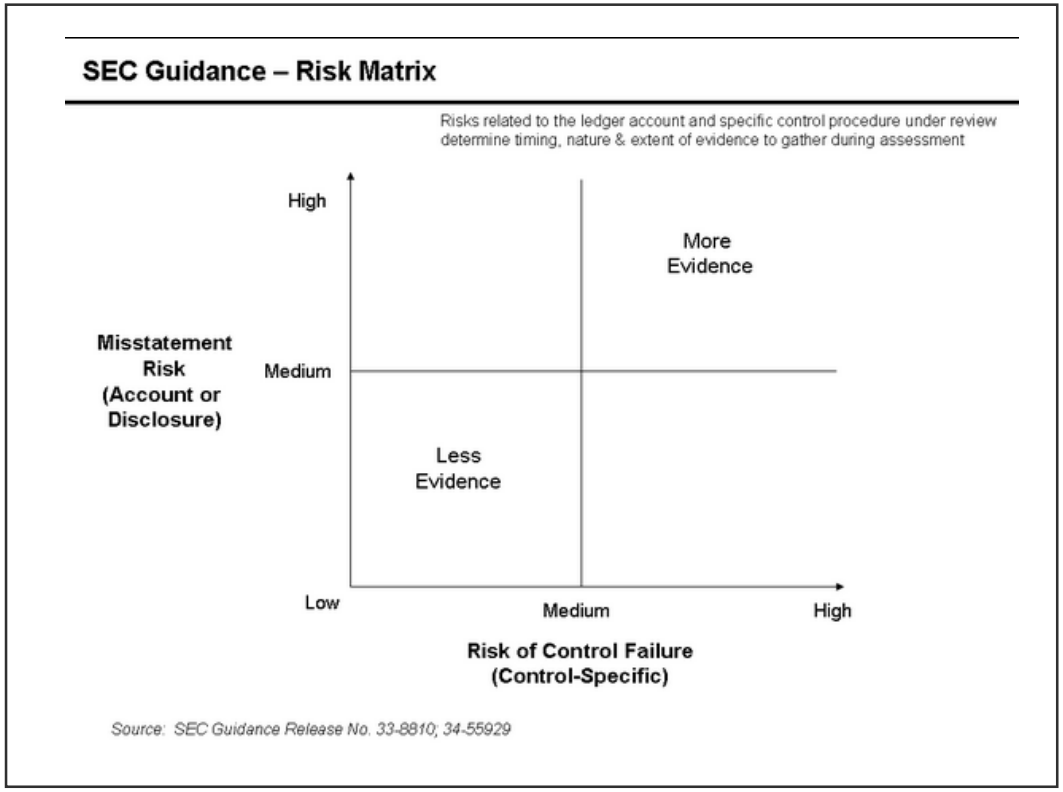
The below chart from the SEC demonstrates the direct relationship between the related risk and evidence to be obtained:



The **evidence provided** by the auditor's tests of operating effectiveness **depends on the nature, timing and extent** of our procedures and should be adjusted based on the level of risk

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Sufficiency of Evidence: Nature, Timing & Extent

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Nature: We should adjust the nature of our testing or the testing techniques that we use to test controls based on control risk.

The following tests that the auditor might perform are presented in order of the evidence that they ordinarily would produce, from least to most:

Level of Assurance	Testing Technique
More ↑	Re-performance of a control
	Inspection
	Observation
Less ↓	Inquiry

Nature of test is dependent on the risk, nature of the control and auditor judgment. There is no one size fits all

Sufficiency of Evidence: Nature, Timing & Extent

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Timing:

- Testing controls over a greater period of time provide more evidence of effectiveness than testing over a short period of time.
- Testing performed closer to year-end or Management's assessment provides more evidence than testing performed earlier.
- We need to balance testing throughout the year to allow for an efficient and effective audit.

Sample Sizes and Timing should be consistent with the expectations laid out earlier in the timing of testing of operating effectiveness and spread out through the year.

Consideration needs to be given to the ensure appropriate roll-forward procedures, which will be discussed later

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Sufficiency of Evidence: Nature, Timing & Extent

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Extent:
Quantity of audit procedures performed or the **sample size**. The more samples the greater the evidence obtained from the test.

For sample selection we utilize a sampling table which ensures that we select a sufficient sample based on the number of occurrences and the related control risk.

Frequency of Control and assumed annual occurrences	Sample Size (Refer Note 1)			Assumed Number of Control Occurrences per Annum (Refer Note 2)
	Control Risk Rating			
	Low	Medium	High	
Annual (1)	1	1	1	1
Quarterly (4)	2	2	2	4
Monthly (12)	2-5			12
Weekly (52)	5	10	15	52
Daily (250)	20	30	40	250
Multiple Times a Day (250+)	25	45	60	Over 250
Automated Controls	• Test one application of each programmed control for each type of transaction if supported by effective IT General Controls that have been tested.			

The above sampling table is based on the number of **expected annual occurrences**. If the actual number of occurrences falls between the frequency buckets the teams can use the “in-between” sample size calculator on the Sharepoint Site and in the sampling memo.

