

**TESTIMONY BY MR. EDWARD M. LIDDY,
CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
AMERICAN INTERNATIONAL GROUP**

**BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE
ON OVERSIGHT AND GOVERNMENT REFORM**

WEDNESDAY, MAY 13, 2009

MR. CHAIRMAN, RANKING MEMBER ISSA, MEMBERS OF THE COMMITTEE,
THANK YOU FOR THE INVITATION TO APPEAR BEFORE YOU TODAY.

I APPRECIATE THE OPPORTUNITY TO DESCRIBE FOR THE COMMITTEE THE
BUSINESS PLAN WE ARE EXECUTING IN ORDER TO PUT AIG'S TROUBLES
BEHIND IT, REPAY THE MONIES THAT WE OWE THE AMERICAN TAXPAYER,
AND SECURE AN OUTCOME THAT HELPS TO PUT THE AMERICAN
ECONOMY BACK ON TRACK.

AS YOU KNOW, I WAS ASKED LAST SEPTEMBER TO OVERSEE A
RESTRUCTURING OF AIG FOLLOWING THE GOVERNMENT'S DECISION TO
RESCUE THE COMPANY.

WE ARE WORKING HARD TO DETERMINE THE DESTINY OF THE COMPONENT PARTS OF AIG. OUR PLAN CONTEMPLATES THAT AIG'S BEST BUSINESSES WILL ESTABLISH SEPARATE IDENTITIES FROM THE PARENT HOLDING COMPANY. THE PARENT COMPANY WILL BECOME SMALLER. THE FINANCIAL PRODUCTS UNIT WILL NOT EXIST. THE MAJOR INSURANCE COMPANIES WILL EMERGE WITH DIVERSE PRODUCTS, STRONG MANAGEMENT, AND CLEAR GROWTH STRATEGIES WORTHY OF INVESTOR CONFIDENCE.

HOW LONG THE PLAN WILL ULTIMATELY TAKE WILL VERY MUCH DEPEND ON HOW QUICKLY AND HOW STRONGLY THE GLOBAL ECONOMY RECOVERS. AND, BECAUSE WE ARE ALL COMMITTED TO ENSURING THAT THE MISTAKES OF THE PAST ARE NOT REPEATED, WE MUST TAKE THE TIME AND EXERCISE THE DILIGENCE TO DO THIS RESTRUCTURING PROPERLY.

LET ME BE CLEAR – OUR PLAN IS EXPLICITLY DESIGNED TO AVOID HAVING TO DIVEST AIG ASSETS AT FIRE-SALE PRICES. IN FACT, JUST THE OPPOSITE IS TRUE. WE INTEND FOR TAXPAYERS TO REALIZE THE FULLEST POSSIBLE VALUE FROM EVERY ASSET DISPOSITION. AND WE INTEND THAT EVERY COMPANY THAT EMERGES AT THE END OF THE RESTRUCTURING WILL BE STRONG, TRANSPARENT, AND A CREDIT TO ALL OF ITS OWNERS.

WE HAVE ALREADY MADE SUBSTANTIAL PROGRESS IN THIS
RESTRUCTURING EFFORT, PRINCIPALLY IN FOUR KEY AREAS:

1. WE HAVE REDUCED, BUT NOT YET ELIMINATED, THE SYSTEMIC RISK THAT AIG PRESENTS TO THE GLOBAL FINANCIAL SYSTEM;
2. WE ARE SELLING ASSETS AND BUSINESSES, DESPITE ADVERSE CONDITIONS IN GLOBAL FINANCIAL MARKETS;
3. WE ARE STABILIZING AIG'S LIQUIDITY SO THAT WE DO NOT NEED SUPPORT BEYOND THOSE AMOUNTS THAT THE GOVERNMENT HAS ALREADY AUTHORIZED, ALTHOUGH AS I HAVE SAID BEFORE THE STATE OF THE ECONOMY WILL BE A FACTOR; AND
4. WE ARE RESTRUCTURING SOME BUSINESSES FOR PUBLIC OFFERINGS, FOR LATER DISPOSITION, OR TO BE WOUND DOWN SO THAT FUTURE LOSSES CAN BE MITIGATED OR AVOIDED.

