Draft of 11/30/07

MINUTES OF MEETING

OF THE

AUDIT COMMITTEE

OF

AMERICAN INTERNATIONAL GROUP, INC.

Held November 6, 2007

A meeting of the Audit Committee of the Board of Directors of AMERICAN INTERNATIONAL GROUP, INC., was held on November 6, 2007 at 2:00 P.M., at 70 Pine Street, New York, New York, pursuant to notice duly given to each of the members in accordance with the By-Laws.

Present:	Messrs.	Michael H. Sutton, Chairman George L. Miles, Jr. (by telephone) Morris W. Offit Robert Willumstad, *ex-officio*

Also present were Director Frank Zarb, a non-voting member of the Committee, ctors Marshall A. Cohen and Stephen L. Hammerman, and Messrs. Tim Ryan, Dennis y, Henry Daubeney and Michael McColgan from PricewaterhouseCoopers LLP ("PwC"), Mr. James Cole of Bryan Cave LLP, Mr. Robert Reeder of Sullivan & Cromwell, Mr. James Gamble of Simpson Thacher & Bartlett LLP, President and Chief Executive Officer Martin J. Sullivan, Executive Vice President and Chief Financial Officer Steven J. Bensinger, Executive Vice President and General Counsel Anastasia D. Kelly, Senior Vice

President and Comptroller David Herzog, Senior Vice President and Chief Risk Officer Robert E. Lewis, Senior Vice President and Director of Internal Audit Michael E. Roemer, Senior Vice President, Secretary and Deputy General Counsel Kathleen E. Shannon, Vice President – Corporate Governance Eric N. Litzky, Paulette Mullings-Bradnock of Internal Audit, and Deputy Controller Joseph Cook.

The Chairman of the Committee, Michael H. Sutton, presided and the Secretary, Kathleen E. Shannon, recorded the minutes of the meeting.

The Committee first met in executive session with Mr. Roemer. [The status of the 2007 audit plan, headcount and report ratings were discussed. Mr. Roemer also discussed [to come]].

The minutes of the October 10, 2007 Committee meeting were reviewed. After discussion, the Committee approved the minutes subject to any revisions approved by Mr. Sutton after further review by Mr. Gamble and Ms. Shannon.

Mr. Bensinger provided the financial update, reporting net income of $3.1 billion and adjusted net income of $3.5 billion, both below the prior year. Mr. Bensinger commented that one highlight was that on a relative basis, AIG absorbed its exposures to the residential mortgage market fairly well. He noted that American General Finance, Inc. ("AGF") did not participate in exotic products and in overheated real estate markets, and although AGF is experiencing some deterioration in delinquencies and default ratios, its ratios are quite low compared to its competitors. Mr. Ryan commented that PwC had looked at AGF to see why they are doing better than other consumer finance competitors and noted that AGF is not heavily into the second mortgage business and had also backed off on the broker business.

Mr. Bensinger next reported that United Guaranty Corporation ("UGC"), AIG's mortgage guaranty insurance business, experienced a $200 million loss in the quarter versus an $80 million gain in the 2006 quarter, driven by the second lien business. He added that the third quarter is not expected to be an anomaly, as the second lien losses are expected to continue and first lien is expected to deteriorate as well. In response to Mr. Offit's inquiry, Mr. Bensinger said that additional capital had not yet been required, and noted that for the prior 10 years, UGC had a 27 loss ratio. Mr. McColgan commented that further losses are anticipated when defaults are known. Mr. Bensinger pointed out that UGC's stop loss treaties effectively serve as policy limits, and UGC does not take credit exposure on the lenders. Mr. Ryan said that PwC had made some recommendations to improve UGC's reserving policies, and Mr. McColgan reported that quarterly reserving updates had been implemented.

Mr. Bensinger commented that Management is assessing if the financial strength in the unit is adequate. He explained that the total risk exposure reported for UGC was $3.7 billion at September 30 compared to $2.5 billion at June 30, the result of full accounting by individual stop loss treaty rather than the shortcut approach previously used.