Ensure that we are using the right population-Complete and Accurate and correct # of occurrences.
For example for a monthly control your sample size is between 2-5. However if there are many instances of that control that is probably not the right number. Bank reconciliations are monthly controls with many instances
12 months
X 50 Accounts
600 Reconciliations
In this case we should use the **Multiple Times per day frequency bucket**

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PwC – Roll-Forward Procedures

Roll-Forward Procedures

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- As previously discussed we need to adjust the Nature, **Timing** and Extent of our audit procedures based on **Risk.** We have discussed how the different techniques (nature) can provide differing levels of assurance and how we adjust the extent of procedures based on sample sizes.
- Annually Management Issues a report on internal control over financial reporting that is included in the 10-K, this opinion is as of year-end.
- The closer our procedures are to the assessment date the more assurance provided that they operated

Part II

ITEM 9 | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A | Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In connection with the preparation of this Annual Report on Form 10-K, an evaluation was carried out by AIG management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2017. Based on this evaluation, AIG's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of AIG is responsible for establishing and maintaining adequate internal control over financial reporting. AIG's internal control over financial reporting is a process, under the supervision of AIG's Chief Executive Officer and Chief Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of AIG's financial statements for external purposes in accordance with U.S. GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

AIG management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

AIG management has concluded that, as of December 31, 2017, our internal control over financial reporting was effective based on the criteria articulated in the 2013 *Internal Control – Integrated Framework* issued by the COSO. The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that have occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Roll-Forward Procedures

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Management's

- Management concludes on internal controls over financial reporting as of year-end and we can test controls at an earlier date.
- When auditors test controls before year-end they are required to perform "roll-forward" procedures to update the results of interim testing to year-end.
- To ensure sufficient evidence based on risk we have aligned required procedures with the respective control risk and frequency:

Roll-forward techniques based on Risk:

Low Risk: Inquiry should be performed for all controls to verify that the nature of control has not substantially changed through year-end.
Medium Risk: Documentation should be inspected to verify that there have been no material changes to the nature of the control through year-end
High Risk: When possible 10% of the original sample size should be tested during Q4. For Quarterly controls 1 sample should be tested during Q4.

Reference more detailed roll-forward guidance including the below table in the sampling guidance memo on the Sharepoint site

Control Frequency	Phase 1 Jan 1 - June 30	Phase 2 Jul 1 - Sep 30	Phase 3 / Rollforward Oct 1 - Dec 31
Annual	Samples tested as control operates		
Quarterly (A total of 2 quarters will be tested for all quarterly controls)	Test Q1 or Q2 for all quarterly controls	Test Q3 for all low and medium risk controls	**Low Risk**: Confirm that control has not substantially changed since last tested **Medium Risk**: Rollforward testing by inspecting evidence to verify control has not substantially changed since last tested **High Risk**: 1 sample must be tested for Q4
Monthly	70%*	30%**	**Low Risk:** Rollforward testing by Confirming that control has not substantially changed since last tested **Medium Risk:** Rollforward testing by inspecting evidence to verify control has not substantially changed since last tested **High Risk:** Test 10% of the original sample size to be tested during Q4
Weekly	70%*	30%**	
Daily	70%*	30%**	
Multiple Times a Day	70%*	30%**	
Automated Controls (Ensure that ITGC are effective through out the year)	Testing can be performed in Q1, Q2 or Q3		

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Questions?

Issue Evaluation: Process Summary

AIG SOX Enhanced Deficiency Template
RITA is current Issue Reporting System used by SOX, BPA Issue Reporting is currently being developed

Please refer to the updated Control Deficiency Guidelines and draft template available on the SOX Sharepoint site

Summary of evaluation process:

- Identify the Deficiencies
- Understand and assess the Deficiency
- Assess Likelihood of Misstatement
- Assess Potential Magnitude of Misstatement
    a) Determine Gross Potential Exposure
    b) Identifying Compensating Controls
    c) Determine Net Exposure
- Determine Classification of Deficiencies
    a) SOX Issue Rating
    b) IAG Issue Rating

Issue Evaluation: Draft Enhanced Template

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Template Enhancements

- Template is aligned to PCAOB and SAB 99 guidance
- Related guidance and clarifications will be embedded into the template
- No need to leave BPA to enter issues identified

- Based on SAB 99 thresholds it is not required to perform deficiency analysis for issues with Gross Deficiencies under $20m

Control Details				Identify the Issue		Understand the Issue				Likelihood of misstatement		Issue Quantifiable?	
Control #	Control Description	Issue Owner	SOX Coordinator	Issue #	Source of Issue (SAB 99, SOX testing, External Audit, SOC 1, Self Identified, IAG, etc)	Issue Description	Root Cause Class	Root Cause Category	Potential Deficiency in Design or Operating Effectiveness?	Is there a reasonable possibility of a misstatement due to deficiency?	if no, Rationale	Is Issue Quantifiable	If no, Rationale
CA-1402111	Premium Coding is reviewed for all issued policies to ensure accuracy of premium balances recorded	Owner 1	Auditor 1	ISSUE - 3806111	SOX Testing	A new reviewer was onboarded who was not aware of their full area of coverage. The premium related to the area of coverage is approximately $400m annually.	Process	Process Operation	Operating Effectiveness	Yes		Yes	
Auto in BPA	Auto in BPA	Auto in BPA	Auto in BPA	Auto in BPA									

