

United States of America  
Financial Crisis Inquiry Commission

INTERVIEW OF  
Martin Sullivan

Thursday, June 17, 2010

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Financial Crisis Inquiry Commission

Friday, May 14, 2010



**INTERVIEW OF MARTIN SULLIVAN**

**Date:**

Thursday, June 17, 2010

**Location:**

Wachtell, Lipton, Rosen & Katz  
51 West 52nd Street  
New York, NY 10019-6150

**Participants:**

Martin Sullivan  
Steven R. Ross, Akin, Gump, Akin Gump Strauss Hauer & Feld LLP And-  
David M. Murphy, Wachtell, Lipton, Rosen & Katz  
Meredith L. Turner, Wachtell, Lipton, Rosen & Katz  
Chris Seefer, FCIC  
Dixie Noonan, FCIC  
Clara Morain, FCIC

CHRIS SEEFER: Okay. Thanks. It's June 17, 2010. We're at the offices of Wachtell, Lipton, Rosen & Katz in New York. It's about 9:00 A.M., I believe, and we're going to be interviewing Mr. Martin Sullivan today. Mr. Sullivan, thank you for taking the time to meet with us today. We very much appreciate it. We are with the Financial Crisis Inquiry Commission. It was established by a statute last year called the Fraud Enforcement and Recovery Act of 2009. That statute tells us to figure out by the end of this year what the various causes of the financial crisis were. It tells us to look at various things and also tells us to look at the reasons for the failure of major institutions or institutions that would have failed but for receipt of exceptional government assistance. That's why we are looking at AIG. That's why we're interested in talking to you. The statute also tells us to look at the role of derivatives that may or may not have played in the crisis so, of course, we'll be asking some questions about the activities of the Financial Products Group and the credit default swaps that they wrote that resulted in some losses.

Before we get to that, one, I know your attorney wants to say something and then I'll ask you some information about your background. Go ahead.

STEVEN ROSS: Well, did you want to indicate that the meeting is being recorded?

SEEFER: The meeting is being recorded.

ROSS: And we had agreed to have Mr. Sullivan meet with you to be interviewed this morning and had consented to the interview being recorded. I know that the Commission's practice has been at times to, with regard to certain of the interviews, to create a transcript and that we have a concern, in terms of the use down the road by any other entity, other than the Commission, of the transcript that's being recorded of an interview which should not be confused with a deposition. We won't have and Mr. Sullivan won't have the normal rights that would be provided to a witness who is being deposed, in that we won't have the normal ability to object to questions as to form or substance. We won't have the opportunity to ask questions of Mr. Sullivan as a witness, and so I just want to have the record be clear that this is not a deposition, that it is simply an interview and the record should not be confused at any later date by any other party as something other than what it is.

SEEFER: Right. Okay. Mr. Sullivan, before we get to specific questions about AIG, could you just summarize your educational

and work background since college for us please, so we have that for background?

MARTIN SULLIVAN: It's very kind of you to assume that I went to college, but I did not. I left school at age 16, as most of my contemporaries did in 1970. Unless you came from a background where you could afford to stay on at school, you tended to leave school at 16. My father encouraged me to get a job the next day, which I did. I joined Sun Life Assurance Society, in the Cashiers Department, where I stayed for ten months and, by happen-chance, had the opportunity of joining what was a very small company in the United Kingdom, called AIU London Ltd., which was part of AIG. I joined in the Accounts Department. In those days, in 1971, it hadn't graduated to becoming the Finance Department as it's now referred to. It was the Accounts Department, and I was there really as book-entry, junior tea boy. Most people say I started in the Mail Room. But I didn't actually quite start in the Mail Room, but these were in the days when ledgers were still books.

I spent four years there, approximately, but quickly realized that I probably wasn't going to pass the accountancy exams and asked for a transfer, which I was granted, and joined what was then called the Fire Department in around about 2000, sorry, I

wish, 1974, yes. At that time I started doing my insurance exams, as well, at night school. I stayed there, actually, I was probably only in the Accounts Department about two or three years; it's a long time ago now. I started in the Fire Department where I progressed fairly quickly. At the age of 23, I was asked to go to Ireland as the Property Manager for the Irish entity, which I did in 1978. I stayed there for two years, and during this time, of course, as you know my background is the underwriting side of the business, the insurance side of the business.

I was transferred back to the United Kingdom and held a number of positions again--as the Accounts Department became the Finance Department over time, the Fire Department became the Property Department, not to be confused with real estate. This was insuring properties and buildings and consequential losses and things of that nature. I became the Property Manager in the United Kingdom. I became the Regional Property Manager, and then I was given additional responsibilities. At some stage, I became the Marketing Manager. Then I became the Manager of the London office itself. By this time, AIU had opened up branches throughout the United Kingdom, but my focus was just on the London office at that time.

I then became Chief Operating Officer of the UK company and then subsequently Chief Executive Officer for AIU, which had now become AIU UK Ltd., from whence it began AIU London Ltd., because when I joined, there was only London, and now there are a number of branches throughout the United Kingdom. And I also became President of the UK-Ireland region, on the non-life insurance side. So, as you can see from that background, the insurance industry is where I learned my trade. Property underwriting is where I sort of spent the bulk of my time before going into general management.

At some stage during that tenure, I was given additional responsibility for continental Europe and a very small division of AIU in North America. Then--going through the decades here, just bear with me--then in, I think, 1996, I was asked to come to United States as Chief Operating Officer of AIU, which is AIG's international non-life company. And then May of the following year, I became President of that division. Again, all the focus being on the non-life insurance side. I stayed in that role until about 2002, when I became Co-Chief Operating Officer of AIG and Vice Chairman. At that time, one of my colleagues, Edmund Tse was named--that's T S E, Edmund Tse--who was based in Hong Kong, was also appointed Co-Chief Operating Officer and Vice Chairman. I obviously came from a non-life background. He



came from a life background.

At some stage thereafter, Mr. Tse ceased to be Co-Chief Operating Officer. Actually, I think at the time, he was a Senior Vice Chairman. I was only a Vice Chairman. He was a Senior Vice Chairman. And a former colleague of mine, Don Kanak, then became Co-Chief Operating Officer. So during the time I was Co-Chief Operating Officer, I had two Co's, if that makes sense.

SEEFER: Mm-hmm.

SULLIVAN: And then obviously in March of 2005, I became President and CEO of AIG. Of course, I didn't assume the Chairman's position. That remained with Mr. Greenberg for a short period of time and then was assumed by Frank Zarb and then subsequently Bob Willumstad. And, as you're aware, I took over in somewhat of a crisis in 2005.

SEEFER: And then left in June of '08, I think?

SULLIVAN: June of '08. That is correct.

DAVID MURPHY: Father's Day weekend.

SULLIVAN: Father's Day weekend. I remember resigning well.

SEEFER: It's almost a two year anniversary then, if you think about it.

SULLIVAN: Not one I'll be celebrating.

ROSS: Father's Day.

SULLIVAN: Father's Day I will celebrate, yes.

SEEFER: Okay. So when you become Co-Chief Operating Officer in 2002, who promotes you to that position?

SULLIVAN: Mr. Greenberg.

SEEFER: And what are your general job responsibilities in that capacity?

SULLIVAN: During that time I was--continued to be, I think, Chairman, to the best of my knowledge, of AIU, and continued to focus most of that time my energies on the non-life side, working with Nick Walsh who succeed me running AIU, and Chris Moore and Tom Tizzio, who were running the Domestic Brokerage Group,

which is the domestic non-life businesses. I had some involvement on the life side. Greenberg gave me a project down in--I want to get this right--Neptune, New Jersey, working with our life company, but most of my focus was on the non-life business.

SEEFER: Any responsibility for oversight of the Financial Products Group at that point?

SULLIVAN: Best of my knowledge, no, sir.

SEEFER: Okay. I didn't say this in the beginning, and you did eventually answer, but, when I do ask you a question, since we have a tape going, use verbal answers.

SULLIVAN: Oh, sorry. Did I nod?

SEEFER: Yeah, you did.

SULLIVAN: My apologies. Okay.

SEEFER: You started out with a nod of the head. If this would have been a formal deposition, I'd like to think I would have remembered that instruction. So, thank you.

SULLIVAN: I will not nod. I may nod and speak.

MURPHY: Smiles are permitted.

SEEFER: Both are fine. yeah. And I'll say, "Let the record reflect." Any responsibility as COO of overseeing any of the AIG investment securities lending business at that time?

SULLIVAN: Best of my knowledge, no, sir. Maybe it'd be helpful if I explain how AIG was structured. There were four major divisions. There's the life side which obviously Edmund Tse played a prominent role in. There was the non-life side which I played a prominent role in with Nick Walsh, Chris Moore and Tom Tizzio. Then there was the Financial Services unit which was headed by, during various times, Ed Matthews and Bill Dooley. Ed retired at some stage, 2004 or '05, to the best of my knowledge. And they were responsible for that unit. And then Win Neuger was responsible for the Investment Division. They really were the four areas. And under Financial Services obviously it was the Capital Markets Division referred to AIGFP, the aircraft leasing company, ILFC, consumer finance, the credit company, the ski resort, some other things.

SEEFER: Okay. So when March of '05 comes along and you're promoted to President or appointed President and Chief Executive Officer, who makes that decision? I assume the board?

SULLIVAN: That is correct.

SEEFER: Can you just generally explain the circumstances there?

SULLIVAN: Well, obviously over the weekend--I always get the dates confused whether it was March 13, 14, 15, some period of time in 2005, I was asked to come into the office on a Saturday morning. There seemed to be some issues that our general counsel and CFO were addressing that period of time. I spoke to Mr. Zarb, who was the lead independent director, who told me that there was going to be a board meeting on the Sunday at the offices of Simpson Thatcher, and that I should make myself available to attend that. Not the board meeting, but attend the offices. The board meeting was obviously the independent directors and their advisors, etcetera. During the course of that day, which was an extremely long day, the meeting continued for many, many hours. At some stage, we were asked to join. During the period of that discussion, PWC and the guys at Barry Winograd made it clear to the board that they couldn't rely on the certifications of Messrs. Greenberg and Smith. I'm not sure if

we left the room. I can't remember now; it's so long ago. But at some stage thereafter, the board determined that they needed to make a change and that I would assume the role of President and CEO, which that in the next 24 hours.

SEEFER: Okay. After you became President and CEO in March of '05, did the company still remain to have those four reporting divisions essentially, that you just described? Or operating divisions would probably be a better description.

SULLIVAN: To the best of my knowledge, yes, sir.

SEEFER: Okay. Could you explain to me basically the management information systems at AIG from March of '05 through June of '08, in terms of what kinds of information you would receive, whether it's AIG Investments, whether it's the Financial Products Group, whether through meetings, reports, etcetera? Just give me an idea of how you got the information.

SULLIVAN: Sure. Well, maybe by way of background, if I may.

SEEFER: Of course.

SULLIVAN: Obviously when I took office, the company was in somewhat of a crisis, and the first thing I had to do was to advise the market that Mr. Greenberg was retiring as CEO and that there would be a delay in the filing of our 10K for 2004 and that our results could not be relied up. Obviously the new CFO and myself quickly realized that we had to sign the certifications, and we had to be feeling comfortable with the information contained in the statutory filings. So we initiated multi-disciplined teams to review all of AIG's businesses throughout the world. I think, from memory, circa 30, but I may have the number wrong now, 30 teams.

Now during that period of time, obviously the rest of the business continued to run. I was receiving regular reports from all areas of the business, including the Financial Services Division, the Investment Division. We were having, obviously, regular staff meetings, just sort of where we had weekly staff meetings with the senior team, not only on the production side of the business, but obviously Legal, HR, Strategic Planning and other areas. And we also had monthly meetings with a much larger group. I would probably say close to 30, 40 people would attend that one. It was a very large meeting, with a lot of the divisions that form part of domestic brokerage or that form part of the financial services. So for instance, the head of Consumer

Finance would attend that meeting. So not only was I receiving regular reports, there were also regular meetings both weekly and monthly with senior management staff.

Obviously throughout 2005, I was also in discussions with our regulators. I thought it was extremely important that I reach out to all of our regulators, both at the state and federal level and tell them that under my leadership, AIG would have a very open and transparent relationship with its regulators, which I think they all appreciated. And, of course, during that period from March of '05 through to February of '06, I was also overseeing constant discussions and working with attorneys in our discussion with the SEC, the DOJ, the New York Attorney General, the New York Department of Insurance, to resolve the issues that I was confronted with in March of 2005, which we did, I think, when we announced all of the settlements in February of '06.

During that period of time also, I got to meet Jim Cole, who was the independent monitor emanating out of the PNC settlement and obviously wanted to make sure that Jim was getting everything that he needed. He was reviewing, at that time, the existence of risk transfer throughout AIG's businesses, not only financial products, but in the insurance side of the business as well. And I wanted to make sure, obviously, that he got to know me, I got



to know Jim, and that he was getting everything that he needed to do his job. Jim, of course, subsequently continued to be our independent monitor emanating out of the settlement that we negotiated in 2006. At that time, of course, we morphed onto other issues improving the regulatory, legal, compliance and risk areas of AIG.

SEEFER: Okay. So let me ask some follow-up questions on that. I'm primarily interested in information that you were receiving on AIG investments and on the CDS portfolio since that's what blew up.

SULLIVAN: Right.

SEEFER: But describe for me, if you can, you said you received regular reports. Can you just tell me the types of regular reports you received?

SULLIVAN: Let me just think about that; it's going back to 2005. We'll start with FP, first of all.

SEEFER: Sure.

SULLIVAN: I recall receiving a daily report from FP that contained some fairly high-level information, including reserve changes. I obviously got board presentations, as a member of the board. I got reports from the Chief Credit Officer on the quality of certain of their portfolios. I got, I believe, quarterly reports from FP, which had a fairly reasonable amount of information in there; particularly one number I recall looking at was the VaR, which was something that I would look at to see if there was any significant change there. Let me think if I got anything else: daily, quarterly, board.

DIXIE NOONAN: The reports you received from the Chief Credit Officer, how often would you get those; do you recall?

SULLIVAN: Sitting here today I can't recall.

SEEFER: So other than those four types of reports that you mentioned, those are the ones that at least come to mind now?

