

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET, 27TH FLOOR
NEW YORK, N.Y. 10270

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March 9, 2009

By Federal Express

Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, N.W., Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky:

We write in response to your letter dated February 5, 2009 concerning the use of Troubled Asset Relief Program (“TARP”) funds by American International Group, Inc. (“AIG” or the “Company”).

Request 1

A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that [you] have taken that you would not have been able to take absent the infusion of TARP funds.

Response to Request 1

AIG has used all of the \$40 billion in TARP funds received to date to repay loans made to AIG under the credit facility established under the Credit Agreement, dated as of September 22, 2008 (as amended, the “Credit Agreement”), between AIG and the Federal Reserve Bank of New York (“FRBNY”). Upon the issuance of the Series D Fixed Rate Cumulative Perpetual Preferred Stock on November 25, 2008, the TARP funds received

as the purchase price were paid directly to FRBNY

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Request 2

Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

Response to Request 2

AIG has complied with applicable requirements to date concerning executive compensation in connection with its receipt of capital under TARP. Because AIG has participated in TARP under the Program for Systemically Significant Failing Institutions

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Specifically, Section 4.10 of the Securities Purchase Agreement, dated November 25, 2008 (the “SPA”), between the United States Department of the Treasury (“Treasury”) and AIG, provides that until Treasury ceases to own any debt or equity securities acquired under the SPA or the associated Warrant, AIG:

- Will take all necessary action to ensure that its compensation and benefit arrangements with respect to its Senior Executive Officers (“SEOs”) comply in all respects with Section 111(b) of the EESA (as in effect on the Closing Date),¹ including the provisions for Systemically Significant Failing Institutions;
- Will take all necessary action to limit any “golden parachute payments” to the employees of the Company and its subsidiaries who are “Senior Partners” (as defined in the SPA) to the amounts permitted by the regulations relating to participants in the EESA Capital Purchase Program (except that equity-denominated awards settled

¹ November 25, 2008 was the Closing Date under the SPA. We refer to Section 111 of EESA as in effect on November 25, 2008 as “Original EESA Section 111.” On February 18, 2009, the President signed into law Section 7001 of the American Recovery and Reinvestment Act, which amended Section 111 of EESA. We refer to the amended Section 111 of EESA as “New EESA Section 111.”

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solely in equity are not included in the limit on “golden parachute payments” to Senior Partners);

- Will take all necessary action to ensure that the sum of (A) a Senior Partner’s annual bonus for 2009, (B) all retention payments to the Senior Partner under any retention arrangement for any period ending on or prior to March 31, 2010 and (C) all amounts payable in connection with the termination of the Senior Partner’s employment prior to March 31, 2010 that would count toward the “golden parachute payment” limits above, other than payments pursuant to the Company’s Senior Partners Plan, do not exceed 3.5 times the sum of the Senior Partner’s base salary and target annual bonus for 2008;
- Will take all necessary action to ensure that the annual bonus pools for the Senior Executive Officers and the Senior Partners for each of 2008 and 2009 do not exceed the average of the annual bonus pools for 2006 and 2007;
- Will take all necessary action to amend its Executive Severance Plan, effective March 11, 2010, to require that benefits will be reduced by any remuneration attributable to subsequent employment during the severance period;
- Will not use any TARP proceeds or funds provided by FRBNY to pay annual bonuses or other future cash performance awards to executives of the Company or Senior Partners; and
- Will not use any TARP proceeds or funds provided by FRBNY to pay any deferred compensation as described in its Current Report on Form 8-K dated November 18, 2008.

The SPA contains more detail on the standards for compliance with these covenants. The SPA was publicly filed as Exhibit 10.1 to AIG’s Form 8-K filed with the Securities and Exchange Commission (“SEC”) on November 26, 2008. (A copy of the SPA is attached hereto as Exhibit A.)

From the onset of its participation in TARP, AIG has complied with preceding requirements as follows:

- Beginning on November 12, 2008, in anticipation of the SPA, AIG executed agreements with its five SEOs (b) (4) additional Senior Partners, amending their compensation and benefit arrangements with AIG to comply with the restrictions in the SPA. These amendments included the applicable limitations on “golden parachute payments” and the potential recovery of amounts based on misstated financials or other metrics. (A copy of the form of these agreements is attached as Exhibit B.)
- Also beginning on November 12, 2008, AIG’s five SEOs (b) (4) additional Senior Partners executed waivers of claims they may

otherwise have had related to AIG's participation in TARP and changes to their compensation. These waivers were delivered to Treasury on November 25, 2008, as required by the SPA, and the form of waiver was filed as Annex B-1 to Exhibit 10.1 to AIG's Form 8-K filed with the SEC on November 26, 2008.

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- In addition, as required by Original EESA 111(b), on January 26, 2009, the Compensation and Management Resources Committee of the Board of Directors reviewed with the Company's senior risk officer the incentive compensation arrangements applicable to the SEOs and has made reasonable efforts to ensure that these arrangements do not encourage SEOs to take unnecessary and excessive risks that threaten the value of the Company. The Committee will certify as to this process result in AIG's 2009 Proxy Statement.

- (b) (4) The Company has advised responsible personnel in its tax department to take appropriate steps to limit its tax deductions for 2008 annual compensation paid to SEOs as contemplated by Section 162(m)(5) of the Internal Revenue Code.

In addition to the preceding AIG has taken a number of additional steps to ensure that the compensation of its executives is consistent with the purposes of the TARP. These steps will be described in AIG's Proxy Statement for its 2009 Annual Meeting of Shareholders.

On February 18, 2009, Section 7001 of the American Recovery and Reinvestment Act was signed into law, which amended Section 111 of EESA. In compliance with New EESA Section 111(e), the Company is planning to permit a separate, non-binding vote at its 2009 Annual Meeting of Shareholders to approve the compensation of executives, as disclosed in AIG's 2009 Proxy Statement pursuant to the compensation disclosure rules of the SEC. In addition, the Company understands that Treasury is in the process of developing new compensation standards applicable to certain of the most highly compensated employees of TARP recipients as mandated by New EESA Section 111(b).

* * *

I certify that the statements, representations, and supporting information contained in this letter are accurate to the best of my current knowledge.

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This letter and the enclosed documents contain confidential and proprietary commercial and financial information concerning AIG. Accordingly, AIG hereby requests, pursuant to Rule 83 of the United States Department of the Treasury's Disclosure of Records Regulations, 31 C.F.R. § Part 1, Subpart A, and for reasons of business confidentiality and personal privacy, that this letter and the enclosed documents not be disclosed in response to any request made under the Freedom of Information Act, 5 U.S.C. § 552 (1994) ("FOIA"). The foregoing request also applies to any other materials of any sort that are made by, or at the request of, the United States Department of the Treasury and incorporate, refer or relate to any of the matters contained in the enclosed documents or this letter.

If the enclosed documents or this letter become the subject of a FOIA request, please contact (b) (6)

(b) (6) and we will provide further information in support of this request for confidential treatment. We also request that, at the conclusion of this inquiry, all copies be returned to me at the above address.

Sincerely,

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(Enclosures)

cc:

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SECURITIES PURCHASE AGREEMENT

dated as of

November 25, 2008

between

American International Group, Inc.

and

United States Department of the Treasury

EXHIBIT B

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