N/A if Issue not quantifiable							N/A if Issue not						
Determine Gross Potential Exposure			Identifying Compensating Controls				Determine Net Potential Exposure		Determine Classification of				
Assertions Effected by the deficiency	Gross Exposure	Gross Exposure Rationale	Compensating Control #	Compensating Control Description	Operating Effectiveness of the Compensating Control	Did the compensating control identify a known error?	Net Exposure	Net Exposure Rationale	Disclosure Impact, if applicable	Qualitative Review Conclusion	Severity of the Deficiency?	Rationale	IAG Issue Rating	Rationale
Completeness Existence Accuracy Valuation	K500000 Written Prem $400,000,000 K150000 Prem Recievable $400,000,000	The policies not reviewed were all Commercial Auto Policies issued in NY, which was approximately $400m.	CA-140000	On a quarterly basis detailed analytics are performed of the quarterly premium balances. These reviews compare the QTD balances to the previous	Effective	No known error	K5000000 Written Premium $50,000,000 K1500000 Prem Recievabl	The Compensating Control covered the same FS areas/assertions, was tested and operated	FN 8 Reinsurance discloses the direct premiums written. There is no material net exposure to the FN disclosure	The deficiency is quantitatively small and there were no qualitative factors that render this deficiency material	Control Defic	This item is considered a Control Defiency as the net exposure is quantitatively small and there are no	Minor	The potential impact of this issue on financial reporting and the control environment is immaterial. There is no potential regulatory or reputation risk related to this issue.
				Auto in BPA	Auto in BPA									

Issue Evaluation: Draft Enhanced Template

IAG | Assurance Advice Insight

Control Details				Identify the Issue	
Control #	Control Description	Issue Owner	SOX Coordinator	Issue #	Source of Issue (SAB 99, SOX testing, External Audit, SOC 1, Self Identified, IAG, etc)
CA-1402111	Premium Coding is reviewed for all issued policies to ensure accuracy of premium balances recorded	Owner 1	Auditor 1	ISSUE - 3806111	SOX Testing

- Sections aligned w/ guidance memo
- No new data requested compared to Archer in these sections

Understand the Issue				Likelihood of misstatement		Issue Quantifiable?	
Issue Description	Root Cause Class	Root Cause Category	Potential Deficiency in Design or Operating Effectiveness?	Is there a reasonable possibility of a misstatement due to deficiency?	if no, Rationale	Is Issue Quantifiable	If no, Rationale
A new reviewer was onboarded who was not aware of their full area of coverage. The premium related to the area of coverage is approximately $400m annually.	Process	Process Operation	Operating Effectiveness	Yes		Yes	

Reasonable Possibility

IIA SOX Guide reasonable possibility is understood as at least 5%-10% probability range
AS2201.65: Risk factors affect whether there is a reasonable including:
The nature of the FS, disclosures, and assertions involved;
-Susceptibility of the related asset or liability to loss or fraud;
-The subjectivity, complexity, or extent of judgment required to determine the amount involved;
-Interdependency or redundancy to other controls
-Possible future consequences of the deficiency.

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Issue Evaluation: Draft Enhanced Template

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N/A if Issue not quantifiable

Determine Gross Potential Exposure			Identifying Compensating Controls			
Assertions Effected by the deficiency	Gross Exposure	Gross Exposure Rationale	Compensating Control #	Compensating Control Description	Operating Effectiveness of the Compensating Control	Did the compensating control identify a known error?
Completeness Existence Accuracy Valuation	K500000 Written Prem $400,000,000 K150000 Prem Rec'able $400,000,000	The policies not reviewed were all Commercial Auto Policies issued in NY, which was approximately $400m.	CA-140000	On a quarterly basis detailed analytics are performed of the quarterly premium balances. These reviews compare the QTD balances to the previous quarter, the prior year same quarter and review revenue by product type and producer. The threshold for review are fluctuations in excess of 5% and $50m.	Effective	Known error was not identified
				Auto in BPA	Auto in BPA	

N/A if Issue not quantifiable

Determine Net Potential Exposure		Determine Classification of Deficiencies					
Net Exposure	Net Exposure Rationale	Disclosure Impact, if applicable	Qualitative Review Conclusion	Severity of the Deficiency?	Rationale	IAG Issue Rating	Rationale
Written Prem $50,000,000 Prem Rec'ble $50,000,000	The Compensating Control covered the same FS areas/assertions, was tested and operated effectively and was found to be precise enough to detect a material misstatement. The precision level of the compensation control is $50,000,000.	FN 8 Reinsurance discloses the direct premiums written. There is no material net exposure to the FN disclosure	The deficiency is quantitatively small and there were no qualitative factors that render this deficiency material	Control Deficiency	This item is considered a Control Defiency as the net exposure is quantitatively small and there are no qualitative factors that increase the materiality. This issue is not material in nature and is not important enough to bring to the attention of those Financial Senior Management	Minor	The potential impact of this issue on financial reporting and the control environment is immaterial. There is no potential regulatory or reputation risk related to this issue.