SULLIVAN: Yeah. I think I used to get copies of the--I believe they were monthly--minutes of the Credit Risk Committee so obviously there would be some reference to FP in those minutes. But I also got, I believe, separate reports as well, but I can't remember how regularly they were issued.

SEEFER: Were you a member of the Credit Risk Committee?

SULLIVAN: I was, to the best of my knowledge, no, sir.

SEEFER: Did you attend the meetings?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Okay. Let's stick with FP, and then we'll move to AIG Investments, in terms of reports and meetings. Can you describe what meetings you had to receive information regarding FP? Obviously board presentations were at board meeting, but other than those, if you could explain.

SULLIVAN: I may not have attended all the board meetings.

SEEFER: Sure. But other than board of directors meetings where FP and other entities presumably made reports to the board, what other types of meetings would you receive information on FP?

SULLIVAN: Well, can I just clarify, if I may--

SEEFER: Of course.

SULLIVAN: --the board meetings I'm referring to there are the board meetings of AIGFP.

SEEFER: Okay.

SULLIVAN: Not AIG's board. This is AIGFP.

SEEFER: And you were a member of the AIGFP board also?

SULLIVAN: Yes, sir. Well, at some stage after March of 2005, I think I went on the board. I don't think I was on the board before March of 2005. I may not be right there, but I think it was subsequent to becoming CEO of AIG that I went on the board.

SEEFER: And during AIG board meetings, would there be any types of--would those board reports include information on FP, and would those meetings include a report by somebody from FP?

SULLIVAN: What period of time are we speaking about?

SEEFER: March of '05 until June of '08.

SULLIVAN: Sitting here today, I can't recall any written presentations. There may have been one-offs, but without looking at all the minutes, I simply can't recall. But whilst I can't recall any specifics, I would be giving the board an overview of AIG and its performance given that period of time, and it's obviously possible that I would make reference to FP at a very high level on its results, but I can't recall any specifics. And it's possible that at some stage, presentations were made to the board that may have pertained to FP, but I can't \_\_\_\_\_.

SEEFER: I take it the board packages \_\_\_\_\_, whether it's for an FP board meeting or an AIG board meeting are sent to the directors, including yourself, before the meeting?

SULLIVAN: Well, any information that needed to be reviewed by the board would be sent before the board meeting. I can't remember the exact timing on that. Catherine Shannon would be the person to ask.

MURPHY: Do you mean the full board or including board committees, because I don't want to confuse him on that.

SEEFER: I meant full board.

MURPHY: Okay.

SEEFER: But we can talk about board committees too.

MURPHY: Okay. That's fine.

SEEFER: Thanks for the reminder.

MURPHY: That's fine.

SEEFER: It makes sense to find out what board committees you were a member of and when?

SULLIVAN: I apologize for having to think about it because it's quite a long time. I've been out of the company two years so I haven't been thinking about board committee meetings for some time. Initially, I believe I chaired the Finance Committee, but that changed quite quickly after that. I forget who, I think Morris Offit succeeded me fairly quickly in that role. Other than that, I don't believe, to the best of my knowledge, I was on any other board committees.

SEEFER: Audit Committee?

SULLIVAN: No, sir.

SEEFER: Okay. So getting back to the board packages for the board meetings, not the Finance Committee meetings, I take it at both FP board meetings and overall AIG meetings there was a finance report probably by Mr. Bensinger, at least at the AIG meetings?

SULLIVAN: Certainly I can recall Mr. Bensinger giving the board updates on AIG's financial positions, yes.

SEEFER: And would those presentations generally include an update on FP?

SULLIVAN: Well, if Mr. Bensinger was giving a presentation on AIG's results, there would be FP's numbers would be included in AIG's overall numbers. I can't specifically sit here and think of Steve highlighting FP, but they would be inclusive thereof.

SEEFER: And in terms of the AIGFP board meetings, who's making the presentations to the board members in those meetings?

SULLIVAN: In attendance at the FP board meetings, there would be obviously the directors who were present at that time. I can

recall obviously myself. I think Mr. Bensinger was on the board. I think Marty Feldstein, one of our--

SEEFER: Let me stop you. I'm not asking you who was on the board of FP. I'm asking you who from FP comes in and tells the board about-

SULLIVAN: Oh, FP. My apologies. Apologies. Well, Mr. Cassano would be there. My recollection of, and they may not have been at all meetings because it may have varied depending on what was being addressed. I have recollection of Doug Poling being there, yeah, for some if not all of the meetings.

SEEFER: Mr. Forster?

SULLIVAN: He may have been at--done presentations at some of them, but I can't recall.

SEEFER: Okay. I know FP had several CFOs over time, but whoever the CFO may have been, was that person usually there at the meetings?

SULLIVAN: So I'm trying to vision the room, if you'll just bear with me, because then I can place where people were sitting.



It's possible. I simply can't recall who was there and for what meeting, when.

SEEFER: Okay. Other than the AIG board meetings and the AIGFP board meetings, you mentioned, for example, regular staff meetings and monthly briefings. Can you explain generally what the regular staff meetings with the senior team were? I think you said they were biweekly. Is that correct?

SULLIVAN: No, I think you'll find they were weekly, to the best of my knowledge. Well, what would happen is obviously, with a company diverse and as spread as AIG, not everybody was there every week, but, in the main, I expected them if they were in town that everybody that needed to be there would be there. And, if there were issues that needed to be addressed, I would expect them to be raised at that meeting. If there were issues that would be of interest to other senior officers of the organization, I would expect that to be raised. Obviously I was getting updates on how the businesses were doing, whether there were any particular issues with brokers, whether production was off, any significant loss information, particularly if we'd had a catastrophe or anything of that nature. So really, it was a very interactive meeting. It was a much smaller group.

The intent of the monthly meeting was really because there were managers who reported to heads of units, that the idea there was to really get an information flow across the organization so that if somebody saw a business opportunity or heard of a client that they wanted to make contact with, they were able to sort of make that relationship at that much larger meeting. But the weekly meeting was really a senior management meeting, where we'd address issues. If there were HR issues, if there were legal issues that needed to be addressed, they would be brought forth there. And, of course, I would meet with individual managers as well.

SEEFER: So in the weekly senior staff meeting, Mr. Dooley or somebody else from the Financial Services Division at those meetings?

SULLIVAN: Well, normally, to the best of my knowledge, Mr. Dooley.

SEEFER: Okay. Anybody from FP at those meetings?

SULLIVAN: to the best of my knowledge, no, sir.

SEEFER: Okay. Anybody from the AIG investment securities lending side of the company at those meetings?

SULLIVAN: Well, again, for educational purposes, security lending was just one part of AIG investments' overall investment portfolio. Now the head of that, as I mentioned earlier, was Win Neuger. He would attend those meetings.

SEEFER: Okay. And then same question for the monthly meeting. Mr. Dooley and Mr. Neuger at those meetings?

SULLIVAN: Mr. Dooley and Mr. Neuger would attend those meetings if in town.

SEEFER: Okay. And would they attend by phone if they weren't in town?

SULLIVAN: Unless by specific request. I tried to limit the number of people participating by telephone. I'd rather have them in the room.

SEEFER: Would somebody else be there in their stead if they were out of town? Would Mr. Habayeb come instead of Mr. Dooley if he was out of town?

SULLIVAN: No, I'm just trying to think. I'm trying to visualize the room again. I know exactly where Dooley sat so I'm trying to think if anybody else--people sat in the same seats.

SEEFER: Picture the vacant chair.

SULLIVAN: No, I'm trying. Trust me. I want to make sure I give this the thought it deserves.

MURPHY: We'll put your name plaque on the hot seat too.

SEEFER: It will usually be vacant.

SULLIVAN: It's possible Elias or Richard Scott could represent Win or Bill, but, sitting here today, I can't recall.

SEEFER: So I'm interested in taxing your memory again on the type of information that you were receiving. Let's first talk about FP. Would you get information just generally on the overall size of the credit default swap portfolio?

SULLIVAN: Well, again, if I may, just to give you information I'm sure would be helpful. the credit default swap portfolio was

one part of FP. There were other things that FP did so coming back to the individual reports, sitting here today, what I can recall is that Kevin McGinn, the Chief Credit Officer, was, I think, in response to your question I can't remember how regularly, was giving me information on the super senior credit default swap. To be candid, I can't remember all of these documents now five or six years later. The daily report I tended to really look at anything there that really got my attention. I remember the reserve boxes at the bottom that I used to look at to see if anything had changed there. Again, from memory, there may well have been account transactions on those daily reports of business that they had bound. On the, which I believe was the quarterly report from Mr. Cassano, there was more financial information on the performance of FP. I think the first or second page was performance the prior year or budget. I mean I may be incorrect here. I'm trying to remember a long time ago.

There was a sort of list of transactions. I can't actually recall them being broken down by product line, but the list of transactions that FP engaged in. I remember the VaR calculation. The reason I looked at that primarily because he had comparable data for other financial institutions and FP's was always very low. And one of the things that I looked at to see was there any significant movement there. From memory, it was always in the

sort of five to seven, eight percent range. No, that's about it.

SEEFER: One thing we've noticed is in 2005, in terms of the multi-sector book, the outstanding balance of that book goes from about \$17 billion at the end of '04 to \$54 billion at the end of '05, so there was a fairly large growth rate in that book in '05, which, as you've mentioned, is at the same time that you're dealing with the crisis at AIG, in terms of Mr. Greenberg leaving and getting people hired and getting systems put into place. Were you aware of the growth of the portfolio, the tripling of the portfolio in 2005?

SULLIVAN: Sir, can you give me those numbers again? I'm not sure I've heard those numbers before.

SEEFER: Seventeen point nine billion at the end of '04 to fifty four point three billion at the end of '05 on the multi-sector book.

SULLIVAN: And was I aware of that at what time, sir?

SEEFER: In '05, were you aware that the portfolio tripled?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Okay. So that kind of information, as far as you can recall, was not in the various reports or in the various meetings that you attended?

SULLIVAN: To the best of my knowledge, no, sir. And certainly, I don't recall it being brought to my attention. What I can recall is that anything that I recall receiving from Kevin McGinn did not indicate that there were any issues with that portfolio. To the contrary, that the portfolio was running well.

ROSS: And the figures that you had, the dates were--the 17.5 is end of '04?

SEEFER: Seventeen point nine.

ROSS: Seventeen nine.

SEEFER: End of '04.

ROSS: End of '04, and you don't have the figure for the end of first quarter, or is this all done--

SEEFER: No, not on this page. We may have it otherwise.

ROSS: You refer to it--

SEEFER: No, I don't know what it was at--

ROSS: But you refer to a date--

SEEFER: --at 1.5, I don't know.

ROSS: But you referred to a date before Mr. Sullivan assumed his position.

SEEFER: I assume you recall when Mr. Greenberg left, that the company was downgraded by the rating agencies.

SULLIVAN: I do recall that, sir.

SEEFER: I figured you'd remember that one. Do you recall having any discussions about whether or not the company should continue to write CDS on multi-sector CDOs, given that downgrade?

SULLIVAN: Sitting here today, I do not, sir.

SEEFER: Okay. I don't know if you've seen, but I believe



there's been reports in the financial press or at least Mr. Greenberg has said, given the downgrade, that was an indication that perhaps we should stop writing CDS on the multi-sector book or words to that effect. I'm summarizing what I've seen in the financial press. Agree with that?

SULLIVAN: All I would say is that that business was stopped being written at the end of 2005 for different reasons. But AIG still enjoyed AA-plus ratings, which were, to the best of my knowledge, still the highest ratings in the insurance industry at that time. I may be wrong, but I think they were still the highest, but I'm not certain about that.

SEEFER: You said that that business--that AIG stopped writing that business at the end of '05 for various reasons. Did you know that at the end of '05?

SULLIVAN: On the multi-sector super senior CDS portfolio.

SEEFER: Well, I guess when you said "that business," we should establish that. Did you mean?

SULLIVAN: Well, that's the business you were talking about. I just wanted to make sure we're still talking about the same

business. To the best of my knowledge, I did not, sir.

SEEFER: Okay. When did you find out that?

SULLIVAN: I simply can't recall, but sometime later.

SEEFER: Okay. Perhaps this helps, you mentioned that fact during the December 5th, 2007 Investor Day presentation. So you knew by then. Does that help jog any memory bells about when you learned?

SULLIVAN: I simply don't want to guess because I don't think that would be helpful to you.

SEEFER: No, and I don't want you to. Let me try something else. Does it jog any memory bells did you perhaps learn when the first collateral calls came in in the July '07 timeframe?

SULLIVAN: No. No, I'm certainly trying to give this some thought, to be helpful to you. I don't want to just guess. My sense is towards the end of '07, but I'm trying to think if I knew any earlier, but sitting here today, I don't think I did.

SEEFER: Okay. When you did you first learn that the contracts for the multi-sector book included terms that required collateral to be posted if there was a reduction in the market value of the underlying collateral?

SULLIVAN: Again, to the best of my knowledge, towards the end of '07. Third, fourth quarter, towards it. Certainly the second half of the year.

SEEFER: Was that a surprise?

SULLIVAN: It's like somebody's buzzer's going.

ROSS: That's mine. I'm sorry.

SULLIVAN: Oh, yeah? Okay. It's okay. I'm looking at Steve. I apologize. I was very accusatory there. I gave him one of my looks.

SEEFER: You don't have to wait for me to do this to answer that.

SULLIVAN: I've forgotten the question, sir. Sorry, I was listening to the buzzer going off.

SEEFER: When you found out about the mark-to-market term in the CDS contracts, was that a surprise?

SULLIVAN: Sitting here today, I can't say it was a surprise. It was a fact.

SEEFER: Did you know before? Well, strike that. When did you learn that those contracts included terms that required AIG to post collateral if AIG's long-term debt rating was downgraded?

SULLIVAN: I think it was all around the same time.

SEEFER: Okay. And, again--

SULLIVAN: To the best of my knowledge [CROSSTALK]

SEEFER: Sure. I understand. And, again, in July of '07, and July 26 to be the specific date, maybe the 27th is the date that Goldman makes the first collateral call on the multi-sector book. Does that help in terms of jogging memory bells when you learned the information about the contract terms?