ACROSS THESE FOUR AREAS, WE HAVE, IN RECENT WEEKS, ACHIEVED A NUMBER OF IMPORTANT MILESTONES, WHICH UNDERSCORE THE PROGRESS WE ARE MAKING.

IN PARTICULAR, WE ARE TRANSFERRING TWO MAJOR FOREIGN LIFE INSURANCE COMPANIES – ALICO AND AIA – INTO SPECIAL PURPOSE VEHICLES IN EXCHANGE FOR A SUBSTANTIAL REDUCTION IN AIG'S DEBT TO THE FEDERAL RESERVE BANK OF NEW YORK. WE EXPECT TO

COMPLETE THE CONTRACTUAL ARRANGEMENTS FOR THESE TRANSFERS IN THE NEAR FUTURE.

WE ARE ALSO TRANSFERRING THE GLOBAL PROPERTY & CASUALTY INSURANCE FRANCHISE, AIU HOLDINGS, INTO AN SPV. THIS MOVE WILL SECURE THE VALUE OF THAT VERY SUBSTANTIAL BUSINESS IN PREPARATION FOR THE POTENTIAL SALE OF A MINORITY STAKE, WHICH ULTIMATELY MAY INCLUDE A PUBLIC OFFERING OF SHARES DEPENDING ON MARKET CONDITIONS.

AND WE CONTINUE TO MAKE SIGNIFICANT PROGRESS IN WINDING DOWN THE COMPLEX DERIVATIVES PORTFOLIO AT AIG FINANCIAL PRODUCTS. WE HAVE REDUCED THE FINANCIAL PRODUCTS RISK POSITIONS FROM 44,000 TO 27,000, AND HAVE REDUCED THE NOTIONAL EXPOSURE FROM A PEAK OF APPROXIMATELY \$2.7 TRILLION TO APPROXIMATELY \$1.5 TRILLION TODAY.

WE CONTINUE TO EXPLORE MULTIPLE OPTIONS TO BREAK APART THESE TRADING BOOKS SO THAT WE CAN REDUCE THE REMAINING RISKS, SELL OFF PORTIONS OF THE BUSINESS, REPAY OR OTHERWISE RETIRE THE AIGFP DEBT, AND EXIT THIS SEGMENT OF THE FINANCIAL PRODUCTS BUSINESS.

WE CONTINUE TO WEIGH EVERY DECISION REGARDING THIS RESTRUCTURING WITH SEVERAL CRITERIA IN MIND: WILL THIS ACTION FACILITATE A REDUCTION IN SYSTEMIC RISK? IS THIS ACTION THE BEST USE OF THE FEDERAL ASSISTANCE WE ARE RECEIVING? WILL THIS ACTION ENHANCE OUR ABILITY TO PAY BACK THE GOVERNMENT? THE RESTRUCTURING EFFORTS I HAVE DESCRIBED ARE A REFLECTION OF THIS THOUGHT PROCESS.

SO, TOO, ARE THE GOVERNANCE IMPROVEMENTS WE ARE WORKING TO BRING TO THE COMPANY. AIG IS AN INCREDIBLY COMPLEX ENTITY. IT HAS A GLOBAL FOOTPRINT AND AN INTRICATE CAPITAL STRUCTURE CHARACTERIZED BY OVER 4,000 LEGAL ENTITIES, CROSS-OWNERSHIP, AND MYRIAD SPECIAL PURPOSE STRUCTURES. OUR RESTRUCTURING PLAN MUST MAKE AIG LESS COMPLICATED. WE ARE WORKING EVERY DAY TO STREAMLINE THE ORGANIZATION AND CREATE EFFICIENCIES THAT WILL ENHANCE OUR CORE BUSINESSES AND IMPROVE TRANSPARENCY.

THE INFUSION OF SUBSTANTIAL U.S. GOVERNMENT CAPITAL TO AIG BROUGHT WITH IT A SUBSTANTIAL NEW SET OF RELATIONSHIPS FOR THE COMPANY: FIRST AND FOREMOST, WITH THE AMERICAN TAXPAYER AS AIG'S LARGEST SINGLE SHAREHOLDER; WITH THE TAXPAYERS' REPRESENTATIVES HERE IN CONGRESS; WITH THE FEDERAL RESERVE

AND U.S. TREASURY AS OUR PRIMARY DAY-TO-DAY PARTNERS IN GOVERNMENT; AND MORE RECENTLY, WITH THE TRUSTEES ALSO APPEARING TODAY.

