

**TESTIMONY BY MR. ROBERT BENMOSCHE  
PRESIDENT & CHIEF EXECUTIVE OFFICER  
AMERICAN INTERNATIONAL GROUP**

**BEFORE THE CONGRESSIONAL OVERSIGHT PANEL**

**WEDNESDAY, MAY 26, 2010**

CHAIR WARREN AND MEMBERS OF THE PANEL, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DESCRIBE AIG'S PROGRESS IN STABILIZING THE COMPANY, PRESERVING AND GROWING THE VALUE OF ITS BUSINESSES, REDUCING RISK, AND REPAYING U.S. TAXPAYERS.

I JOINED AIG IN AUGUST 2009, WITH THE PRIORITY GOALS OF STABILIZING THE COMPANY AND BOOSTING EMPLOYEE MORALE. THROUGHOUT MY YEARS IN THE INSURANCE INDUSTRY I RESPECTED AIG AS A COMPANY AND AS A COMPETITOR. I VIEWED THIS JOB AS AN OPPORTUNITY TO GET AIG BACK ON ITS FEET AND RESTORE CREDIBILITY AND CONFIDENCE TO A GREAT COMPANY.

THOUGH I HAVE BEEN AT AIG JUST NINE MONTHS, I SEE SUBSTANTIAL PROGRESS. WE ARE REDEFINING OUR STRATEGY, RESTORING OUR

FINANCIAL STRENGTH, STRENGTHENING OUR KEY BUSINESSES, BOLSTERING OUR CORPORATE GOVERNANCE, INSTILLING A FOCUS ON PERFORMANCE MANAGEMENT, AND MAKING STRATEGIC HIRES TO ENSURE THAT OUR REMAINING BUSINESSES THRIVE.

OF COURSE, WERE IT NOT FOR THE COMMITMENT OF THE U.S. GOVERNMENT AT A TIME OF GREAT UNCERTAINTY, AIG WOULD NOT BE ON THE PATH IT IS TODAY. FOR THIS, I WANT TO THANK THE GOVERNMENT AND THE AMERICAN PEOPLE. IT IS NOT LOST ON AIG'S MANY EMPLOYEES THAT THE TURNAROUND WE HAVE EMBARKED UPON WAS MADE POSSIBLE BY THE DIRECT SUPPORT OF AMERICAN TAXPAYERS.

SINCE RECEIVING THAT SUPPORT, AIG HAS WORKED IN CLOSE COORDINATION WITH THE NEW YORK FEDERAL RESERVE BANK AND U.S. TREASURY DEPARTMENT SO THAT THEY ARE CONSTANTLY AWARE OF, AND CAN HAVE INPUT ON, OUR STRATEGIC DECISIONS AND PLANNING. WE APPRECIATE VERY MUCH THE CONSTRUCTIVE ROLE THAT THEY HAVE PLAYED.

WITH THIS SUPPORT, THE COMPANY REMAINS A SIGNIFICANT CONTRIBUTOR TO THE U.S. ECONOMY AND A CRITICAL PROVIDER OF

FINANCIAL SECURITY TO COUNTLESS COMMUNITIES AND INDIVIDUALS  
ACROSS THE COUNTRY.

AIG HAS OVER 40,000 HARD-WORKING AND DEDICATED EMPLOYEES IN  
CITIES AND TOWNS ACROSS THE COUNTRY. IN ADDITION, TENS OF  
MILLIONS OF PEOPLE IN THE UNITED STATES ARE EMPLOYED BY ENTITIES  
PROTECTED BY OUR COMMERCIAL INSURANCE COVERAGE.

AIG IS ONE OF THE LARGEST HOLDERS OF U.S. MUNICIPAL BONDS,  
PROVIDING A MUCH-NEEDED SOURCE OF CAPITAL FOR MUNICIPALITIES  
ACROSS THE COUNTRY TO PURSUE DEVELOPMENT GOALS THAT RANGE  
FROM NEW SCHOOLS TO BETTER ROADS, BRIDGES AND TUNNELS.

CHARTIS, OUR PROPERTY AND CASUALTY GROUP, HAD GROSS WRITTEN  
PREMIUMS OF MORE THAN \$40 BILLION IN 2009, SERVING MORE THAN 40  
MILLION CUSTOMERS WORLDWIDE.

SUNAMERICA FINANCIAL GROUP, OUR LIFE AND RETIREMENT SERVICES  
BUSINESS, WHICH IS ONE OF THE LARGEST LIFE INSURANCE  
ORGANIZATIONS IN THE U.S., SERVED MORE THAN 16 MILLION  
CUSTOMERS IN 2009.

ILFC, OUR AVIATION LEASING COMPANY, HAS A FLEET OF APPROXIMATELY 1,000 AIRCRAFT AND HAS PURCHASED MORE BOEING AIRCRAFT THAN ANY OTHER AIRLINE OR LEASING COMPANY SINCE 1990.

AT AIG, WE TAKE SERIOUSLY THE RESPONSIBILITY THAT COMES WITH BEING SO HEAVILY INTEGRATED WITH THE U.S. ECONOMY. BY RESTORING AIG'S HEALTH, WE CAN CONTRIBUTE TO RESTORING THE STRENGTH OF THE AMERICAN ECONOMY. AND WE HAVE MADE IMPORTANT STRIDES.

WE ARE WELL ON OUR WAY TO REMAKING AIG INTO A MORE STREAMLINED AND FOCUSED COMPANY. AND AS WE WORK TOWARD THAT GOAL, WE REMAIN COMMITTED TO MAKING SURE THAT OUR COMPANIES ARE STRONG – WITH SOUND, WELL-MANAGED BUSINESSES; A TRANSPARENT AND CONSISTENT GOVERNANCE SYSTEM THAT PROVIDES PROPER OVERSIGHT; AND A RISK PROFILE AND CAPITAL STRUCTURE IN WHICH OUR CUSTOMERS, REGULATORS, EMPLOYEES, SHAREHOLDERS, AND OTHER STAKEHOLDERS CAN HAVE CONFIDENCE.