ROSS: And just by way of clarification, I'm not sure that it would be our knowledge. You seem to be referring to the contract terms as being universal.

SEEFER: No, not at all.

MALE: Okay. I just wanted--

SEEFER: I know different contracts have different terms.

SULLIVAN: I was going to point that out.

SEEFER: But I know the Goldman contracts had the mark-to-market terms.

SULLIVAN: No, it doesn't help, sir.

SEEFER: Okay. You mentioned regardless of when you learned that AIG stopped writing the multi-sector CDS at the end of 2005, you said they did so for various reasons. What is your understanding of what those reasons were?

SULLIVAN: To the best of my knowledge, it was a combination of credit quality and pricing.

SEEFER: Can you provide any more color on that?

SULLIVAN: Only that I believe, based on my recollection of what I was told, was that there were concerns about the credit quality [entering into?] '06 and '07 and that the pricing on the super-senior multi-sector CDS business had become very competitive. The team didn't believe that that was the right price to write it at.

SEEFER: Okay. Who did you learn that from?

SULLIVAN: I don't--

SEEFER: And do you understand--

SULLIVAN: Sir, I can't recall. Sorry.

SEEFER: Right. And understanding that, to the best of your recollection, you learned this sometime in 2007. I think the answer to that question therefore would be you don't recall whether or not there was information about [stop?] writing on the multi-sector book in either the written reports you received or in the various meetings that you were a part of prior to the 2007 timeframe?

SULLIVAN: Yeah, sitting here it's that I can't recall seeing anything that resonates with me that I knew that information earlier.

SEEFER: Okay. Did AIG or AIGFP ever hedge the multi-sector book?

SULLIVAN: Ever? I can't refer to--yeah.

SEEFER: That's not fair. From the time you were CEO, and even more important, from the time they stopped writing CDS on the multi-sector book, so from late '05 and into '60 timeframe, do you know if they ever hedged the book?

SULLIVAN: To the best of my knowledge, they did not, sir.

SEEFER: Do you recall having any discussions in the 2005-2006 timeframe about whether AIG or AIGFP was going to hedge the book?

SULLIVAN: '05-'06. I have no recollection of any conversation.

SEEFER: Okay.

SULLIVAN: I would also add at that time, of course, I don't believe anybody thought there was an issue with the portfolio in 2005 or '06.

SEEFER: Other than not writing any more.

SULLIVAN: Well, yeah. But I'm not sure that was, at that stage, a problem. I mean that was a decision that was made.

SEEFER: Right. And I understand that distinction. Moving into '07, do you recall any discussions about whether or not AIG or FP about the possibility or looking into hedging the multi-sector book?

SULLIVAN: Just for clarity, I can't recall any discussions. I'm not saying there weren't discussions between FP and Financial Services management. You'd have to ask them, but I can't recall participating in any discussions.

SEEFER: Tell me generally about when you do learn about the collateral calls that come in on the CDS book.



SULLIVAN: Well, sitting here today, the first recollection I have is at some stage by somebody, and I'm trying to give thoughts as to who it might have been, the fact that there was an ongoing dialogue with Goldman Sachs on collateral was brought to my attention.

SEEFER: And do you recall generally when that was?

SULLIVAN: Again, towards the end of '07, third or fourth quarter. When I say third or fourth quarter, yeah, the third quarter's September, then we go into October, November would be the fourth quarter so I can't actually recall the exact time.

SEEFER: Do you remember who told you that?

SULLIVAN: As I just mentioned earlier, I wish I could. It would be from a limited number of people I assume, but I can't recall who it would have been.

SEEFER: It would have been probably either a Bensinger, a Dooley or somebody like that probably?

SULLIVAN: Possibly, but I simply can't recall. But it could have been either one of those. I'm not sure if it could have

been anybody else.

SEEFER: Do you recall what they told you about the nature of the dispute?

SULLIVAN: Only that there was a dispute over the amount to be posted. I have a recollection that this was somebody telling me that this was not out of the ordinary, that this was a commercial discussion. There would be different views on pricing and that it would get resolved. And, if it didn't get resolved, I have some recollection, whether I was told at that time or subsequently, that there was a dispute resolution clause in the contract.

SEEFER: When you were first informed by whoever it was that there was ongoing dialogue between Goldman Sachs and AIG regarding collateral calls, was there any discussion about, like, "Collateral calls? What are you talking about? I thought there'd never be any losses on this book"?

SULLIVAN: The recollection I have is that I was told, again I can't remember who or exactly when, that, as part of this dialogue, that if collateral was posted, the likelihood was it would ultimately come back to us in two ways: one, the market pricing

would improve, and the collateral would be returned and/or when the contracts ended. To the best of my knowledge, these contracts had, I think I was advised, average circa four- or five-year time span. So I don't recall this sort of arm-waving that you just did, but I recall being given the facts.

SEEFER: So how would that work? I mean if the CDS contracts were four- to five-year contracts, and at the end of the contract there's still a mark-to-market, the market value of the contract is lower, what happens at the end of the contract with the collateral that's been posted?

SULLIVAN: I am not a derivative expert or a capital markets expert. I'm quite competent on insurance, but I'm not a capital markets expert, but I was told, from the best of my knowledge, that when those contracts ended, they ended. Whatever collateral was posted would be returned because the contracts had expired. If the contract expired and there was no loss on the super-senior tranch, the contracts would just have expired so the collateral would have been returned. That's about the extent of my knowledge.

SEEFER: Okay. What was your understanding of how AIG was going about determining what it thought the value of the contracts were for collateral-posting purposes?

SULLIVAN: From what I recall, sitting here today, there were a lot of people involved in trying to determine the correct valuation in what was becoming a very fluid market. Obviously the people within FP, the people within the corporate finance area, people in internal audit, PWC, were all involved in trying to find the right answer. And I think a number of models were looked at. I would stress I am not an accountant, despite starting at 16 years of age in the Accounts Department; that would be an insult to every accountant. But there was a reference to--sounds like a bike, doesn't it--ABX reference, the BET models, people looking for external factors, indices. So a lot of people were looking at getting to the right answer.

SEEFER: What was your understanding of how AIG was valuing the multi-sector book for financial reporting purposes, whether or not the company needed to record any unrealized valuation allowances?

SULLIVAN: Same timeframe?

SEEFER: Sure.

SULLIVAN: To the very best of my recollection, I believe the first time I became aware of the need to recognize, as you refer to, unrealized losses on the income statement was around the time of the Audit Committee meeting for the third quarter of '07.

SEEFER: That is when you announced the first unrealized valuation loss was in the November conference call, when you announced 3Q '07 results, if that helps jog memory bells.

SULLIVAN: Yeah. Well, no, I think, from memory, it was around the time, if not at, the Audit Committee meeting for the third quarter of '07. I think that was the first time, to the best of my knowledge, that I became aware of FAS 157.

SEEFER: And what was your understanding of how AIG went about determining whether or not a valuation loss was required? Not when you learned that there was one required, but how it went about determining whether there was one required?

SULLIVAN: I'm not sure I under--

SEEFER: It sounds to me like you said in the Audit Committee meeting before the 3Q '07 earnings call, you learned that AIG would be reporting an unrealized valuation loss on the multi-sector book. Is that accurate?

SULLIVAN: Was it the first time that I learned?

SEEFER: Okay.

SULLIVAN: I think you asked two different--I don't think the question you asked first was the same one you asked second so I just want to make sure that I understood.

SEEFER: Was it the first time, and, if it wasn't the first time, did you learn it there anyway?

SULLIVAN: Yeah, to the best of my knowledge, it was, as I said, either at the Audit Committee meeting for the third quarter, discussing the third-quarter results or circa that time.

SEEFER: And the distinction I'm trying to draw is not, regardless of when or when it was the first time of learning that you were going to report an unrealized valuation allowance, I want to know your understanding of how AIG determined whether or not

it needed to establish an unrealized valuation allowance--loss, excuse me.

SULLIVAN: Okay. From what I can recall, I believe we were early adopters of FAS 157, and I believe that the company was focused on that issue, and that's why the number that we announced for the third quarter actually was produced, because everybody was focused on that, because, from what I can recall, I think we were early adopters.

SEEFER: Was the company using the BET model to determine whether or not a valuation allowance was required, do you know?

SULLIVAN: Sitting here today, I can't recall. I mean I'm not an accountant. I was relying on the experts that I had there to come up with the right number.

SEEFER: Sure. You mentioned the BET model, the ABX, looking at external factors, in terms of looking at the value of the book for the collateral posting purposes. Was that the same thing as the company was doing for unrealized valuation loss financial reporting purposes?

SULLIVAN: Thank you for drawing my attention. I may have got confused there because I thought we were talking about the valuation losses, and whether the same models were being used for both. When I was referring to ABX and BET, I think that my understanding--as I said I'm not an accountant--was in regard to the valuation, the FAS 157 number, if you will, so we don't keep on repeating unrealized losses.

SEEFER: Sure.

SULLIVAN: I may have mistakenly assumed that that's the same methodology used for collateral calls. Of course, I may be wrong there. Thank you for clarifying that. I should have made reference to valuation.

SEEFER: Sure. Before the adoption of FAS 157, do you know what AIG's methodology was for valuing the multi-sector book?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Do you know if they were using models at all?

SULLIVAN: To the best of my knowledge, I do not know.



SEEFER: Are you familiar with the Gorton model? At least what was referred to as us as the Gorton model?

SULLIVAN: I'm aware of Professor Gorton.

SEEFER: Obviously, you're aware of Mr. Gorton, but were you aware that he had prepared a model that the company used in connection with the CDS that it wrote?

SULLIVAN: I just want to clarify here that you've switched now from the valuation under FAS 157 to a model for valuation purposes. I just want to make sure I understand that.

SEEFER: Well, I'm doing two things, I guess. One, I'm asking you if you recall how the company looked at the value of the multi-sector book pre-adoption of FAS 157, and you said you don't recall. Then, separate and apart from that, I'm just asking you if you recall whether or not the company used a model developed by Mr. Gorton in connection with the multi-sector book, and, if you tell me yes or no, I'm going to say what was your understanding of how that model was used.

SULLIVAN: Maybe it'd be helpful if I tell you the first time I met Professor Gorton--that may be helpful--was sometime in the first quarter of, I believe, 2007. I may be wrong. [Meredith?] could check the diaries, but I think it was around that time. Joe Cassano called a meeting with me on a Friday afternoon and came in with, I believe, to the best of my knowledge, two of his colleagues. There may have been another colleague there, and, in my conference room, gave me what I would call an oversight or whatever you want to call it of the super senior portfolio at that time. And Professor Gorton was there at that time. Now I can't remember reference to Gorton's models or anything of that nature, but I do remember Professor Gorton being there.

SEEFER: And to the best of your recollection, this was, ballpark, first quarter 2007?

SULLIVAN: Correct.

SEEFER: Okay. What precipitated the meeting? You mentioned Joe Cassano called it. Did you ask for it?

SULLIVAN: I did not ask for it. No, I believe Joe called for it.

SEEFER: And other than to provide an oversight of the super senior book, tell me what you recall about that meeting and what they told you about the book.

SULLIVAN: I can't remember too much about the meeting, to be honest, because it was really a "this is what we do" type presentation. And the only thing I can recall emanating out of that meeting was, I believe, to the best of my knowledge, I said to Joe, "Is the corporate enterprise risk credit area involved in the decision-making process to underwrite these contracts?" To which he responded, "Yes." And I recall validating that with Bob Lewis.

SEEFER: I thought they weren't writing contracts anymore after '05.

SULLIVAN: I don't believe that's correct. To the very best of my knowledge, there were three sectors to the super senior portfolio. I think there was--again, I may have the headings wrong, but I think there was Multi-Sector, Corporate and Regulatory.

SEEFER: All right. So this isn't just on the multi-sector book, it's on the entire credit derivatives portfolio?

SULLIVAN: I actually can't recall what portions of the portfolio that it was on, but, of course, given the timing, the super senior multi-sector portfolio was in runoff by then.

SEEFER: Okay. When you say "in runoff," you mean declining in balance?

SULLIVAN: No, they weren't writing any more.

SEEFER: Oh, okay. So I take it, before this first quarter 2007, ballpark, meeting with Mr. Cassano giving you an oversight on the multi-sector book, you already knew about the multi-sector book in certain regards, didn't you, at that point? You knew it existed.

SULLIVAN: Well, only to the fact, and I can't recall the time, and I can't recall all of the documents there so other than the reference to it in the documents that I referred to right at the beginning of our discussion.

SEEFER: Okay. So let's go back to the summer or fall 2007 when you learned about the collateral calls. You had mentioned that somebody told you there were ongoing discussions. Can you just sort of generally take me through the progression, and then I'll

ask you follow-up questions of your involvement in the collateral call disputes with Goldman?

SULLIVAN: I'm sure that won't take very long. My first involvement was extremely short. It was the fact that I met Mr. Blankfein at a partnership for a New York meeting that the Mayor was addressing, held at the offices of the Hertz Corporation. And, over a very brief cup of coffee surrounded by many CEOs from many companies in the city of New York, I recall Lloyd saying to me, "Are you aware that our teams, that there are discussions taking place,"--I can't remember the exact words, whether it was a dispute, discussion, disagreement, whatever--"on collateral?" My response was, to the best of my knowledge, "Yes, Lloyd, I'm aware of that, and our guys should get it resolved. We're trading partners. We're clients. We should get this resolved." I came back to the office. I can't recall who I called and when exactly I did it, but very shortly thereafter, to tell them to get it resolved. And I think it was resolved sometime thereafter. I can't recall how quickly thereafter, but I think that was my first recollection.

SEEFER: Do you recall when that New York partnership meeting was?

SULLIVAN: Towards the end of third or fourth quarter of '07. I simply can't recall.

SEEFER: Was that the only time you spoke to Mr. Blankfein about the collateral calls?