Gross Exposure

Focus needs to be placed on the amounts or transactions **exposed to the deficiency**. To accurately estimate the exposure we should determine if the deficiency **could impact the entire population of balances/transactions or only a portion or sub-population. Focus on "Could Factor"**

Net Exposure/Compensating Controls

To have a mitigating effect, the compensating control(s) should:

- Be precise enough to prevent/detect MM
- Operate effectively
- Address same FS area and assertions
- Address material known errors

Issue Ratings

- **Sox Deficiency Ratings**-only focused on Financial Impact
- **IAG Issue Ratings**-focused on:
  - •Broader control environment
  - •Regulatory Sanction/Penalties
  - •Reputational Damage
  - •Loss of clients/relationships

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Issue Evaluation: Issue Timeline

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Issue Timeline-Guidelines

- This is slightly summarized form of template, full template on next slide and available on Sharepoint site
- Details the steps taken by IAG and Management with approx. timing
- Timing will change based upon complexity of issue and other factors
- RITA fields and PwC involvement are laid out in full template

Timing	IAG	Management
Issue Identification	Identify issues through **WT's, Testing or Other**	
Within **2 days** from initial discovery	Issue is **discussed with the SOX Manager** to determine if an issue exists and potential severity.	
Once **potential critical issue** has been identified	Potential Critical issue/SD/MW identified - **Lead/Audit Director** immediately for potential discussion with **MD/SMD/SOX central team**	
5 Days of Mgr notice (For reporting purposes timing will be aligned with the target testing completion date)	Discuss issue with **Management** and obtain **acceptance** (Typically L4/L5 Process Owner)	Discuss Issue with IAG and provide pespective on the root cause as well as the magnitude of the issue and exposure.
10 Days (5 days after Management Acceptance)	-Discussion of issue with **PwC** **-Enter Issue into RITA**	
15 Days (10 Days after Management Acceptance)	-Obtain **Root Cause** and **Financial Impact** from Management and enter into **RITA** **-Verify that compensating controls** meet established criteria	-Determine and communicate root cause, compensating controls and financial statement impact (Gross & Net Exposure).
PwC Comm.- 25 Days (20 Days after Management Acceptance)	-Communicate **Root Cause, FS impact and compensating controls to PwC** -Obtain and respond to any feedback from PwC	-Work with IAG and PwC on any feedback provided
Action Plan-Flexible Time Frame, (+-30 days of Mgmt acceptance)	-Determine **sufficiency of Action Plan** and reasonableness of timing -Enter **AP into RITA** once received from Management	-Develop Action Plans that remediates the issue with target dates. -Monitor the progress of the APlan(s), informing IAG of any challenges or delays in meeting the target date
Updates- Based upon discussion with Issue/Action Plan Owner	**-Update Status field in RITA** to reflect the progress meeting the target day, explaining past due items or completion.	Inform IAG when the Action Plan: -Is at risk -has been implemented -issue is remediated
Testing- Based on frequency of control and samples needed for testing	**-Verify Remediation through testing** and communicate results to Mgmt and PwC -For successfully tested remediated controls, update RITA and close the Action Plan	

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Issue Evaluation: Issue Timeline

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Full version of Issue Timeline

Timing	IAG	Management	Consultation with External Audit–PwC	RITA Field(s)
Issue Identification	Identify issues through WT's, Testing or Other (Reviewing SAB 99 memos, Internal Audit Reports and SOC 1's, PwC Testing, etc.).			
Within 2 days from initial discovery	Issue is discussed with the SOX Manager to determine if an issue exists and potential severity.			
Once potential critical issue has been identified	Critical issue identified – If at any point the SOX team believes that an issue can rise to the level of an SD or MW, they should inform the SOX Lead/Audit Director immediately for potential discussion with MD/SMD/SOX central team			
5 Days (For reporting purposes timing will be aligned with the target testing completion date)	Discuss issue and severity with Management and obtain their acceptance (Typically L4/L5 Process Owner)	Discuss Issue with IAG and provide management's pespective on the root cause as well as the magnitude of the issue. This including identifying mitigating controls (if any), Gross & Net Exposure Amounts, Financial Statement Account (10K), and Likelihood of Financial Misstatement		All Issue fields except "Mitigating Control Summary", "Root Cause Class", "Root Cause Cat", "Root Cause Description", "Gross Exposure", "Net Exposure", " Quantification Rationale, and "10K tracking information"
10 Days (5 days after Management Acceptance)	-Discussion of issue with PwC -Enter Issue into RITA		Provide any necessary feedback on Issues identified, potential impact to the control environment and audit planning.	Finalize above fields
15 Days (10 Days after Management Acceptance)	-Obtain Root Cause and Financial Impact from Management and enter into RITA -Verify that compensating controls meet established criteria to provide mitigating effect (refer to Deficiency Template)	-Determine and communicate root cause, compensating controls and financial statement impact (Gross & Net Exposure).		Issue - "Mitigating Control Summary", "Root Cause Class", "Root Cause Cat", "Root Cause Description", "Gross Exposure", "Net Exposure", " Quantification Rationale, and "10K tracking information"
25 Days (20 Days after Management Acceptance)	-Communicate the Root Cause, financial impact and compensating controls to PwC -Obtain and respond to any feedback from PwC	-Work with IAG and PwC on any feedback provided	Provide any necessary feedback on root cause as well as the magnitude of the issue. This including concurance on mitigating controls (if any), Gross & Net Exposure Amounts, FS Accounts (10K), and Likelihood of Financial Misstatement	Finalize above fields
Flexible Time Frame, should be developed within 30 days of acceptance by management; however, in complex circumstances it may go longer.	-Determine sufficiency of Action Plan and reasonableness of timing -Enter Action Plan Into RITA once received from Management -Communicate Action Plan to PwC	-Develop Action Plans that remediates the issue with target dates. -Monitor the progress of the Action Plan(s), informing IAG of any challenges or delays in meeting the target date	Review Action Plan for adequacy in addressing the issue	All fields for action plan set-up (excluding fields such as "Closed By Mgmt On" and "Verification Date"
Based upon discussion with Issue/Action Plan Owner	-Update Current Status field in Action Plan to accurately reflect the progress meeting the target day or explaining past due items. (Updates should be obtained monthly from Management) -Update RITA based upon completion of Action Plan	Inform IAG when the Action Plan: -Is at risk -has been implemented -issue is remediated	Confirm that the issue can be closed based upon the completion of the Action Plan and sufficient testing of the new or remediated control.	AP - "Current Status" AP - "Closed By Mgmt On"
Based on frequency of control and samples needed for testing	-Verify Remediation through testing and communicate results to Management and PwC -For successfully tested remediated controls, update RITA and close the Action Plan			AP - "Verification Date"