Mr. Bensinger next described the exposure of AIG Financial Products Corp. ("AIGFP") to the residential mortgage market through its credit derivative portfolios. He noted that the notional disclosure has gone up because of market opportunities, but this business is underwritten as a zero loss business, and is not expected to produce any losses economically. Mr. Lewis commented that every AIGFP transaction is separately approved and undergoes an independent review.

Mr. Bensinger said that many of these transactions are meant to provide capital relief. He explained that the $300 billion corporate portfolio is performing fine, as is the $140 billion non-U.S. residential mortgage book. He explained that $63 billion of the $78 billion of multi-sector CDOs have some subprime exposure. Mr. Bensinger said that modeling techniques are used to take observable inputs and determine whether these factors have affected the value of the transaction, and the initial valuation for the quarter using the model was a loss of $45 million. He explained that after recent market upheavals, the assumptions were reassessed and new inputs were used, for a valuation loss of $350 million pretax as of September 30. He added that the model had also been utilized as of October 31, with an additional estimated pretax valuation loss of $550 million.

Mr. Offit commented that the valuation marks are changes in the estimates on the value of the benefit to be received from the transaction, the equivalent of puts appreciating in price to the detriment of AIG. In response to inquiries on when the mark to market losses become economic losses and whether there is a liquidity issue, Mr. Bensinger responded that on the derivatives themselves, no payment would be likely unless there were depression-like scenarios, as every tranche below the super senior level would have defaulted, but there could be liquidity issues as a result of collateral calls. Mr. Bensinger reported that although AIGFP had received five calls for collateral from counterparties, AIGFP disagrees with the valuations and no collateral had been posted, although a deposit had been placed with one counterparty. He pointed out that the Form 10-Q includes disclosure on the valuation disagreements. He added that additional deterioration could require cash calls, and AIGFP intends to increase its cash position.

Mr. Ryan reported that PwC has had continuing dialogue on the AIGFP portfolio and its valuation. He noted the significant collateral disputes, and Mr. Daubeney commented that such collateral calls are not unexpected as counterparties attempt to value their positions. Mr. Daubeney commented on the highly subjective nature of the valuation determinations. He noted that the AIGFP model is based on a modified rating agency model, and emphasized the importance of the assumptions used.

Mr. Sullivan commented that the AIGFP valuation loss will be shown as a separate line in the press release, and the current intent is that the loss will not be treated as an expense for purposes of the AIGFP compensation plan, although that decision could be reversed. A discussion followed on to what extent and under what conditions these valuation losses should affect the AIGFP compensation pool. Among the issues discussed were the effect of the collateral calls on liquidity and the amount expected to be earned on the super senior portfolio over its lifetime. Mr. Bensinger also pointed out that at

October 31, the estimated pretax loss of approximately $550 million is incremental to the third quarter results.

Mr. Bensinger next commented on the change in valuation of the investment portfolio, based, as in prior quarters, upon observable market data -- market prices and broker quotes, in which resulted in a downward mark of approximately $2.4 to $2.5 billion after tax through Other comprehensive income (loss), directly reducing shareholders equity. He pointed out that the portfolio change in valuation does not flow through income unless it is determined to be a permanent impairment. He noted that approximately $500 million of losses resulting from other than temporary impairments and repositioning of portfolio securities had also been included as capital losses in net income, but overall, AIG recognized realized capital gains of approximately $70 million for the quarter.

Mr. Bensinger next summarized the combined effect on AIG's overall financial condition from the upheaval in the U.S. residential housing market as approximately $1 billion pretax or $670 million on net income and approximately $4.4 billion pretax or $3.1 billion after tax of balance sheet effect through Other comprehensive income (loss). He added that partnership income, while ahead of the 2006 quarter, was significantly below the earlier quarters in 2007, and Management also expects further deterioration in the marks on the investment portfolio. Mr. Lewis explained that 95 percent of the valuation estimates come from pricing services but 5 percent come from broker quotes, and the valuation process for October is not yet finalized.