SULLIVAN: No, I had a subsequent, which is the second time of my involvement. I had a telephone call with Lloyd on a Friday afternoon early in 2008; the exact date I can't recall, but first quarter '08, on a different subject. This was maybe, I don't know, February, March time. I simply can't recall. When I came to the end of the reason why I called him, he said to me, "Are you aware that we are still having,"--I mean I can't remember the exact words, but there were still issues pertaining to collateral calls and the amount to be posted. I'm not actually clear whether I was as fully aware at that time on the second round of negotiations \_\_\_\_\_, but I recall--I'm not sure who called who in first, but I recall Lloyd calling David Viniar in, his CFO, to join the call, and I called in Steve Bensinger to join the call, and, at the end of the call, two things were concluded. One was that Bensinger and Viniar would talk to the teams involved to try and resolve the ongoing discussions. And then I reminded Lloyd that I had called him and that he hadn't called me and that he knew where I was and I was available to

take his call any time day or night, if he had ongoing concerns. And, again, to the very best of my knowledge, that issue was addressed over that weekend or early the following week.

SEEFER: And that the dispute was resolved at that point?

SULLIVAN: To the very best of my knowledge, collateral was posted and the matter was agreed. That's all I can recall at this stage.

SEEFER: I'll tell you from documents we've seen, there were, of course, subsequent margin calls and margin posted; the margin posted not being as much as the margin demanded. Was there some kind of resolution about that? Because, from the surface of it, it looks like the dispute continues.

SULLIVAN: I'm not sure I understand. Are you referring to any particular conversation, one of these conversations with Lloyd?

SEEFER: No, I'm referring to documents that have been produced, that essentially show all of the Goldman margin calls, saying, "Give us X billion," and yet there's .6X billion posted, and there's always a gap going on, right up until September 16th, certainly through June of '08, leading one to believe, just

based on that, that the dispute continued because, in Goldman's mind, they weren't getting the margin posted that they were demanding. What I'm wondering is, was there some kind of resolution of, "Look. We'll agree to disagree, and we'll post this. We'll split the baby or something"? I just don't know what that--

SULLIVAN: I think, unfortunately, you're asking the wrong guy. You'll have to ask FP or Goldman, whoever. All I can recall is that both times that I spoke to Lloyd, albetem very brief conversations, the issue was addressed shortly thereafter. What happened there in between, other than my understanding was that this was a not unusual course of business, that there would be disagreements on the valuation and that the discussions would take place.

SEEFER: And understanding there were disagreements on the valuation, did you have any understanding of what the basis for those disagreements on the valuation were?

SULLIVAN: Other than one number was higher than the other, no, sir.



SEEFER: Did you have any discussions with anybody within AIG about the difference in valuation methods that Goldman and AIG were using, assuming there were differences?

SULLIVAN: Sitting here today, I can't recall. Again, just from a clarity standpoint, there was Bensinger, the CFO. There was Dooley, who was running the Financial Products or the Financial Services area. And Cassano was running FP. Elias Habayeb, who's an accounting expert on derivative accounting, was involved in all of that. So there were a number of people that were working on that, on a fairly regular basis. I simply can't recall if I asked whether a difference between the two.

SEEFER: When you leave the company in June of '08, is it your understanding that the situation had been resolved?

SULLIVAN: At the time I left the company, I certainly don't recall that there was an issue that was current at that time. Whether discussions were still taking place at the working level, you'd have to ask others, but I think that was the end of my conversation with Lloyd, whatever was posted thereafter resolved that issue. What happened thereafter, sitting here today, I can't recall.

SEEFER: Do you recall any conversations with Mr. Blankfein--actually strike that. Do you recall any conversations with anyone, whether it's Goldman or AIG, whereas Goldman was saying, "Look. We've got to match book. We've got to make the payments on the other side of these trades, and you guys not posting sufficient margin means we've got to cover that without you paying us"?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Do you have any conversations with anyone about whether or not Goldman was buying CDS against AIG at any time?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: When you learned in, ballpark, 2007 timeframe, that FP had stopped writing CDS on the multi-sector CDOs on--I'll just shorthand it by saying backed by subprime collateral, even though I know it's not that simple--did you also learn at that point that at the same time that FP was stopping writing the CDS on subprime multi-sector CDOs that AIG Investments was increasing its exposure to the U.S. residential real estate market by buying additional RMBS? And that was a long and not very articulate question, but did you understand it?

SULLIVAN: I think I did. Put it back in my words, I think what you're asking me is: When did I become aware that AIG Investments had continued to invest in asset-backed securities in sub-prime, given that FP had stopped writing the multi-sector in '05?

SEEFER: Thank you for that much better description.

SULLIVAN: I've still got to answer it. I was trying to wait for your answer. I thought if I gave it back to you, the brain would keep going. I'm not sure of the exact time, but it may be helpful: obviously one of the things that we did, which was really something that laid out very clear when I took office in 2005, that AIG was going to be a very open and transparent organization. And working with my senior management colleagues, obviously, when it became clear to us that this was a topic that investors had great interest in, we determined that we would make very fulsome disclosure on our exposures to the U.S. residential housing market, which I believe may have commenced with the third quarter or fourth quarter, probably the third quarter, again from memory, of '07. So when I first became aware was circa that time. I'm not helpful with dates of exactly when or where, but circa that time, as we were preparing, if I may, I'll assume it was the third quarter, but it may have been the fourth

quarter, whenever we first published an awful lot of data on our website, which, hopefully, you've gotten and you've reviewed, on AIG's exposure to the U.S. residential housing market. That was circa the time I think I started to have an understanding that they obviously had invested in what was still triple A and double A in the main securities.

SEEFER: And I think, maybe this will jog a memory bell: You're talking about there was definitely additional disclosures in the August conference call when you guys announced 2Q '07 earnings, and there was a PowerPoint deck with that kind of information. Does that jog memory bells of when you learned about, as you articulated much better than me, that the securities lending business was continuing to go long, let's say?

SULLIVAN: Your question was very different. Securities lending's a small part of AIG's investment portfolio. I think if it was the second quarter and, if it was, thank you for correcting me, I'm not sure what information we put on for AIG Investments at that time. But to the best of my knowledge, I don't think it was pertaining specifically to securities lending.

SEEFER: Okay. No, I mean in August, and maybe we were talking past each other. I think the August '07 timeframe that the PowerPoint deck I've seen is more granularity on FP's multi-sector book.

SULLIVAN: Well, to the best of my knowledge, I think there were four sections, were there not, or was it the third quarter where there were four sections? At some stage, I recall a presentation that included FP, UGC, Consumer Finance, and AIG Investments.

SEEFER: You can't tax my memory.

SULLIVAN: No, I'm not. Well, because you recall second; I'm thinking third.

SEEFER: Well, don't guess. I mean it is what it is.

MALE: Would this be a good time to take a break?

SEEFER: Of course. Sure. Take five, ten minutes, whatever you guys need.

[END OF AUDIO PART A; BEGIN AUDIO PART B]

SEEFER: Okay, Mr. Sullivan, while we took that break, your counsel gave us a memo dated May 13th, 2008. I guess it was an email, not a memo, dated May 13th, 2008, from Mr. Habayeb to yourself with others cc'd, including Mr. Bensinger, Herzog, Dooley and Mr. Habayeb and [Aliquien?], regarding the issue of--

SULLIVAN: [of my system?] [AUDIO GLITCH]

SEEFER: Okay. Regarding the issue of hedging the super senior book that we were talking about earlier. I take it you received this email on or about May 13th, 2008?

SULLIVAN: On or about May 13, 2008.

SEEFER: Okay. And this I suppose jogs some memory bells that you asked about hedging in the May 2008 timeframe?

MALE: Well, the reason that we wanted to bring this to your attention is, you had asked questions about whether discussions about the potential of hedging, and your question had certain time limits which, as Martin was answering, sort of expanded, but it only went as far in the earlier discussion today to 2007. Since we're aware of this discussion occurring several months later in early 2008, in the interests of being helpful and com-

plete, we wanted to bring this to your attention, and Martin's happy to describe it. But we didn't want sort of a somewhat artificial time cutoff during the earlier question to not bring about this, bring to your attention this conversation or email conversation.

SEEFER: Okay. Thank you for that.

SULLIVAN: We want to be helpful.

SEEFER: So describe for me, if you can, the circumstances surrounding this email and whether or not this was the first time you inquired about hedging the super senior book.

SULLIVAN: To the very best of my recollection, it was the first time, although it may not have been, but it was the first time I think that I asked the question. And I don't know who I asked the question of. The response came from Elias, but I don't know; Elias didn't report directly to me so it may well be that I didn't ask it directly of him but of somebody else and got the response from Elias. And as you can see, there were two key issues as to--well, there's probably more as well, but the first was that the appropriateness of any counter-parties. Secondly, the issue of non-concurrent hedging. And I'm not a hedging ex-

pert here. You probably know more about hedging than I do; I hope you do, because I don't know very much. But the fact was, as you can see from this note that I got back from Elias was that there really weren't entities where they could place a perfect hedge. And, in fact, they would have actually, based on the hedges that they could have placed laterally, they would have been paying money away and not get the protection that they needed.

FEMALE: Was your question that you posed, whether it was to Mr. Habayeb or to someone else, was it about whether FP had considered hedging in 2006 or 2007, which this references? Or was there any part of your question that was about whether AIG concurrently enter into any hedges in 2008?

SULLIVAN: Sitting here today, I think it was "could," could; not covering past and future, but, as I mentioned earlier in response to your earlier question, of course, in 2005, 2006, and possibly early 2007, maybe people were sitting here saying, "Why would we?" These are money-making contracts, but all I know is what Elias responded to there, that there were issues on the appropriateness of counter-parties and obviously the ability to place a concurrent hedge.



SEEFER: Do you see at the bottom of the paragraph of the revised response, Mr. Habayeb writes that it was also important to recognize that during 2006 and into '07 AIGFP did not expect that it would need to perform in any of these derivatives; hence any hedging would have been deemed uneconomical at the time? Do you see that statement?

SULLIVAN: Sure. Yes.

SEEFER: I take it the cost of any hedge would have reduced the net earnings reported by FP. Is that correct?

SULLIVAN: Well, ironically, it could have helped, of course.

SEEFER: Right. But I mean in the first instance the cost of the hedge at the time. If, for example, they put on a hedge at the end of 2005 or in 2006, would that have resulted in an expense that would have reduced the net earnings of the company, all other things being equal?

SULLIVAN: This is hypothetical, of course, but it's like buying reinsurance. If you buy reinsurance and you give away net premiums and you never have a claim on that reinsurance, then you've obviously reduced your net premiums written. So in this

case, if there's fee income and you place for want of a better hedge or reinsurance that doesn't result in the claim coming back, then obviously your net revenues reduce, which it could, depending on all the other categories that go to net income, reduce your net income. Conversely, if you've placed the hedge or reinsurance that does, in some form, respond and protect you, then obviously it helped.

SEEFER: I take it you were familiar with the compensation program at the Financial Products Division?

SULLIVAN: Certainly I became more familiar with it after I became CEO.

SEEFER: Sure. And it's my understanding, and tell me if my understanding is wrong, that one part of that program was that 30 percent of the Financial Products Group net earnings went into a bonus pool, one that was paid out on a deferred basis. Is that your understanding?

SULLIVAN: Yes, that comp was made up of--I'll put it in my words--a base salary plus bonus, some of which was deferred and played out latterly, yes.

SEEFER: What was your understanding of how--of the amount of the bonus pool?

SULLIVAN: It was a percent of net income.

SEEFER: Okay. Do you ever have any discussions with anyone at AIG at any time in your tenure about the reason not to hedge because they didn't want to reduce the net earnings of the company and the bonus pool?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Did you ever ask the question?

SULLIVAN: So did we not hedge because it would have reduced the bonus pool? To the best of my knowledge, no, sir.

NOONAN: Was there any follow-up after this email?

SULLIVAN: Not that I recall; in fact, I left the organization four weeks later.

SEEFER: Okay. Let's go back to what we were talking about--

SULLIVAN: I mean I think the important thing in here is the non-concurrency.

SEEFER: Explain to me the non-concurrency.

SULLIVAN: Well, it wouldn't be a perfect hedge. So I think that's what Elias was saying in the middle of the paragraph there.

SEEFER: You're talking about the proxy hedging that he's referring to or the problem of the monolines requiring collateral or both?

SULLIVAN: No. What I'm referring to is the fact is that they could possibly have got protection on one part but not on the other.

NOONAN: The collateral you mean?

SULLIVAN: Correct.

NOONAN: They could have gotten a hedge on the credit exposure--

SULLIVAN: Right.

NOONAN: --but not on the collateral postings--

SULLIVAN: Correct.

NOONAN: --because the monolines don't post collateral.

SULLIVAN: Correct. And that raises a good point on our previous conversation, we were always talking about the subprime exposure on the multi-sector CDS portfolio. I mean obviously I'm not a derivatives expert, there's subprime exposures in the underlying collateral, but the actual tranche that FP was writing was the super senior sliver above the Triple A.

SEEFER: Right.

SULLIVAN: It's easy to throw around subprime, but I want to make sure we clarified that against our earlier conversation.

SEEFER: No, we understand. Did you ever actually look at the underlying collateral for the CDOs on which FP was writing the CDOs?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: We know what we've seen, the memos that got written that went to the Credit Risk Committee for each of the deals. Did you ever receive those?

SULLIVAN: To the best of my knowledge, no, sir. Now again, what I received was a summary from Kevin McGinn, the Credit Committee minutes. I'm not saying it's not beyond a possibility there were attachments, but sitting here today, I can't recall.

SEEFER: Okay. So going back to the issue of FP stopping writing CDS on the multi-sector book while AIG Investments continued to invest in ABS and RMBS, I think what you said before is that you learned about that either sometime in 2Q '07 or 3Q '07. Is that correct?

SULLIVAN: To the best of my knowledge, it was when we started preparing the detail disclosures that we attached to our quarterly conference [call?] and we posted on our website. You said second; I thought third. So around that time.

SEEFER: And regardless of the timing, when you found out about that, did you have any concerns about that?

SULLIVAN: To the best of my knowledge, at that time, no, sir, because I think, from my memory, my understanding was that these were very well rated assets.

SEEFER: Did anybody at any time ever say that they had concerns about that circumstance?

SULLIVAN: Sitting here today, I can't recall.

SEEFER: Do you recall a November 29, 2007 meeting with PricewaterhouseCoopers' representatives?

SULLIVAN: November 29th, 2007, I have some recollection of that meeting.