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PwC – SAB 99's

Elements of a Management Action Plan

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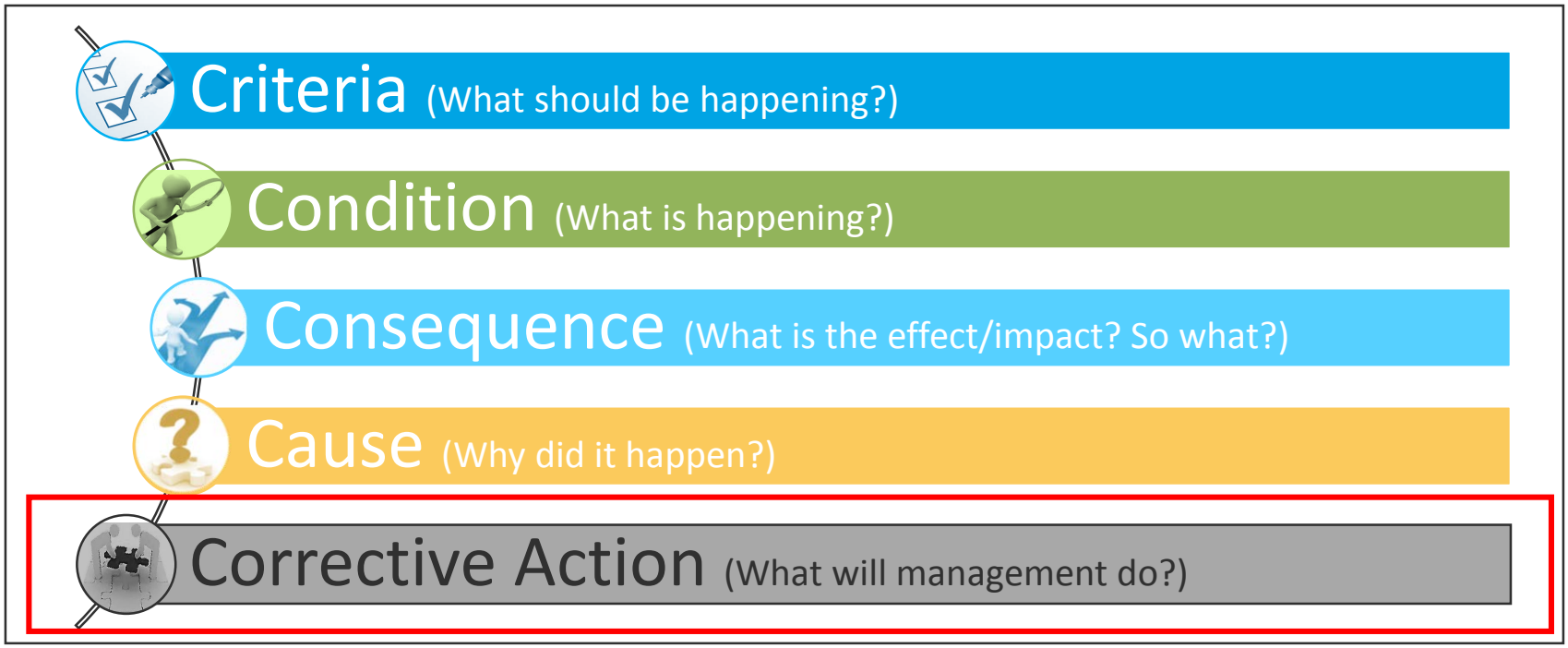
Management action plan

- Corrective actions (i.e., management action plans) are one of the 5C's/elements of a well written issue.



