

**Notes of the Audit Committee meeting on Thursday February 7, 2008 held at 70 Pine Street.**

**Attendees: Willumstad, Sutton, Offit, Myles, Bollenback (AC Members). Zarb, Langhammer, Hammerman, Orr (plus 2 other directors ref to AC minutes) Roemer, J Gamble, B Sullivan, B Moritz and H Daubeny.**

BW asked BS to comment on the SS process. BS noted that T Ryan was absent due his wife going into labor. He noted that he, Daubeny and/or Moritz had been at almost all of the key meetings and hence were able to answer any of the cttee or board members questions. He noted that since the third quarter Q3 we had many discussions in connection with the super senior valuation process and oversight. These had been with management and board members individually and at all audit cttees since the issues were first raised. These discussions had covered issues around the controls and process as well as concerns over the oversight of the process by the risk management and FSD functions. Most recently BS and TR had met with BW to share PwC's views on the material weakness and remediation steps the company should take in the areas of organization structure, controls and people skills and interaction.

BS noted he and TR had met with MS early today and he had discussed that if Cassano were to retire on 31 March what PwC's view was. BS we could complete our audit as long as Cassano did not interfere in the process.

BS offered to have a full discussion with the Cttee; the Board or individuals on any or all of the facts whichever people wanted.

BW noted that TR had covered the details with the Board yesterday and opened the meeting for questions.

GM asked 1) Is Cassano's departure a disclosable event. MR answered that the lawyers were investigating but probably not disclosable as he is not an officer of AIG. 2) What do PwC feel about the Cassano action?

BW asked do we need Cassano to be around to complete the FP audit.

Daubeny answered that the audit had been bifurcated into two parts. The SI pack audit was on schedule and additional resources had been added it required final review by him but should not be an issue. Super Senior had three elements left:

- Roll forward of collateral prices - no involvement of Cassano, mechanical process.
- Resolution of Collateral/third party pricing data. AIG needs to conclude - Habayeb, Lewis and Bensinger - no Cassno involvement needed.
- Review of Corporate and Regulatory book - ERM and Habayeb should lead.

Simple answer is no.

BS noted Cassano was a management judgment but the culture needed to change at FP. There then needed to further remediation actions to be taken so that AIG could reference in 10k and further actions after that.

JO asked what were the factors behind the MW.

BM said there were 4 main items:

- o Errors were identified by PwC which had a gross impact of \$800m
- o During the process certain data points arose like the collateral disputes where the process of pushing to fully understanding their impact came from PwC and not from AIG.
- o The oversight of the process in PwC views was not effective and lacked the appropriate challenge and debate.
- o Management's position that the compensating controls put in place by management after the concerns over the process raised by PwC was not compelling as they did not operate effectively.

JG asked if there was sufficient transparency around the SS process for PwC to audit. HD confirmed yes.

JG noted that management was considering putting a number in the 8K if people could get comfortable around this? What was PwC's perspective on this?

HD suggested that management adopt a 2 track process so that if they could satisfy themselves about a number it would be included otherwise no number. He said that PwC would do what it could to help management in the process.

BM added that all information should be shared as soon as possible and management should pursue the collection of third party data aggressively.

HD confirmed that Habayeb was leading the effort to estimate the number.

Sutton asked is it feasible that a number or range maybe achieved in that time frame. Daubeney answered yes in his view.

BW asked BS to give a summary of the discussion that he had with BS and TR on what needs to be done to achieve remediation. - the 5 minute version.

BS said this was discussed in two elements:

Structure - risk and finance need stronger, possible bold reporting lines into the centre including remuneration and in the process the culture needed to change. BW noted that legal had the same issues and need similar remediation. Need new process around valuation and the role and reporting of risk management needs a higher profile in the company.

Secondly people - there needs to be assessment of people skills sets and those required by their role and do they match. Specifically we do not feel that MS and SB skill sets complement each other and is an area for the

Board to consider. He indicated that additional roles such as a chief administrative officer and chief operations officer had been discussed, but that would be a management and board decision. Similar exercises need to be undertaken for the head of risk management and finance service division as well as other finance roles. FP's culture needs to change.

MS asked what was the process for finalizing the remediation steps? BW had met BS and TR to discuss remediation and BS had summarized key points earlier. He had asked MR to communicate list of actions to MS. But recognized several management issues to be taken up separately. BS spoke to MS and was looking for him to move quickly so that they can take credit for actions they have made in the 10K. A copy of the plan needs to be shared with the Board by MS as some significant change both cultural and people will occur.

MR he will work with PwC to come up with a document for MS early next week.

Sutton important to get to a plan that is acceptable to the Board, PwC and management.

BW - MS will present the plan to the board.

BS made a comment about the draft 8K and noted that PwC's material weakness will include the words "and oversight" in connection with the FP valuation process and the current draft does not contain these words.

Sutton by oversight you mean corporate management. BS agreed, finance and risk management. JG said he had informed the committee of this and would work with PwC to get the words right.

There were no other significant matters discussed

HJ Daubeney 2/7/2008