SEEFER: Do you recall them bringing up concerns about that?

SULLIVAN: No, sir.

SEEFER: Okay. I don't have the notes with me, but I have a description of them so I will tell you what we have seen in that notes, or actually, generally what do you recall about that meeting, first? And then I'll follow up.

SULLIVAN: I want to clarify that this is the meeting that took place in my conference room at PwC.

SEEFER: I don't know that. I don't know where meeting was.

SULLIVAN: Well, I'm assuming this.

SEEFER: If it helps, this is the meeting, a two-part meeting, part with representatives from the Financial Products Group and then without them between yourself and Mr. Bensinger and Mr. \_\_\_\_\_, I think, and maybe Mr. Romer and PwC.

SULLIVAN: Well, I have berated myself for a long time but have no recollection, and, trust me, I have really berated myself on the first part of that meeting. I can't even recall who was there, for that part of the meeting. I have obviously a recollection of the second part of the meeting and some recollection of who attended that. But the first part, I have racked my brains, and at 3:00 A.M. in the morning on occasion, and unfortunately have no recollection.

SEEFER: No recollection of the first part of the meeting.

SULLIVAN: The first part, as I said. Right.



SEEFER: Okay. We'll get to the first part in a second, but since you have recollection of the second part, tell me what your recollection is.

SULLIVAN: My recollection of the second part was, I believe it was Mike Romer asked for certain of us, who's the head of Internal Audit, to stay. It could have been Stasia Kelly, but I think it was Mike Romer asked some of us to stay after the meeting. I have a recollection of Bensinger being there, Kelly being there, Romer being there and representatives from PwC: Tim Ryan I recall, but I don't recall who else.

SEEFER: And other than your recollection of who was there, what was your recollection of what occurred? It's fair.

SULLIVAN: It's a fair question then. From what I can recall, Tim started to articulate that PwC had some concerns over some of the--the fact that certain units of AIG had made certain decisions regarding a course of action and others had pursued a different course of action, by which I mean that, as you referred to earlier, FP's decision to stop writing the multi-sector CDOs in the end of 2005, the fact that the Consumer Finance Company had made the decision not to write a lot of business in the hot residential markets of Florida and Nevada

and elsewhere and had not pursued some of the more exotic mortgage products that were out there as against UGC's decision to write the second lien business and AIG Investment's decision to invest in highly rated ABS securities.

SEEFER: Okay. Did you agree with what PwC was saying?

SULLIVAN: My recollection is that management did not agree. In fact, I recall saying to Tim Ryan, "Did PwC believe there was a possibility that we had a material weakness?" And I recall Tim saying, "Possibly." Maybe a different word, but possibly is the sort of word I recall. At that stage, I recall saying, "Well, I disagree. I think there are different business models that the units were operating under." And we concluded that obviously PwC working with Bensinger and Lewis and others needed to really investigate that and drill down and see whether there was an issue. At that stage, Lewis reported to Bensinger. Bob only reported to me very latterly in my career at AIG. And the conclusion was, obviously, after a very thorough investigation, is that we did not have a material weakness.

SEEFER: Okay. But, other than the larger issue of whether or not their various concerns constituted whether or not there was a material weakness, one of the things that at least is written

in the notes that PwC took of that meeting was that they communicated to you and Mr. Bensinger and the other people at the meeting the fact that FP and AGF were reducing their exposure to subprime in late 2005 while AIG Investments and UGC were increasing theirs, "... seemed to show a lack of cross-AIG evaluation of risk exposure to a sector." Close quote. A material weakness; do you agree with that view?

SULLIVAN: Well, that's their terminology. I'll put in my terminology--

SEEFER: Sure.

SULLIVAN: --if I may. As I mentioned in my early response, and let me just take UGC as an example. UGC was operating obviously as a mortgage insurer. Their clients were the major banks, and they made a decision that they were going to write the second lien portfolio. Some of the banks would have preferred that they wrote a much more exposed portfolio, but at that time UGC had made the decision to write the second lien portfolio, and obviously AIG Investments had made the decision. Just bear in mind AIG Investments had their own credit operation and obviously had access to and constant dialogue with AIG's risk management people, both enterprise risk and credit. And they had determined

whatever they had determined. So my view was that the issue at hand was what was their cause for concern, and was there a material weakness, and that's why the teams went away and drilled down over the succeeding weeks.

Because I think it's worth just stepping back because we had made huge investments in the risk-management area, the legal, regulatory, compliance areas, working with Jim Cole. We'd added operational risk management. We'd added liquidity risk management during that period of time. So huge investments had been made in those areas, and it was important that the guys drilled down. As I say, they concluded that there wasn't a material weakness.

SEEFER: But help me understand. You just mentioned that huge investments were made in risk management, and yet you've got one part of AIG reducing exposure to subprime while other parts of AIG are increasing their exposure to subprime. That appears to be a failing in enterprise risk management. Do you agree with that?

SULLIVAN: No. I mean I come back to the different business models that the guys were operating in at the time they made the decisions to make those decisions. You'd have to ask Win Neuger

and others more specifically on the investment area. But my understanding was that these were highly rated instruments.

SEEFER: But so were the instruments that FP was writing CDS on that it stopped writing CDS on in late '05.

SULLIVAN: As I say, you'd have to ask the investment guys. I mean they had their own credit operation. They had access to Lewis and McGinn. I mean my recollection of that meeting was the need to drill down and determine was there an issue and was there a material weakness.

SEEFER: Did you ever discuss this issue, not just whether all these issues constituted a material weakness, but the difference in what FP's doing and what AIG Investments and UGC are doing with anyone else within the company that expressed their view that it was a failing in risk management?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: You never discussed it with Mr. McGinn?

SULLIVAN: I don't recall a conversation with Mr. McGinn on the subject.

SEEFER: Do you recall, in the same timeframe, November of '07, the company generating a hot issues memo to provide information to senior management because of just this circumstance?

SULLIVAN: Sitting here today, I don't recall.

SEEFER: Okay. I didn't bring it, but have you ever seen-- there's an email exchange between Mr. McGinn and Mr. Paul Narayanan--I'm probably butchering his last name--about this. I mean I know you've probably looked at a lot of documents in other circumstances at conference tables like this. Do you recall that document at all?

SULLIVAN: I have no recollection of that document, and I don't know who Paul is.

SEEFER: N-A-R--

SULLIVAN: I'm not even going to attempt.

SEEFER: Sure. Sure.

SULLIVAN: You can try for the record, but I'm not going to.

SEEFER: Sure. Well let me just summarize for the record. It's a November 19th, 2007 email exchange between Mr. McGinn and Mr. N, in which initially Mr. Paul wrote to McGinn, "We're developing a quote/unquote "hot issues memo" that we were provided at the CFO and senior management and that the quote "desire for such a reporting mechanism was presumably instigated by the subprime crisis where some parts of our organization were cognizant of the emerging risks and were able to avoid them; whereas some others were not made aware of it and so did not avoid the risk." Close quote

McGinn responds, and he took issue with what Paul said, and he said, "Look. quote 'All units were apprised regularly of our concerns about the housing market,' close quote and that quote 'some listened and responded. Others simply chose not to listen and then, to add insult to injury, did not spot the manifest signs,'" and he described the problem as Nero playing the fiddle while Rome burned. A somewhat of a memorable quip. Does that jog memory bells about either any discussions with Mr. McGinn or seeing any emails or memos about this?

SULLIVAN: No, sir.

SEEFER: Okay. Thank you. Do you agree with that, what Mr.

McGinn is writing?

SULLIVAN: Yes.

MALE: I think in fairness to Mr. Sullivan, if you're asking him to comment on an email that, from the way you describe it, was not sent to him and between somebody that he has identified that he knows and somebody else that we've been unable to identify that he knows, I think at the very least we should have the opportunity to look at the email.

SEEFER: Sure. You're welcome to see the email, and I'll send it to you or I'll give you the Bates range of it. I assume I think you guys produced it. You guys meaning AIG. I'm sorry.

MALE: Yes, well, I did specifically ask that, if you were going to use documents, that, you know, that we--

SEEFER: Right. I understand, and I'll send you the email. But regardless of that, I mean, if you can't answer it without seeing it, tell me you can't answer it without seeing it. But, generally, the way I've described what he wrote in the email, do you agree or disagree with what he was saying?



SULLIVAN: I mean I don't know the individual who was writing the memo. I don't know the context in which he was writing it. I think I've answered the question emanating from the November meeting, that I recall, was that I didn't agree we had a material weakness, and we didn't have a material weakness.

SEEFER: There was an 8K filed in February of '08, wasn't there, about a material weakness in evaluation of the super senior book?

SULLIVAN: Well--

SEEFER: Something else? Is that a different area?

SULLIVAN: I was just going to say, with respect there, they're two distinct issues and separate.

SEEFER: Okay. Now you've mentioned that in the November 29th meeting that you just don't recall the first meeting with the Financial Products Group people on the call? Obviously, if you don't remember the call, you don't remember that they were there, right?

SULLIVAN: As I said, I've berated myself. I do not.

SEEFER: Okay. One of the things that was mentioned in PwC's notes of this meeting is that it was stated that AIG did not have data to dispute Goldman's marks. Putting aside your recollection of the meeting, did you ever hear otherwise that AIG did not have data to dispute Goldman's marks prior to November 29, 2007, or at any time?

SULLIVAN: To the best of my knowledge, I don't recall.

SEEFER: There's also a reference in these notes that after, I believe, Mr. Cassano said, "Look, if we were to use Goldman's marks, we'd be taking a \$5 billion hit," and then you responded, "That would wipe out the quarter's profits." Again, putting aside that meeting, do you recall ever having discussions about whether or not using Goldman marks would wipe out the company's profits if they used that?

SULLIVAN: To the best of my knowledge, I do not.

SEEFER: Okay. So moving ahead to the events that led to the February 11, 2008 8K material weakness disclosure, did you have discussions with PwC prior to that disclosure in February 2008 timeframe, again revolving around their concerns about internal controls and risk management?

SULLIVAN: Prior to the 8K being issued?

SEEFER: Yes, and in the month of February.

SULLIVAN: To the best of my knowledge, I did, sir.

SEEFER: And can you give me your best recollection of those discussions?

SULLIVAN: I will attempt to do so. At some stage over the weekend preceding the issuance of the 8K, I became aware, I believe, from a telephone conversation with Steve Bensinger and possibly Stacia Kelly--from recollection I think both were on the line, but I certainly recall Steve being on the line--that PwC--and I would stress because I'm going to use terminology here, that I'm not an accountant--but at some stage over the weekend that PwC had concluded that negative basis points were not visible, and therefore, if there's such a word, auditable. I'm sure there is a word, but auditable. And that my team were still of the impression that they were visible, negative basis points, whatever they are. Negative basis points were visible and auditable, and Steve was of the opinion that we needed to resolve this and obviously we needed to file our 10K. They were of the view that they were not visible and auditable. The AIG team was still of

the opinion that they were. There was a concern that I think both sides were intransigent in their position: one believed they were visible, and one didn't believe they were visible.

I reached out to Dennis Nally over the weekend, who, at that time, was the senior partner for PwC in North America, to say that I was going to call a meeting first thing Monday morning and that I hoped his team would have an open mind, and I would make sure that my team had an open mind, and we had to nail this down quickly so that we could all move forward. I did subsequently reach Dennis, who was in London. We did connect, I believe, at some stage over the weekend. I then met with the AIG team and the PwC team on the Monday morning in the boardroom of 70 Pine, and obviously a very fulsome discussion took place on the subject of whether they were visible and auditable and whether they were not visible and auditable.

When it became clear that they were not visible--and I should say I don't know what a negative basis point is, but nobody was questioning that they existed. But the standard is they have to be visible and auditable. Once it became clear to me that they were not, that's when I drew the line in the sand that: enough. If they're not auditable and they're not visible, then that's the way we would proceed. And that's how the decision was

reached.

SEEFER: Now is that meeting you're talking about, was that an Audit Committee meeting or just an other meeting?

SULLIVAN: That was not an Audit Committee meeting.

SEEFER: Okay. Did Mr. Willemstad ever talk to you in February '08 timeframe about concerns that PwC raised with him, with risk management, internal controls, and specifically yourself, Mr. Bensinger and Mr. Lewis?

SULLIVAN: Can you say that again?

SEEFER: Sure. Did Mr. Willemstad ever raise with you in the February '08 timeframe concerns that PwC raised with him about risk management, internal controls and management, including yourself, Mr. Bensinger and Mr. Lewis?

SULLIVAN: None that I can recall. I mean I used to see Bob on a fairly regular basis. You'd have to ask him [INAUDIBLE/LOWERED VOICE]

SEEFER: Okay, sure. Let me ask some specific questions and

whether it's from Mr. Willemstad, PwC or anybody else. But did anybody ever express any concerns with your commitment to changing the way AIG was run and assuring that it was managed from an internal controls perspective?

SULLIVAN: Not to my knowledge. In fact, to the contrary, I was committed from day one that we would operate to the highest standards possible. I simply can't recall anybody raising that issue with me. [INAUDIBLE/STATIC NOISES] I simply can't recall now. I'm quite surprised though.

SEEFER: Did anybody ever raise with you concerns about perceived weaknesses involving you, including a difficulty holding people accountable for internal control-related matters?

SULLIVAN: Not that I recall.

SEEFER: Okay. Did anybody ever raise with you their concerns about Mr. Bensinger's ability to make decisions regarding internal controls?

SULLIVAN: Not that I recall.

SEEFER: Did anybody ever raise with you concerns about whether

or not Mr. Lewis had the skillsets to run the enterprise risk management function at AIG?

SULLIVAN: Not that I recall. It's possible, but I simply don't recall. In fact, Bob's still there today.

SEEFER: I know. Did anybody raise with you concerns about Mr. Lewis's ability to understand, assess and evaluate risk and the ability to build an infrastructure to manage and monitor risk throughout AIG? Which I guess is another way of sort of asking the same question more specifically.

SULLIVAN: I simply don't recall.

SEEFER: Did you have any concerns about Mr. Lewis's ability to run the ERM Department at AIG?

SULLIVAN: I don't recall having any concerns.