GIVEN AIG'S UNIQUE SITUATION, THESE RELATIONSHIPS ARE NOT ONLY NEW, THEY ARE IN MANY WAYS UNPRECEDENTED. WE WORK CLOSELY, FOR EXAMPLE, WITH THE FEDERAL RESERVE BANK OF NEW YORK AND THE U.S. TREASURY. REPRESENTATIVES OF THE FED AND TREASURY, AND THEIR ADVISERS, ARE ENGAGED WITH VARIOUS AIG OFFICES EVERY DAY. WE VIEW THEM AS OUR PARTNERS.

YET, AS WE FORGE THIS PARTNERSHIP, THE PARTNERS KEEP TO THEIR RESPECTIVE ROLES: THE FED, LIKE ANY RESPONSIBLE CREDITOR, MONITORING CAREFULLY AND ADVISING UPON OUR STRATEGIC APPROACH. AND AIG'S EXECUTIVE LEADERSHIP DEVISING AND EXECUTING OUR STRATEGIC PLAN AND MANAGING THE COMPANY IN CLOSE CONSULTATION WITH THE BOARD OF DIRECTORS.

WE ALSO CONSULT VERY CLOSELY WITH THE TRUSTEES – AND WE APPRECIATE THE TIME THEY HAVE DEVOTED TO IMMERSING THEMSELVES IN THE INTRICATE DETAILS OF OUR RESTRUCTURING PLAN AND OTHER CRITICAL ISSUES. THEIR MATURE BUSINESS JUDGMENT IS AN ASSET TO THIS SITUATION.

I HAVE LED AIG FOR EIGHT MONTHS NOW. AND I WANT TO ASSURE YOU THAT THE PEOPLE AT AIG TODAY ARE WORKING AS HARD AS WE CAN TO CONTINUE TO SERVE OUR POLICYHOLDERS AND CUSTOMERS, AND TO SOLVE AN EXTREMELY COMPLEX SET OF PROBLEMS FOR THE BENEFIT OF AMERICA'S TAXPAYERS.

WE NEED YOUR HELP AS WELL TO ACHIEVE THE RESTRUCTURING OF AIG SUCCESSFULLY. IT IS CRITICAL THAT WE NOT LOSE SIGHT OF THE FACT THAT WE ARE PARTNERS. WHEN THE EMPLOYEES OF AIG MAKE MISTAKES, WE EXPECT TO BE CRITICIZED. BUT RAMPANT, UNWARRANTED CRITICISM OF AIG SERVES ONLY TO DIMINISH THE VALUE OF OUR BUSINESSES AROUND THE WORLD – TO THE DETRIMENT OF OUR SHAREHOLDERS, INCLUDING TAXPAYERS, WHO OWN SOME 80% OF AIG.

WE RECOGNIZE OUR RESPONSIBILITY TO WORK HAND IN HAND WITH THE GOVERNMENT TO PRESERVE THAT VALUE, AND I ASSURE YOU THAT IS OUR GOAL. WE CONTINUE TO WELCOME A FRANK AND OPEN DIALOGUE WITH CONGRESS ON OUR PROGRESS IN RESTRUCTURING, SO THAT YOU CAN BE IN A POSITION TO SUPPORT OUR EFFORTS. THIS SUPPORT IS ESSENTIAL AND WILL HELP US TO PRESERVE THE VALUE OF AIG FRANCHISES FOR THE BENEFIT OF AIG'S STAKEHOLDERS – THE AMERICAN TAXPAYER MOST OF ALL.

WE CANNOT CONTROL THE MARKET CONDITIONS THAT WILL PARTLY DETERMINE THE TIMING OF AIG'S RESTRUCTURING. BUT WE ARE CONFIDENT THAT OUR APPROACH IS RIGHT, AND THAT IF WE DO THIS TOGETHER WE CAN DEMONSTRATE TO THE WORLD THAT RESPONSIBLE GOVERNMENT AND CAPITALISM ARE STILL THRIVING IN THE UNITED STATES.

WITH THAT, MR. CHAIRMAN, I THANK YOU AGAIN FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AND AM HAPPY TO ANSWER ANY QUESTIONS YOU AND THE COMMITTEE MAY HAVE.