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Elements of a Management Action Plan

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Management action plan

- Management action plans establish accountability and communicate the status of the plan to recipients of the report. To accomplish this, plans should be **S.M.A.R.T.**

Specific	• State what action must be taken and who is responsible for taking that action
Measurable	• Provide a corrective action that can be audited
Achievable	• Define an action plan that is practical for the organization to implement
Reliable	• Remedy the issue in the present and in the future
Time Bound	• Complete within a specified date

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Elements of a Management Action Plan

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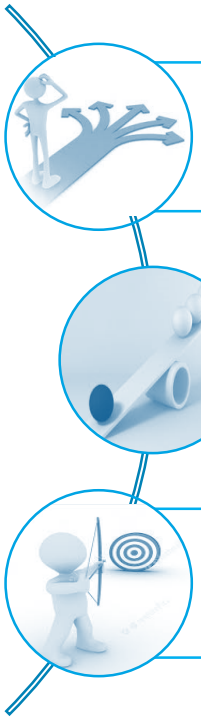
Considerations for assessing management action plans



- Action plans should address the root cause and the condition (e.g., multiple actions) to correct issue and prevent reoccurrence
- Action plans may also need to address consequences if they actually occurred
- Auditors should evaluate the feasibility and sustainability of action plans, including reasonableness of the target date

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Elements of a Management Action Plan

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Corrective Action (What will management do?)

Issue Example

Inventory account balance reflected in books and records for perishable items did not accurately reflect actual inventory on hand. Reconciliations were not performed as scheduled when the individual responsible was out on leave for several months. As a result, financial statements were not properly stated and unnecessary inventory was purchased that may spoil prior to usage resulting in financial loss.

Examples

Example 1 - The Inventory Manager should reconcile the inventory account to confirm the accuracy of the inventory and account balance.

Example 2 – The Inventory Manager will review the inventory to confirm the accuracy of the inventory and reconcile back to the account balance and make any necessary adjustments. Further, the Manager will cross train another person in the department to serve as a substitute when the primary person cannot reconcile the inventory account and require a secondary review and signoff of the reconciliation.

Which is the better statement?

Why?

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Elements of a Management Action Plan

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Corrective Action (What will management do?)

Issue Example

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Which is the better statement? **Example 2**

Why? **Example 2 provides an action to address the current problem as well as the root cause. Example 1 only addresses the current problem and does not prevent the issue from re-occurring.**

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PwC – Remediation Testing

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Remediation Testing: Sample Sizes

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Remediation Sample Sizes

- Once a control has been remediated by Management we must test the remediated control to verify operating effectiveness.
- Samples sizes must be sufficient enough to conclude on operating effectiveness
- For initial Phase testing we base our sample sizes on our sampling tables and the expected annual number of occurrences and will usually test the same sample size during remediation testing
- For example, if you are testing a low risk daily control, the sample as indicated in the sampling table would be 20. If the control fails testing, you would have to remediate the control and successfully test an additional sample of 20 items in order to declare that the control has been remediated and the open deficiency closed.

Frequency of Control and assumed annual occurrences	Sample Size (Refer Note 1)			Assumed Number of Control Occurrences per Annum (Refer Note 2)
	Control Risk Rating			
	Low	Medium	High	
Annual (1)	1	1	1	1
Quarterly (4)	2	2	2	4
Monthly (12)	2-5			12
Weekly (52)	5	10	15	52
Daily (250)	20	30	40	250
Multiple Times a Day (250+)	25	45	60	Over 250
Automated Controls	• Test one application of each programmed control for each type of transaction if supported by effective IT General Controls that have been tested.			

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Remediation Testing: Remediated Less than 90 Days

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If a remediated control has been in place for **LESS THAN 90 DAYS** we can use the below table for testing over this abbreviated period. These are considered the minimum occurrences and sample sizes to provide sufficient evidence:

Frequency of Control	Minimum time period of operation for the remediated control prior to fiscal year–end	Minimum Sample Size
Annual	N/A	N/A
Quarterly	N/A	N/A
Monthly	2 Months	2
Weekly	5 Weeks	2
Daily	20 Days	10
Multiple Times a Day	30 times over a multiple day period	25
Automated Controls	• Test one application of each programmed control for each type of transaction if supported by effective IT General Controls that have been tested.	

The above table takes into account the minimum occurrences of each control and the minimum sample sizes required to conclude on operating effectiveness. If a control is Annual or Quarterly we will not be able to fully remediated if it has operated for less than 1 quarter.

We cannot say that the control is fully remediated and operating effectively until we are able to complete a sufficient amount of remediation testing.

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Remediation Testing: Required Documentation