SEEFER: Any concerns on Mr. Bensinger's performance?

SULLIVAN: None other than obviously latterly I asked him to take on an even bigger challenge of running the Financial Services Division.

SEEFER: Any concerns with Mr. Cassano's performance?

SULLIVAN: Well, Mr. Cassano, as you're aware, retired from AIG shortly after the 8K was issued. I can't remember the exact time in the February-March time.

SEEFER: It was announced on February 28th, and I do know that, but that didn't answer my question. Did you have any concerns about Mr. Cassano's performance?

SULLIVAN: Other than if we were going to enact change in FP, it would be better to go forward without Joe at the helm. Joe had been with the organization for many years that contributed to the organization's growth. But, from what I can recall today, my concern was more the need to initiate change within FP, and it was a very brief conversation that I had with Mr. Cassano, concluding that he would retire from the organization.

SEEFER: Okay. So why was it going forward? Maybe I misheard you. Going forward, it would be better if Mr. Cassano was not there?

SULLIVAN: Because of the change that--we wanted to initiate some changes, and so in my view the compensation structure



needed to be addressed. We wanted to bring in clear matrix management to the FP organization. I'd had some conversations with Joe previously at his initiation that, at some stage, he'd want to do something else. And, given that we had gone through the 8K issue, we obviously recognized the need to initiate change, and the conclusion was that Joe would retire.

SEEFER: Okay. So when you said, given the 8K, you recognized the need to initiate change, were two of those changes the compensation changes and the matrix management that you just mentioned?

SULLIVAN: To the best of my knowledge, that is correct.

SEEFER: Were there others?

SULLIVAN: There may well be. Sitting here today, I can't recall.

SEEFER: And why would it have been better to make those changes without Mr. Cassano there?

SULLIVAN: From what I can recall, that it was obviously that one of the things that we wanted to do on compensation was to

have AIGFP's compensation more aligned to the compensation that a non-FP guy would have, and putting it in my words, FP had the structure that you articulated better than I earlier, but at the end of the day, it's cash. AIG's insurance operations and other entities, their compensation was primarily made up of cash, bonus and long term, all geared to AIG's performance, i.e., long term was--one program was geared to EPS growth. Another one was geared to book-value growth. And my view was that, and others, that we needed to align FP's compensation much more aligned to the overall organization's structure. I should point out, when I commenced a search for a successor to Mr. Cassano, a search that I personally never concluded, in talking to the search consultants that were recruited and some of the individuals that I interviewed, it was quite clear that no matter how the structure of the comp was put together, it was going to equate to a target of 20 to 25 million. I don't come from a capital markets background. I'm an insurance guy. But my intent was to have it more aligned to not only FP's performance, but also the company's performance and have more equity as part of the comp than just cash. So that was one area.

SEEFER: So why couldn't Mr. Cassano stay and have those compensation changes made? I'm still just trying to understand.

SULLIVAN: Well, there were other areas. I think, again, it may be more helpful again, educational, when prior to me taking office in 2005, I would define Joe's operation as fairly free-standing, I mean, within the Financial Services unit. When I came in and made it clear that we were going to have an open and transparent organization, that we were going to have an open and transparent relationship with our regulators, that we were going to make sure that we had best practice in risk, legal, compliance, regulatory. When I started bringing in policy financial people, risk people, compliance people, and I should say there was really no budgetary constraint on this. I had great support from the board in pushing this through. I would say that Joe had more oversight and involvement from corporate from March of 2005 onwards than he'd ever had in his career. And not only the compensation issue, but the issue that going forward we wanted to make sure that there was clear matrix reporting.

SEEFER: What do you mean by that?

SULLIVAN: That the entities within FP would have clear reporting to, for instance, I'll give you an example: the general counsel would report to the CEO of FP and the group general counsel. The CFO would report to the CFO of FP, but also the Controller or the group CFO. The head of HR would have clear ma-

trix reporting. So go on through the line. Some of that existed. Some of it was still work in progress, but this was not an in-doubt issue; this was going to happen. Again Joe concluded with me; that wasn't--he came from a different environment, and the time was to move on and bring somebody new in that could operate within that environment and drive it and change the culture and make it happen.

SEEFER: Did Mr. Cassano say essentially, "If you're taking my autonomy away, I'm gone"?

SULLIVAN: No. I think his view was: to initiate that change, it needed somebody different at the head.

SEEFER: Did Mr. Cassano tell you that, that if you're going to make the comp changes and the matrix management changes and have the organization be more transparent and open and pursue best practices, that you should get another guy?

SULLIVAN: To the best of my knowledge, I think I initiated that discussion. As I said, it was a very--my view was to--and others--to get this done, we needed somebody who had more familiarity with that sort of structure and could operate more comfortably within it, with not so much the compensation because, based

on my research, it was going to end up to 20, 25 million, whichever way you cut the pie. That would be target. That would be target because obviously there would be some parameters that they would have to hit to exceed or not exceed those targets. But whether you call it all cash or you call it cash and equity, the number was in that range. So it was more also the fact that we wanted to initiate the change in culture and making sure the matrix was there.

SEEFER: Understanding that you initiated the conversation with Mr. Cassano, was his response words to the effect of, "Mr. Sullivan, you're right. I'm going to retire"?

SULLIVAN: No, I think it was more, "What do you want me to do?" And it was like, "Retire."

SEEFER: Did you ever think about making these changes before the February 8K regarding the material weakness?

SULLIVAN: What changes?

SEEFER: The changes you just described.

SULLIVAN: Well, a large number of these, and let me back up

again and put it in my words. As part of the agreement with the government emanating out of the crisis that I inherited, it was agreed that we would have an independent monitor, and that remained Mr. Cole. And, under the terms of that agreement, Mr. Cole would be working with the company to ensure that it had best practice and risk and legal and compliance and regulatory areas. So we'd already restarted that immediately. We weren't waiting for the settlement. But, in many cases, a lot of changes had been made throughout the organization, not only just in FP, but in other parts of the organization.

Another example would be ILFC that was very much a standalone entity; then we were driving through matrix reporting there as well. But some of this was still work in progress, and Jim would acknowledge it was work in progress, I believe. You have to ask him, but I believe he would acknowledge it was work in progress. So we had come an awful long way so it wasn't as if we were starting this straight after the 8K; it had been work in progress all the way, but now it was being driven through effectively immediately.

SEEFER: And that was the case for FP also?

SULLIVAN: I'm confused with your questioning. You asked me--

SEEFER: Let's back up so we're not talking past each other.

ROSS: Is the question the change in Joe, or is it broader?

SEEFER: No. The compensation changes, the matrix management changes, you know.

ROSS: I just wanted--

SULLIVAN: All right.

SEEFER: Let's start again. Maybe we were talking past each other. Did you ever consider making those changes--the compensation changes, the matrix management changes--prior to the February 11th, 2008 8K?

SULLIVAN: The compensation and--sorry, I mixed the second part.

SEEFER: The matrix management, the two you just mentioned.

SULLIVAN: Well, let me just separate the two, if I may. The matrix management was, as I said, ongoing work in progress. For instance, as you mentioned earlier, quite rightly, we had a number of CFOs in AIGFP--I can only actually remember three, I

think. But lastly, when the last CFO was hired, it was, without doubt, made very clear that--I believe it was a she, if I remember rightly. I don't want to do anybody a disservice here, but I think it was a lady.

NOONAN: For FP?

SULLIVAN: For FP.

NOONAN: Ms. Sensay, I believe her name is.

SULLIVAN: Right. I think that's correct. And Steve Bensinger and others in the corporate accounting area were part of that interview process, that she would have matrix reporting.

SEEFER: When was that?

SULLIVAN: I think--I simply can't recall. I think it was in '07 at some stage; however, I don't want to guess.

SEEFER: Maybe even September of '07.

SULLIVAN: Shall we swap sides?



SEEFER: No, we can remember [INAUDIBLE/CROSSTALK]

SULLIVAN: Yeah, your memory's better than mine. So that was working, but we wanted to make sure that we had it drilled throughout the FP organization so the general counsel, the compliance, everything. So that was continuing work in progress. On the comp side, again, it may be helpful to you is, I had some thoughts about that. But one of the things I had to do when I took office, amongst many other issues, was to completely revamp the salary structure for the 700 key officers of AIG, outside of FP. I don't know if you're familiar with that. So that took up my initial focus because, if we didn't do that, we wouldn't have retained the talent that was needed to be retained in AIG so that was the first start of it. And I had FP's comp on my to-do list, but it was only at this stage that it came to the fore. But I had to change the comp program for obviously the major bulk of the organization when I took office in 2005.

SEEFER: Okay. And again, part of that, you mentioned that, while searching for a replacement for Mr. Cassano, that it became apparent to you that to find a replacement, target comp was going to have to be 20 to \$25 million. What is that based on? You couldn't find somebody to run that unit for less than 20 to \$25 million?

SULLIVAN: Well, I'm telling you, sir--

SEEFER: I would have done it for less.

SULLIVAN: What I can tell you is based on fact, and the fact is, I can't recall which search firm I retained, but it became clear on the information that I was receiving, and, in fact, don't forget Bill Dooley was heavily involved in obviously running the search and talking to people because he was the head of the division and still is, to the best of my knowledge. He may do other things, but I think he's still there. When I was getting feedback, it was quite clear that the caliber of individual that we would need to run FP, that would be coming out of the capital markets area, would be in that range, from the best of my memory, of 20 to 25 million, albeit that some of them were coming from--that were being presented were coming from institutions where the mix may be different to just pure cash.

SEEFER: And understanding you don't recall who the comp consultant was, but did they provide you anything in writing that said that?

SULLIVAN: They were not, with respect, again, they weren't consultants; it was a search firm.

SEEFER: Okay.

SULLIVAN: I mean when you say consultants, I think of a different group of comp consultants as against an executive search firm. From what I can recall is, based on the caliber of people they presented, which was certainly based on what I saw and Dooley's view of the caliber of individual that we'd want running the Capital Markets Division, that was the sort of range. Now maybe there was one at 18 million. I'm sure you wouldn't take the job at 18 million, but there was a range there that was still not dissimilar to the range that Mr. Cassano was in.

SEEFER: And thank you for that, but my question was: did they ever provide you anything in writing, in terms of those types of salary ranges, or were they just telephone conversations?

SULLIVAN: I've a vague recollection that on some of the bios that the search firm would have submitted that there would have been a comp section there that would be on that. I can't recall.

SEEFER: Okay. So when you initiate the conversation with Mr. Cassano, Cassano says, "What do you want?" You said, "I want you to retire." I think he says okay since the announcement was made on February 28th.

SULLIVAN: It was a very short conversation.

SEEFER: And I take it he said okay? What did he say?

SULLIVAN: He agreed. He agreed.

SEEFER: Now it's my understanding that AIG still entered into a consulting agreement with Mr. Cassano, following his retirement. Is that the case?

SULLIVAN: To the best of my knowledge, that is correct.

SEEFER: Who negotiated that?

SULLIVAN: To the best of my knowledge, the bulk of the discussion was between Mr. Dooley and Mr. Cassano.

SEEFER: Who had to approve it?

SULLIVAN: Well, ultimately myself and, I believe I had conversations, to the best of my knowledge, with obviously my chairman. The only reason I'm hesitating is I have a recollection that I spoke to the head of the--the chairman of the Comp Committee, but I'm struggling because we were just on the point of

transitioning the chair, and I can't recall if I spoke to the incumbent, the outgoing--sorry, the incoming, the outgoing or both.

SEEFER: Now did anybody besides you have to approve it though? Are you just giving them a heads-up? Or did the full board have to approve it? Did the incumbent or replacement director of the Comp Committee or the chairman of the overall AIG board? Did anybody else have to approve that agreement besides you, from AIG?

SULLIVAN: I think I just answered that question. I mean, if my chairman had said we're not doing that or, from my recollection, I did have a conversation with him. I may be wrong because it's many years past now, but, if he'd have said no, he was the chairman, and we would have had a discussion. And, if the chair, assuming my memory is correct that I did speak to--and it would have been, the incumbent was Mickey Cohen, and the incoming was Jim Moore. If they had had any issues, I would have had to address them.

SEEFER: I take it from that that they didn't raise any issues, at least in your recollection.

SULLIVAN: To the best of my knowledge, the contract was entered

into.

SEEFER: I understand that, but that wasn't my question. Did they raise any objections?

SULLIVAN: Not that I can recall.

SEEFER: What did he do after he entered into the consulting agreement? What did Mr. Cassano do after the consulting agreement was entered into?

SULLIVAN: Well, I think it may be helpful, by way of background again, Mr. Cassano had no employment contract; therefore there were a number of factors that came into play in considering whether to retain his services. One of the factors is he could have gone off and worked for a competitor the next day. He could have gone off and taken a lot of senior staff with him. Equally, the other consideration was there were a lot of transactions in FP out with the CDS portfolio that were very complex, very long-term, and, given the fact that Mr. Dooley was taking interim control of FP until we succeeded in finding a successor for Mr. Cassano, the view was that weighing all those factors together, it would be beneficial to the organization to retain Joe's services as a consultant, be available to help Bill--as

Bill was the interim CEO--to be available to give us background on any transactions that may have occurred and been written. Some of these transactions at FP are multiyear, three or four years is quite a short term, from my understanding. Some of them are much longer in tenor. And the fact is, we also got a non-solicitation from him as well.

SEEFER: Putting aside the issues of him going to a competitor and potentially taking staff with him, there were other folks at FP that certainly could deal with the contracts and the complication issues other than Mr. Cassano couldn't they?

SULLIVAN: Well, all I can tell you, in discussion with Mr. Dooley, who was going to take over the interim CEO position, his view, which we all supported ultimately, was that having Joe's cooperation and willingness to help Bill during that period and acclimatize as we're trying to transition in a new CEO, that retaining his services was the appropriate thing to do.

SEEFER: Okay. Now, one thing we haven't talked about yet was the December 5th, 2007 investor call. And, of course, we know now that one of the reasons for the 8K was to say, "Look, back on December 5th, we gave you an estimate of 1.5 billion or whatever it was, and that didn't include the \$3.6 billion negative

basis adjustment, and so here is the new number."

SULLIVAN: Can I just ask?

SEEFER: Of course.