Mr. Bensinger summarized results for the rest of AIG's business, noting the competitive pressures in foreign general insurance and overall favorable loss development. He expressed unhappiness with results from domestic life and retirement services operations and Japan life operations. Mr. Bensinger pointed out that ILFC had a very good quarter and he explained the effect of investment warehousing operations on the asset management results.

Mr. Bensinger advised the Committee that the earnings information will include an updated PowerPoint presentation on the residential mortgage exposures and an updated report on the economic capital model, which shows additional excess capital of approximately $1 billion for the nine months. In response to Mr. Willumstad's inquiry, Mr. Bensinger said that the models show approximately $16 to $21 billion in excess capital, reasonably conservative operating leverage ratios and very high interest coverage ratios. Mr. Bensinger also advised the Committee that Management plans to announce an accelerated schedule for repurchasing the $3 billion of common stock already authorized and plans to request Finance Committee and Board of Directors authorization for an additional repurchase of up to approximately $10 billion.

Mr. Herzog reviewed the updated SAB 99 report, which he characterized as uneventful. He pointed out that out of period adjustments were $33 million pretax and $35 million after tax. Mr. Ryan agreed with Mr. Herzog's characterization. Mr. Herzog noted that the closing process had improved and issues had been promptly resolved.

Mr. Herzog next point out highlights of the Form 10-Q, including the updated commitments and contingencies footnote, additional disclosures on AIGFP exposures and key accounting judgments for AGF, information on overall quarterly favorable loss development and loss reserve practices for mortgage guaranty. He noted additional disclosures on collateral disagreements at AIGFP, on steps to enhance liquidity in AIG's securities lending and other portfolios and on AIG's residential mortgage backed securities and collateralized debt obligation exposures.

Ms. Kelly then updated the Committee on developments in significant litigation, meetings with various insurance commissioners on workers compensation issues, recent press reports on the regulatory investigation into money laundering in Brazil involving AIG Private Bank and the expectation of a business improvement order in Japan involving certain advertising activities.

Mr. Ryan reported that the significant efforts to improve the close process had paid dividends in the resolution of major issues and lack of late surprises. He pointed out that the expanded efforts to identify out of period errors had resulted in a similar number of SAB 99 adjustments, but the dollar value of the items is lower than in prior quarters. Mr. Ryan said that both Management and PwC agree that ensuring the sustainability of these efforts is key.

Mr. Ryan next directed the participants to the Appendix of the PwC presentation updating the additional and accelerated procedures performed by PwC in addition to quarterly review procedures. Mr. Ryan then summarized what PwC considered to be highlights for the quarter. He noted first pricing/valuation issues – higher other than temporary declines (OTTD), realized capital losses and unrealized losses on available for sale securities due to market dislocations, with both OTTD and the change in unrealized losses recorded in Other comprehensive income primarily driven by credit issues. Mr. Ryan noted that a particular focus was the effect of pricing lag periods on valuation of private equity, hedge fund and foreign-held investments. He said that PwC agreed with Management's assessment, after extensive analysis, that the volatility was not significantly different and the effects of the lags were not so material as to require a change in the policy. Mr. Herzog commented that consistent application is important.

Mr. Ryan next commented on the difficulty of quantifying the change in fair value for AIGFP's super senior portfolios in the rapidly changing market, noting particularly that updated assumptions could change the $550 million valuation loss estimated as of October 31st. He added that the issues surrounding collateral valuation for this portfolio are being carefully monitored to make sure the correct facts are going into the model, and PwC expects more convergence in this market in the future.

Mr. Daubeney described an issue with AIGFP cash flows, explaining that the trading systems do not reconcile through to GAAP, and therefore although there is no profit and loss account impact, there is a reclassification. He said that Management had committed to fix the issue and it is targeted to be done in the fourth quarter.

Mr. Ryan next mentioned that Management is attempting to resolve a dispute over the buyout formula for Ascot, and PwC agrees that no disclosure of the dispute is necessary at this time. Mr. Ryan reported that various issues are expected to be resolved with respect to income tax accounts in the fourth quarter, resulting in adjustments for the quarter.