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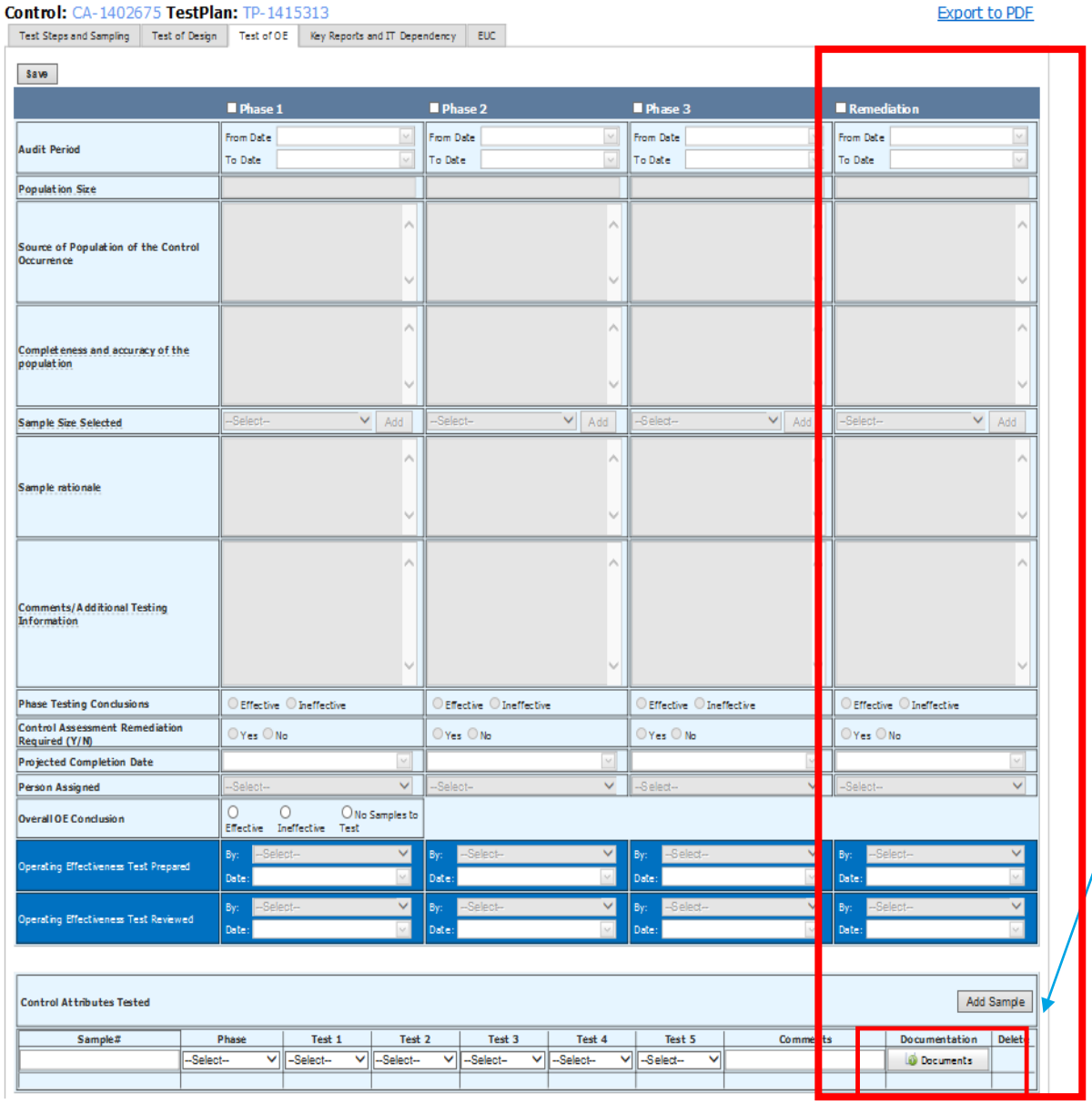

TOE Data

Complete the Remediation Phase consistent with the previous phases

Remediation Documentation

Required: Same as other TOE Phases

Population Support:
attach to sample #1
-Population sample was obtained from (if applicable)
-Completeness testing (if applicable)

Sample Support:
-All supporting documentation to evidence operating effectiveness of control. Will vary based on control and nature.

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SAB 99 Process: Guidance Overview

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SEC Staff Accounting Bulleting ("SAB") No. 99 – Materiality

- Provides the SEC's view on assessing materiality
- Discusses the key considerations we go through whenever assessing materiality in preparing financial statements or conducting an audit.
- Describes the quantitative and qualitative analysis that should be conducted when assessing materiality and stresses that **Quantitative thresholds or "rules of thumb" benchmarks are not sufficient alone**.

According to SAB 99

"a matter is "material" if there is a substantial likelihood that a reasonable person would consider it important. In its Statement of Financial Accounting Concepts No. 2, the FASB stated the essence of the concept of materiality as follows: The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.

Qualitative Factors

Qualitative factors may cause quantitatively small amounts to be material. Qualitative factors relate to the perceived needs of reasonable persons who will rely on the information. Among the qualitative factors that should be considered are:

- Impact on Key Performance Metrics
- The potential effect of the misstatement on trends, especially trends in profitability
- Compliance with regulatory requirements
- Impact on progress towards published targets
- Compliance with loan covenants or other contractual requirements
- Potential effect to increase management's compensation
- Concealment of unlawful transaction
- Intentional misstatement
- Changes a pre-tax loss into pre-tax income or vice versa

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SAB 99 Process: Management's Process Overview

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What is submitted

- Error Corrections
- Unresolved Accounting Issues
- Permanent Unrecorded Issues Affecting Prior Periods

SAB 99 System

- Controllership has a SAB 99 system that each of the respective controllership teams uses to communicate potential SAB 99 entries and the related memos
- Effective 3Q18 the Corporate SAB 99 materiality threshold was changed to $20M P&L and BS. Entries above these amounts need to be reported through the SAB 99 tool
- A Separate Threshold of $20M P&L/$100M BS has been established requiring Management to prepare SAB 99 memos that analyze the issue noted, the root cause, their assessment of materiality and their deficiency analysis, which are stored in the SAB 99 System