SULLIVAN: As you've segued back in time now, can I take a comfort break? That's probably a good--it seemed a natural. It sounded like you were going on. I don't want you to go on, and then my say at the end of that, "Can I have a comfort break?"

SEEFER: Of course. [INAUDIBLE/CROSSTALK]

SULLIVAN: Okay. Thank you.

[END AUDIO PART B; BEGIN AUDIO PART C]

SEEFER: Okay. Mr. Sullivan, again, going back to the December 5th, 2007 conference call, let me set it up so we can try to shortcut it. But essentially what I'd like you to address is when you found out about the negative basis adjustment that led to the February 11th, 2008 10K. So why don't we start there?



SULLIVAN: What I can recall, sitting here today, was that obviously, as I had mentioned earlier, the team was working on coming up with the valuation number for the 2000-and--that's right--2007 10K, and, at some stage, I became aware that, and I can't remember the timing of it, that one of the issues was whatever this term negative basis points means, whether it was visible and auditable or not. I can't recall how much I knew about that or was even aware of it up until that weekend telephone call with Bensinger and possibly Stacia Kelly.

SEEFER: And January '08, February '08, December '07, can you place timing in that regard?

SULLIVAN: Other than the weekend before the 8K was issued, no.

SEEFER: Okay. So it's late January, early February? February 11th was the 8K, if that helps.

SULLIVAN: Right. No, because I mean this was one part of the closing process so there's a lot of activity going on. It's an important part, but it was one part of the entire closing process. I would be speculating, which you don't want me to do, I'm sure, on when I heard the term negative basis points or whatever. But certainly my recollection is I certainly knew it

that weekend.

SEEFER: Okay. Sure. Let's talk about the December 5th, 2007 Investor Day. I know from looking at that transcript you mentioned in the beginning of that presentation that initially the company was going to have that Investor Day address something else, I think, the L&RS, this business segment.

SULLIVAN: What business, sorry? I thought--

SEEFER: Oh, that's my acronym for the Life--

SULLIVAN: Life and Retirement Services.

SEEFER: Right. Right. Thank you. But obviously it addressed other issue. What was the reason for that?

SULLIVAN: From what I can recall, we felt that the company's exposure to the U.S. residential housing market, given developments not only in the U.S. but around the world, would be more useful to the investor community than the planned presentation on Life and Retirement Services.

SEEFER: Okay. Now prior to that, to December 5th, were there

meetings within AIG about whether or not to give an estimate of the losses on the multi-sector book? Estimates were given during the call.

SULLIVAN: No, no. I'm just trying to think about the question. Your question was were there any meetings. I can't recall any meetings on that subject, other than I recall our preference was that if we could update the number, which, don't forget, we had only--I'm getting the months right here--September, so we had obviously published a number for the third quarter, only weeks beforehand.

SEEFER: Right. How far [CROSSTALK]

SULLIVAN: I'm trying to think of the filing dates.

SEEFER: If it helps, November 8th and 9th I believe are the press release and the 9th is the conference call where you announced a \$352 million estimate for 3Q '07 and a 500 or \$550 million estimate for the month of October.

SULLIVAN: Okay.

SEEFER: That's what the documents indicate, and I mean the public documents indicate.

SULLIVAN: Right. Sure. So from sitting here today, my recollection is that our preference was that if we could update that number, then we should. And, if we couldn't, we wouldn't. But as we were talking about the company's exposure to the U.S. residential housing market, if we could, that would be preferable, but, if we couldn't, we couldn't.

SEEFER: I take it you knew what the number was that was going to be announced on December 5th before December 5th, yes?

SULLIVAN: I'm not sure that's accurate.

SEEFER: What is?

SULLIVAN: To the very best of my recollection, I think I found out before the meeting.

SEEFER: Meaning on December 5th or sometime before December 5th?

SULLIVAN: No, to the best of my recollection, I think December 5th was a Monday. I'm not sure. But I think it was prior to that meeting starting on that day. Sorry.

NETTLETON: The investor meeting.

SULLIVAN: The investor meeting, yeah.

SEEFER: And what was your understanding of how that number was, that estimate, was arrived at?

SULLIVAN: Sitting here today, I don't believe I had an understanding of how that estimate was arrived. I just think, from what I can recall, I just heard the number.

SEEFER: Okay. After December 5th, what did you learn about how that number was arrived at?

SULLIVAN: From my recollection, I'm not sure until the issues pertaining to the negative basis points that arose some weeks later that I had reason to question it. Other teams, obviously as I mentioned earlier, were working on obtaining the best valuation, the right valuation in a very illiquid market at the time. So in response to your question, I don't think I can recall thinking about that because obviously three weeks later we closed--December 31 was the end of the financial year; we went into the financial closing process. I don't think, from memory, the issue of the valuation, from my standing, was a topic of--

other than obviously getting updates as we were going through the close process--until the negative basis point weekend, if we call it that.

SEEFER: And the negative basis point weekend is the February 11th, 2008 8K, the weekend before the February 11th, 2008 8K  
[INAUDIBLE/STATIC NOISES]

SULLIVAN: To the best of my knowledge, that is correct.

SEEFER: Okay.

SULLIVAN: There were many others obviously focused on the valuation process during that period of time.

SEEFER: Right. Right. I'm just interested when you knew.

SULLIVAN: That's what I thought. [LOWERED VOICE]

SEEFER: I can imagine other people I've talked to, I've asked them when. So when you find out that weekend, did you have any discussions with Mr. Cassano about it?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Did you have any discussions with anybody at the FP Division about it?

SULLIVAN: Over the weekend, to the best of my knowledge, no, sir.

SEEFER: Did you ask anyone, "How did this happen"?

SULLIVAN: Prior, over the weekend?

SEEFER: That wasn't vague at all, was it?

SULLIVAN: No, I should say \_\_\_\_\_ questions on that. I've got questions on your questions. [CROSSTALK]

SEEFER: I didn't promise you every question would be articulate. When you found out about the negative basis point adjustment, and I'll tell you it was a \$3.6 billion adjustment, at least the documents indicate that, and let me back up a little. On December 5th, the estimate that's given is 500 to 600 million more that, when you combine it with the 3Q '07 in October number, brings you to 1.5 billion valuation loss through November. That's the number that's communicated to the market during the

December 5th Investor Day. That number, as we now know, was after an adjustment of \$3.6 billion that was the negative basis point adjustment, as you term it. And what I'm interested in is, after you learn on this weekend in late January '08-early February '08, about that adjustment, if you asked people or had discussions with people, "How did this happen? Why didn't we know about it earlier?"

SULLIVAN: In response to your question, I can only come back to that weekend when, at some stage, whether it was the Saturday or the Sunday, I can't recall, there was a belief at the senior levels of our finance operation that, based on the information they had, that negative basis points were visible and therefore auditable. It was only really at the meeting with PwC on the Monday when, listening to all parties, it became clear that they weren't visible and auditable, that we made the decision obviously that they weren't, so whatever the number is is the number we'll have to publish.

SEEFER: I'm asking you something a little different.

SULLIVAN: Right.

SEEFER: I'm not asking you about the decision about the discussion of whether or not it was legitimate to use it. I'm asking



you about: did you have any discussions with anybody about, "Why didn't I know on December 5th that this estimate we gave was after a \$3.6 billion adjustment that was not disclosed to the market, by the way"? Specifically, the number was not disclosed to the market.

SULLIVAN: Can you ask that question again because we've been jumping around between the two timeframes. I want to make sure I answer correctly.

SEEFER: Sure. So when you find out in the week or so before the 8K is filed, that there was this negative basis point adjustment and that, therefore, you know now on December 5th, during the Investor Day conference, when the \$1.5 billion estimate was given, that estimate included a \$3.6 billion reduction for negative basis points. So you learn in late January-early February that the number that was given on December 5th included that adjustment, but that the specific number was not disclosed on that day. Did you have any discussions with anybody about that? Did that concern you? And, if so, tell me about the concerns and the discussions you had.

SULLIVAN: Well, as we come to that Monday, it was clear, listening to discussions, that I said, "It's not visible, we'll get

on with it." I don't recall speaking to anybody pertaining to the December 5th, the discrepancy. I don't recall any conversation other than obviously I was advised by obviously the right people, by the company secretary, that we needed to make full disclosure, which we did.

SEEFER: Did it concern you that on December 5th that the estimate that was given was given without disclosure of the adjustment?

SULLIVAN: Well, I can only come back to my recollection that nobody, at the time I heard of negative basis points, nobody disputed the fact that they existed. I don't want to sound more expert on this than I am because I'm not. So the real issue was were they observable, visible, and could they be audited. So when it was concluded it wasn't--I should just point out, from my stand, whatever the number was, it was. I had not given AIG shareholders too much good news during the period of my tenure, other than record results in 2006, but I started with fairly bad news and midway through 2007, I continued with bad news. Unfortunately being the bearer of bad news, it's my job. It's what it is. That's the number, that's the number. So as soon as we determined that negative basis points weren't visible and that there was a requirement to update the information, it is what it

is. The number was the number, and I can't recall today, going back, saying how did this happen. I mean I simply can't recall.

SEEFER: Okay. During the December 5th call, Mr. Cassano made a statement in response to a question from an analyst at Credit Suisse, who had asked about a disclosure in the company's third quarter 10Q, about disputes with counterparties with respect to the fair value of the super senior CDS portfolio. And Mr. Cassano said during the call, quote, "We have from time to time gotten collateral calls from people, and we say to them, 'We don't agree with your numbers,' and they go, 'Oh,' and they go away." Close quote. Agree with that statement, given what was going on with Goldman Sachs at the time?

SULLIVAN: I can only tell you what I was told, and that was that these were discussions that took place on collateral. They weren't out of the ordinary. The bid-ask range was always the subject of discussion. So I mean that's what I was told about collateral calls.

SEEFER: And I understand that that's what you were told, but that's not what I asked you. What I asked you was: did you agree with Cassano's statement. And, of course, the important part of that statement is, "They go away after we tell them that we dis-

agree with their numbers."

SULLIVAN: Well, to be frank, I wouldn't have the knowledge whether they go away.

MALE: Do you remember having a view at the time though? Is that what you're asking him? Or are you asking him now?

SULLIVAN: I'm \_\_\_\_\_ the question.

SEEFER: I'm asking you now.

SULLIVAN: Okay.

MALE: That's not the way the question was worded, but that's fine.

SULLIVAN: I think I understood the way it was worded, but now I'm a bit confused.

SEEFER: Let me try again, and let me try to set it up. What the documents show are that at the end of 2007, AIG had posted about \$2 billion of collateral on Goldman's margin calls. Goldman was asking for more. The two companies had entered into a written

agreement saying, "We dispute what the number should be," so these postings don't reflect that either side believes what the real number, what the right number is. Yet, Mr. Cassano says on December 5th, and, by the way, that two billion was there before December 5th, and there was another written agreement before December 5th. He's essentially telling the market, "Look. You saw that disclosure in our 10Q. We're telling you when we tell people we disagree with their numbers, they go away." Given what was going on with Goldman, do you believe that statement was accurate? Did you agree with Mr. Cassano's statement?

SULLIVAN: Yeah, what--

STACY NETTLETON: Chris, I just want to--when you quoted, was that Cassano's full quote that you just said when he was discussing the collateral calls, because I guess you're asking him about Cassano's statement, and I think, my recollection is, that was a paraphrase or it was a portion of what he had said. I just want to clarify that.

SEEFER: The original quote I gave was not a paraphrase; it was a quote.

NETTLETON: Right. Well, the larger back and forth--

SEEFER: Cassano said more during that conference call, but those words--

NETTLETON: About the collateral calls, right. Yeah. Just wanted to clarify that.

SEEFER: But look, the gist of the statement's very clear. He's saying, "People, go away," when AIG tells them they disagree with their marks. Goldman hadn't gone away. I think it's a very simple question. Did you agree with Mr. Cassano's statement?

SULLIVAN: Did or do? I guess you gave me a change in--

SEEFER: All right. Do you now agree with Mr. Cassano's statement?

ROSS: The problem with your question is you described events that you've already established that he wasn't aware of, and then you ask him whether he agreed at the time.

SEEFER: Well, I don't know that it was established that Mr. Sullivan was not aware. Maybe he wasn't aware of these specific numbers. I believe the record's clear that he was aware of

the dispute in 2007.

ROSS: What he said speaks for itself, and I don't want to debate with you, and I'm not trying to, but I mean I think that--go ahead and ask your question.

SEEFER: And, if you can't answer it, tell me you can't answer it.

ROSS: Yeah. That's also fair too, if that's true.

SULLIVAN: Now everybody had their piece?

ROSS: Yes.

SEEFER: Except you.

SULLIVAN: And I'm trying to think about it. First of all, I don't, sitting here today, recall the question, and I don't know in what context, in the overall, coming back to your point, the overall context of what it was asked in or what form. All I can say, sitting here today is that Cassano would have far more experience, in fact 150 percent more experience than I, in knowing whether that is actually the position. And all I can say was if

there were collateral posted, and it would appear there had been by that time, recognizing--I can't recall exactly when I became aware of--that it was in our public filings. But Joe would be the guy to know whether this was the way he responded would appear to me, sitting here today, it was a generic "they go away." It's a dispute of some time, whatever. He'd have more experience of knowing whether. Actually I would have no knowledge whether that was the way the market operated.

SEEFER: Okay. During that call--

SULLIVAN: This was a conference, by the way. It was  
[INAUDIBLE/CROSSTALK]

SEEFER: Right. During the Investor Day conference, I'm so used to saying conference call that I misspeak sometimes.

NOONAN: Could I ask just one follow-up question? You said that you were told that the collateral posting was typical. I can't remember exactly the word you used, but it was sort of the normal course, nothing to be alarmed about. Do you remember who gave you that impression?



SULLIVAN: No. I think you asked that or somebody else. No, what I recall today is that that's what I understood the situation to be. I can't recall who told me, whether it came through the Financial Services line, whether it came through the Controller's line, I simply can't recall.

NOONAN: Did that understanding that you had ever change, that this was not, in fact, ordinary?