Mr. Ryan described an unconsolidated structured investment vehicle sponsored by AIGFP and in which AIGFP had invested. Although Mr. Ryan said that PwC agreed with accounting for the vehicle, Mr. Bensinger advised the Committee that AIG will consider adding disclosure to the Form 10-Q on the vehicle.

Mr. Ryan then referred the Committee to PwC's updated Independence Standards Board (ISB) Standard No. 1 letter which had been included in the materials provided to the Committee, mentioning specifically the tolling agreement signed in connection with the Ascot matter, and confirmed PwC's continuing independence.

Mr. Lewis updated the Committee on Sarbanes Oxley Compliance and Remediation. He described the ongoing efforts towards remediation of the remaining material weakness, reporting that remediation of the income taxes control deficiency is dependent on successful completion of management testing over key controls in the third and fourth quarters, clearance of unsubstantiated tax balances and substantiation of the $2.2 billion asset for tax and related interest claims in conjunction with the restatements. He reported that 50 different workstreams have made tremendous progress in clearing balances and in hiring key staff, and Management believes that the milestones for remediation are currently on track, but the proof will be in the testing.

Mr. Lewis reported that remediation of the significant deficiencies in Financial Close Process, DBG Reinsurance and Model/Spreadsheet Validation and Control will not be achieved in 2007, and controls continue to be enhanced to prevent these significant deficiencies from rising to a level of material weakness. He added that DBG Reinsurance needs additional human resources, and challenges are still significant in investment accounting and operations.

Mr. Roemer reviewed the Critical Control Initiatives Dashboard, indicating a focus on resources for both Project FIRE and the Comprehensive Program. He pointed out that the Independent Consultant's Reports is a new category for the dashboard and reported that Internal Audit is validating those recommendations of the Independent Consultant which Management believes are already in place. With respect to remediation, Mr. Roemer reported a focus on investment operations and the issues manifested in the accounting for those operations.

Mr. Sutton next requested that the Audit Committee consider approving an amendment to the Audit Committee Charter that contemplates that the Audit Committee will consider at least every three years (or more frequently if the Audit Committee deems appropriate) whether to conduct a formal Request for Proposal regarding the appointment and retention of the independent auditor for AIG. Mr. Sutton said that the Committee had previously discussed the proposed change and he provided the following as the Committee's rationale for such proposal:

The Audit Committee regularly assesses the performance of AIG's independent auditor. The Audit Committee also approves the engagement of the independent auditor and makes a recommendation to shareholders in the annual proxy statement that the shareholders ratify the Audit Committee's recommendation.

In accordance with the settlement agreement between the New York State Attorney General and AIG, the Audit Committee conducted a Request for Proposal ("RFP") process that included a number of independent public audit firms for the purpose of determining which firm is best suited to serve as AIG's independent auditor for the year 2008.

The Audit Committee members found the RFP process highly beneficial in determining who should be AIG's independent auditor. Further, the Audit Committee found that the process increased their understanding of the capabilities of each firm, the level of service being provided by the current independent auditor and the auditor transition process.

The Audit Committee members believe that AIG would benefit from a periodic formal consideration by the Audit Committee of whether to conduct an RFP process similar to the one engaged in during 2007. This consideration would be in addition to the normal ongoing assessment and annual review of auditor performance that the Audit Committee conducts. At this time, the Audit Committee believes that the first such formal consideration should occur no later than 2010, for the 2011 audit year.

After further discussion, upon motion duly made, seconded and unanimously carried, it was

> RESOLVED, that this Audit Committee hereby approves the amendment of the Audit Committee Charter to read in its entirety as set forth in Attachment A to the minutes of this meeting.

The participants other than the PwC representatives left the meeting and the Committee met with the PwC representatives in executive session. Among the matters discussed were [to come].

There being no further business to come before the meeting, the meeting was adjourned.

____

Secretary