Consolidated Memo

- As part of the Quarter Close procedures the Corporate SAB 99 team prepares a consolidated SAB 99 memo
- The memo aggregates all of the recorded and unrecorded entries and documents Management's quantitative and qualitative analysis to determine if there is a material impact on the FS and to conclude on the severity of the aggregated deficiencies

Controls related to the SAB 99 system, individual memos and consolidated memos are tested as part of SOX testing

Following slides show the BU SAB 99 memo template and an excerpt from the consolidated SAB 99 memo

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SAB 99 Process: Management's Process Overview Cont'd

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Excerpt of SAB 99 Memo Template

SAB 99 MATERIALITY ASSESSMENT AND SOX CONTROL DEFICIENCY MEMO – TEMPLATE

Date (of memo):
Prepared By:
Distribution (incl. cc's):
Subject (Title of Control Deficiency; Type – e.g. SAB99 1C, 2A etc.):
SAB99 id#:

Background Section

[Briefly describe (provide detail in Appendices, as necessary)....

- Nature of the issue/error – include reference to:
  - Nature of the business process/transactions/products involved and indication of $ amount involved (indicate frequency – is it a one-time item, or a recurring matter still occurring).
  - Legal Entity/Entities and/or Business Segment/Business Unit impacted by issue/error.
  - Financial statement line items impacted by issue/error (for both US GAAP, and local regulatory reporting, as applicable).
- Source of identification of issue/error (e.g. self-identification by Controllers; SOX Testing; Internal Audit, PwC etc.).]

Root Cause Control Analysis

[Briefly describe the root cause of the issue/error (informs Materiality Assessment). Address whether:

- There is a control in place that should have prevented/detected this matter (i.e. whether there is either a control design or operational effectiveness failure).
- Any applicable remediation actions should be taken to prevent a repeat of the issue/error.]

Materiality Assessment

[Where applicable, provide a Quantitative Assessment of the issue/matter (balance sheet impact, current quarter impact, and prior quarter/year impact).

- Summarize any "out-of-period" adjustment recorded during the quarter – e.g. journal entries relating to the issue/matter recorded in the quarter.
- If matter cannot be precisely quantified, provide a best estimate of the impact and indicate degree of imprecision/potential range in estimate provided.

Indicate if any Qualitative Matters that should be considered – e.g. does the matter impact:

- Key metrics which External Stakeholders (e.g. Analysts, Investors and Rating Agencies) focus on, including whether the issue/matter masks a change in earnings or other key trends.

BU SAB 99 Memo Template

A SAB 99 Memo is required for all SAB 99's in excess of $20M net P&L or $100M

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SAB 99 Process: Management's Process Overview Cont'd

IAG Assurance Advice Insight

Excerpt of Consolidated SAB 99 Memo Template

AIG

DATE: August 3, 2018

TO: 2Q18 Form 10-Q Files

FROM: Kathleen Carbone, Corporate Controller

CC: Elias Habayeb, Don Cummings, Patrick Hurst, PwC

SUBJECT: Staff Accounting Bulletin No. 99 / 108—2Q 2018 Analysis of Adjustments and Summary of Unadjusted Items

EXECUTIVE SUMMARY – 2Q 2018

For the three-month period ended June 30, 2018, we recorded out-of-period adjustments related to prior periods that increased Pre-tax income from continuing operations by 12% or $148M, and increased Net income attributable to AIG by 12%, or $116M. For the six-month period ended June 30, 2018, we recorded out-of-period adjustments related to prior periods that increased Pre-tax income from continuing operations by 10%, or $257M, and increased Net income attributable to AIG by 10%, or $191M. Refer to Section 1.2 of the Appendix for further details.

For the three-month and six-month period ended June 30, 2018, we also had an unrecorded out-of-period adjustment related to the current quarter that would have increased Pre-tax income from continuing operations by $29M and increased Net income attributable to AIG by $23M.

Unrecorded and Recorded Adjustments to Pre-Tax and Net Income Attributable to AIG

Rollover Impact:

Had these and all previously-reported out-of-period adjustments (as per attached table 1.1 and 1.2), including unrecorded adjustments ("rollover impact"), been recorded in their appropriate periods, the impact on Pre-Tax income from continuing operations and Net income attributable to AIG is summarized below:

Pre-tax Income (loss) from Continuing Operations
($ in millions)

Period	As Reported	If Adjusted	Increase/(Decrease)	as a %
Three months ended June 30, 2018	$ 1,252	$ 1,133	$ (119)	9%

BU SAB 99 Memo Template

Consolidated Memo is prepared quarterly and has both quantitative and qualitative analysis.
Quantitative Analysis includes the following benchmarks:

- Pre-Tax NI
- Net Income
- Disclosure Impact
- Other Comprehensive Income
- Comprehensive Income
- Asset/Liabilities/Equity
- Segment Reporting impact

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SAB 99 Process: Our Role

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Legacy SOX Role

- The Legacy SOX team had a significant role in the preparation and conclusions in the SAB 99 memos, as they helped lead the controls function for the business
- As the SOX team as transitioned into IAG, which is an independent function we have become less ingrained in the process

IAG SOX Current Role

- Verify the operating effectiveness of Management's respective SAB 99 controls
- Controls exist at Corporate and BU levels covering SAB 99's
- Monitor SAB 99's to potentially enter them into RITA/BPA

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Questions?