SULLIVAN: No. The only sort of recollection I have of any subsequent information was, I think, Steve mentioned to earlier was that I think, at some stage, I became aware that not all these contracts were identical, with different provisions in different documents. Personally, the only two collateral calls I have recollection of, I only have personal recollection of two. I mean they're the only two I can recall.

NOONAN: And which two are those?

SULLIVAN: One was Goldman and Calyon. I think the French bank.

NOONAN: Thank you.

SEEFER: Okay. So during the December 5th Investor Day presenta-

tion, after, I think, opening remarks by an assistant, you led off the call or the investor presentation and were making various remarks. And, at the conclusion of your opening remarks, you talked about the unrealized market valuation losses that were a part of the subject of the call, and you conclude your remarks [INAUDIBLE/STATIC NOISES]. Now at the end of the day, what is the bottom line, and what should you take away from today's discussions? And you gave a few sentences and said, quote, "First of all, that AIG has accurately identified all areas of exposure to the U.S. residential housing market, comma, second, we are confident in our marks and the reasonableness of our valuation methods. We cannot read the future, but we have, but we have a high degree of certainty what we have booked to date." Now, at that time, you knew, didn't you, about the dispute with Goldman and the valuation methods that each party was using, in terms of the collateral postings?

SULLIVAN: Well, there's two parts to that question.

SEEFER: Sure, and that's a fair point. At that time, you knew about the disputes between Goldman and AIG on the collateral postings. Correct?

SULLIVAN: Well, as I testified earlier, well I'm not testifying, but it's easier for me say. You struggle with "conference call," I'll struggle with "I testified earlier" or "mentioned earlier." I'm not sure of the date that I became aware of the Goldman collateral issue so I want to be clear on that. I can't recall. My date timeframe is whenever that partnership for the New York meeting took place, it was some stage around that time. So that's the first part.

The second part was about the different methodologies. Again, assuming that the timing was as I assume it was, then I think I mentioned earlier I didn't know the methodologies, what the respective [INAUDIBLE/COUGHING] I didn't know Goldman's, and I was aware from a valuation standpoint that there were these things called ABX and BET and whatever. So I'm not sure if I've answered your question, but I think there were two parts, and I think they link together, but I just want to make sure I've answered it.

SEEFER: And the reason I looked up is because I maybe misheard you. Did you say you were not familiar with the methods that were used to value the portfolio?

SULLIVAN: No. I said I think I mentioned earlier--we can look at the record--that I wasn't aware of what Goldman were using. And I had some understanding that the team were looking at various indices, if that makes sense, and external factors, to do the valuations from our perspective. That's when I said I'm not an accountant. I have some [INAUDIBLE/COUGHING] sounds like a bike, ABX and BET.

SEEFER: And it was that understanding that you had was the basis for the statement that "We are confident in our marks and the reasonableness of our valuation methods"?

SULLIVAN: At the time that's what I believed, and that's what everybody advised me.

SEEFER: Okay.

SULLIVAN: Steve's getting hungry now.

SEEFER: I actually heard that. The key question will be: did it make the tape? When we look at the company's public reports on the outstanding balance of the securities lending business, we see it starting to decline in book value in, I think, 4Q '07 to 1Q '08, 2Q '08, 3Q '08. Do you recall whether or not there was a

conscious decision within AIG to reduce that business?

SULLIVAN: Can I just clarify what you mean by the book value; you mean the total amount?

SEEFER: As opposed to the fair value, yes.

SULLIVAN: Okay. Because book value can have many different meanings.

SEEFER: Sorry. The fair value, unfortunately for AIG, was less than the book value as we went further into '07 and '08.

SULLIVAN: My recollection was that there was a desire to reduce that portfolio in an orderly fashion.

SEEFER: And when did that desire manifest itself. I'm sorry. Let me ask that differently. When did AIG--

SULLIVAN: He's getting hungry now, too. I think that one made the tape.

SEEFER: When did AIG decide to reduce the portfolio, and why did it make that decision?

SULLIVAN: From the best that I can recall, when obviously the market started changing, becoming somewhat illiquid. Asset values were diminishing fairly rapidly. Decision was taken that obviously, from our perspective--I'm jumping ahead; let me just finish here--that it would make sense that, given the rollover nature--and again I sound like an expert, but I'm not an investment expert; far from it--from the little I understand about securities lending, which is probably less than negative basis points, but, if the contract didn't roll over, if that's the right phrase, the counterparty could ask for their cash back. And obviously, you wouldn't want to be liquidating assets in an illiquid market or at a greatly reduced--

SEEFER: To raise cash.

SULLIVAN: To raise cash. Thank you. So the view was taken that it would be intelligent to reduce that portfolio over time to avoid that occurring. And, at some stage during that period of time, we also determined--which we, I think if I'm remembering correctly, advised the market of--we thought it was an astute thing to do, to hold cash in AIG, not only for any collateral or securities lending issue, but we could have an earthquake. We could have a typhoon. We could have a windstorm that would require us to respond accordingly to our clients. And, again, you

wouldn't want to be selling assets in a depressed, illiquid market. So at some stage, again I can't remember the timing, we made a decision to increase the cash position in AIG because we thought that was prudent to do in whatever circumstances for a liquidity issue. And I think, if I remember rightly, we advised the market of that, and the rationale also is the fact is that obviously we would lose investment income by hoarding cash. You weren't earning very much on cash, but we believed that was a prudent thing to do.

SEEFER: And do you recall, in terms of the securities lending portfolio, when that decision was made? Even just in terms of year. Was it '07? Was it '08?

SULLIVAN: To the best of my knowledge, I would think it would be '07 sometime, but I can't be certain.

SEEFER: Do you recall whether or not any of AIG's insurance regulators directed the company to reduce the balance of those portfolios? I should have--that portfolio?

MURPHY: The securities portfolio.

SEEFER: The securities lending portfolio.

SULLIVAN: I don't have a recollection of being instructed. I have a vague recollection of one regulator raising questions, but not to the point where instructions were issued, as you articulated. Again from the best of my memory.

SEEFER: Which insurance department was that?

SULLIVAN: Well, you're stretching back. To the best of my knowledge, I think it was Texas. I think.

SEEFER: And understanding that you're not sure it was Texas, what were the concerns?

SULLIVAN: Unfortunately, that's one question too many. I simply can't recall.

SEEFER: I mean let me try. Do you recall if their concerns were just too high a level of exposure?

SULLIVAN: I simply can't recall.

SEEFER: Okay. Did you have any interaction with the folks from the Office of Thrift Supervision?



SULLIVAN: Oh, yes.

SEEFER: Generally describe your interaction with them, in the time period that you're CEO. And then I'll follow up.

SULLIVAN: Stepping back in time, when I took office, one of the many things I did was, as I said, reach out to all our key state and federal regulators, to tell them that this was going to be an open and transparent organization. And one of the entities I met with was the OTS. I know they had people in our office so I didn't have to go very far to see them. One thing I did learn during that process was, my education of state capitals improved during that period of time because I didn't know Tallahassee was the state capital of Florida or Dover was the state capital of Delaware, but I did during that period of time. But with regard to the OTS, they had people in our office, and very shortly after taking office, I reached out to them and went and met with them.

SEEFER: Okay. Let me ask you a couple of things. In 2004, that Financial Conglomerate Directive came down that required conglomerate companies, like AIG, to have a consolidated supervisor [INAUDIBLE/COUGHING] is the terminology. Were you involved at

all within AIG determining who AIG would ask to be there as consolidated supervisor?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Do you know who was?

SULLIVAN: Well, specifically, no. But there was a CEO before me, and you'd have to ask him.

SEEFER: Okay. You said that when you took over as CEO, you reached out to the OTS and others to say, "We're going to be an open and transparent organization." Was Financial Products open and transparent with the OTS?

SULLIVAN: Well, all I can tell you is that, certainly during my discussions with them, they raised no issues pertaining to certainly initially when I reached out to them, I can't recall any issues on FP. There may well have been some minor issues, but my recollection is the reports that I received or saw from the OTS were positive reports on the entities that they were looking at.

SEEFER: And my understanding is the OTS did both regular examinations and targeted examinations, including some targeted ex-

aminations of the Financial Products Group. Did you receive the reports that the OTS prepared?

SULLIVAN: I have a recollection of seeing reports from the OTS.

SEEFER: Okay. They performed a targeted examination of the Financial Products Group that spanned, ballpark, April of '07 to July of '07. Do you recall that targeted exam, by any chance?

SULLIVAN: Not sitting here today. I'm not saying they didn't, but I don't recall it.

SEEFER: Okay. Do you recall receiving a report from that exam?

SULLIVAN: Not sitting here today. I'm not saying I didn't though.

SEEFER: Right. In the normal course of business, would you receive the examination reports that the OTS prepared on the institution? I'm sorry, on AIG or any of its subsidiaries?

SULLIVAN: To the best of my knowledge, yes, sir.

SEEFER: Okay. So understanding you don't recall, you don't have any reason to believe you didn't receive it.

SULLIVAN: I think that's what I said.

SEEFER: Right. And I take it when you received them, you reviewed them.

SULLIVAN: That would be my normal practice, yes. I think it might helpful, if you don't know, also that the OTS had dialogue, of course, with, and access to, members of the board and, in particular, the Legal, Regulatory and Compliance Committee headed by Steve Hammerman.

SEEFER: Sure. Thank you.

SULLIVAN: So it wasn't just me; there was board connectivity as well.

SEEFER: No, I understand. Everybody that I interview, I ask what their interaction was and what they knew about things. So yes, I understand.

SULLIVAN: I'm just trying to be helpful.

SEEFER: Thank you. Okay. So in March of '08, the OTS sent AIG a letter downgrading their rating from a composite 2 to a composite 3, I believe. Do you recall that letter or that downgrade?

SULLIVAN: In March of '08.

SEEFER: Correct.

SULLIVAN: I have some recollection of that.

SEEFER: And what do you recall about the reasons for the downgrade?

SULLIVAN: Sitting here today, I can't recall the details. But it was obviously after the 10K was issued--the 8K was issued.

SEEFER: Right, and I don't think coincidentally. Did you ever have any discussions with anyone at the OT--strike that. Did anyone at the OTS ever voice any concerns to you about the multi-sector book and FP?

SULLIVAN: To the best of my knowledge, no, sir.

SEEFER: Not even after the 8K?

SULLIVAN: Absent what was ever in that report that I can't recall. And I'm not being flippant there, I'm just--

SEEFER: No, and I didn't take it that way. And I'm asking you actually other than the written communication in March, I'm more asking you about did anybody from the OTS talk to you about concerns on the multi-sector book?

SULLIVAN: To the best of my knowledge, I can't recall, sir.

SEEFER: Okay. Same question for the securities lending business?

SULLIVAN: No, I can't recall.

SEEFER: Let me take a look at my notes. I think we're getting close, although I haven't asked Dixie if she wants to ask questions. Okay. So let me ask you, and I'm sure I forgot stuff, and if I did, I'll get in touch with your lawyers. But let me ask you the question that I essentially ask everybody at the end of the interview.

ROSS: Before you get to say your conclusion question, with respect to the OTS report that you've, the specific OTS report that you've asked about, is that something that we could get a copy of?

SEEFER: I've asked about two.

ROSS: Right. So that's true. Both of them. Okay. Are those things that we could get a copy of?

SEEFER: That I don't know. Since I suspect the OTS has marked them confidential, let me look into that. I suspect you had them at the time. I don't if that makes any difference in terms--

ROSS: It doesn't mean that he has them now.

SEEFER: --of getting them from AIG. We'll talk about that when we get done here. We don't need to have that on the tape.

ROSS: Okay.

SEEFER: Unless you wanted it on the tape.

ROSS: No.

SEEFER: Okay. Now that you've had a couple of years to look back on everything, these are the questions we've been asking everybody who worked at institutions or regulatory agencies for institutions that got in trouble and either failed or required exceptional government assistance. Tell us, now that you've had a chance to think about it, what mistakes were made? What lessons have been learned from what happened at AIG, understanding that it wasn't a good ending for AIG or the U.S. taxpayer?

SULLIVAN: It's a very long question. I mean I'll be very frank, I've not given a great deal of thought. I left AIG after 37 years. It was my life so while some may enjoy two years of playing golf, I haven't because I never expected to have to. Without thinking about it, maybe I can think about it; I mean it's obviously with the benefit of hindsight which nobody has or very few have, if one had an understanding of what would have occurred in the housing market and thereby the global asset crisis, certain entities may have made different decisions. I mean I'd have to think beyond that. I mean I really haven't given it a tremendous amount of thought, and maybe that's something I can think about.



SEEFER: Let me ask you, do you believe there were any failings in risk management at AIG, given what happened?

SULLIVAN: Look, at the time I left, as I mentioned, we had built up a lot of cash. I'm not sure I don't have access to the public documents. We had a lot of cash. And what occurred after I left the organization, I don't know what occurred because, when you leave, trust me, you leave. Certainly there was no indication of that occurring when I left the company.

SEEFER: Of what occurring?

SULLIVAN: Well, what subsequently occurred in September. As I said, trust me, when you leave the organization, you leave. So other than that, I'll give it more thought. Bizarre as it may seem, this has not been a pleasant two years.

SEEFER: Not bizarre at all.

SULLIVAN: Not pleasant, or [INAUDIBLE].

SEEFER: Do you believe that there was lack of adequate oversight of the Financial Products Group and specifically the super senior book?

SULLIVAN: No. As I mentioned earlier, to the best of my knowledge, the super senior portfolio had oversight both within FP and by corporate risk, by individuals--sorry, corporate risk and enterprise risk, headed by Bob Lewis and Kevin McGinn, who are, to the best of my knowledge, still at the organization. I think there was, and the reports that I was receiving, based on that oversight, indicated there was not an issue with the portfolio, until obviously, as we discussed, that \_\_\_\_\_ around the third or fourth quarter of '07.

SEEFER: Do you think there were any problems with AIG's compensation system?

SULLIVAN: That's a very broad question. I had to change the compensation for AIG when I took office because, as I mentioned earlier, 700 of the senior officers and a smaller group of 40 received their compensation from other entities.

SEEFER: Mr. Sullivan, thank you very much for your time today. I appreciate it.

SULLIVAN: Well, thank you very much indeed. Thank you. Nice to see you.

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4845-1135-9494, v. 1