PRIOR TO MY ARRIVAL, AIG HAD FOCUSED ON REPAYING TAXPAYERS BY MOVING QUICKLY TO DIVEST CERTAIN KEY PARTS OF THE ORGANIZATION. ALTHOUGH THE COMPANY FACED PRESSURE FROM MULTIPLE STAKEHOLDERS TO QUICKLY SELL ASSETS TO SHOW PROGRESS, I KNEW THAT THIS WAS NOT THE BEST COURSE OF ACTION

AND COULD NEVER RESULT IN THE SUCCESSFUL REPAYMENT OF TAXPAYERS. I REVIEWED THIS APPROACH AND IMMEDIATELY SET ABOUT TO MAKE CHANGES THAT WOULD SECURE GREATER VALUE FOR TAXPAYERS.

THIS STRATEGY IS BEGINNING TO PAY OFF. AS YOU KNOW, WE RECENTLY ANNOUNCED THE SALES OF TWO INTERNATIONAL LIFE INSURANCE SUBSIDIARIES, AIA AND ALICO, FOR A TOTAL OF APPROXIMATELY \$51 BILLION – NEARLY \$30 BILLION IN CASH AND APPROXIMATELY \$21 BILLION IN SECURITIES. AIG IS COMMITTED TO THE SALE OF AIA TO PRUDENTIAL PLC AS IT PRESENTS A STRONG BUSINESS CASE AND MAKES AIG A MAJOR SHAREHOLDER IN PRUDENTIAL PLC.

THE AIA AND ALICO TRANSACTIONS, WHEN CLOSED, WILL DEMONSTRATE BOTH THE INHERENT STRENGTH OF OUR BRANDS AS WELL AS THE SUCCESS OF OUR STRATEGY TO MAXIMIZE THE VALUE OF OUR ASSETS. ONCE CLOSED, THEY WILL MEAN THAT AIG CAN REPAY THE FEDERAL RESERVE BANK OF NEW YORK WITH THE CASH, AND SELL THE SECURITIES OVER TIME TO FURTHER REPAY THE GOVERNMENT.

THESE TRANSACTIONS GIVE AIG GREATER FLEXIBILITY TO MOVE FORWARD WITH OUR RESTRUCTURING AND REBUILDING EFFORTS, AND

ALLOW US TO FOCUS ON ENHANCING THE VALUE OF OUR KEY BUSINESSES.

THE SUCCESSES THAT AIG HAS ACHIEVED OVER THE LAST YEAR ARE NOW ALSO BEING REFLECTED IN THE MARKETPLACE, AS OUR RECENTLY ANNOUNCED FIRST QUARTER 2010 EARNINGS INDICATE.

AIG'S INSURANCE BUSINESSES HAVE REMAINED HEALTHY. CHARTIS'S FIRST QUARTER OPERATING INCOME WAS \$879 MILLION COMPARED TO \$710 MILLION IN THE FIRST QUARTER OF 2009, A 24-PERCENT INCREASE. CHARTIS HAS BEEN TAKING IMPORTANT ACTIONS TO FURTHER STRENGTHEN THEIR RISK MANAGEMENT AND POSITION THEIR BUSINESS FOR THE FUTURE.

SUNAMERICA FINANCIAL GROUP REPORTED FIRST QUARTER OPERATING INCOME OF \$1.1 BILLION COMPARED TO AN OPERATING LOSS OF \$160 MILLION IN THE FIRST QUARTER OF 2009, AS INVESTMENT INCOME INCREASED AND MORE DISTRIBUTION PARTNERS SOLD OUR PRODUCTS. THIS BUSINESS HAS CONTINUED TO STABILIZE AND WILL CONTINUE TO PLAY A KEY ROLE IN AIG'S DIVERSIFICATION OF INCOME.

IN 2010, ILFC WAS ABLE TO ACCESS THE CREDIT MARKETS ON BOTH A SECURED AND UNSECURED BASIS, AND RAISED APPROXIMATELY \$4 BILLION TO MEET ITS FINANCIAL AND OPERATING OBLIGATIONS.

AT AIG FINANCIAL PRODUCTS CORP (AIGFP), OUR EMPLOYEES CONTINUE TO MAKE SUBSTANTIAL PROGRESS IN REDUCING AND DE-RISKING THE PORTFOLIO FROM A HIGH OF OVER \$2 TRILLION AT THE END OF 2008 TO \$755 BILLION AS OF MARCH 31, 2010. OUR STRATEGY REMAINS TO EXIT THE VAST MAJORITY OF THE RISK AT AIGFP BY THE END OF THIS YEAR.

THESE MANY ACCOMPLISHMENTS ARE ENABLED BY THE DEDICATION AND TIRELESS EFFORTS OF TENS OF THOUSAND OF AIG EMPLOYEES. I STRONGLY BELIEVE THAT HOLDING EMPLOYEES ACCOUNTABLE FOR RESULTS AND PAYING FOR PERFORMANCE ARE KEY HALLMARKS OF GREAT COMPANIES. AT AIG, IT IS CRITICAL THAT WE STRIKE THE RIGHT BALANCE BETWEEN PAYING COMPETITIVELY SO THAT WE ATTRACT AND RETAIN TOP TALENT, WHILE ENSURING THAT PAY LEVELS ARE APPROPRIATE IN LIGHT OF THE GOVERNMENT'S SUPPORT OF AIG.

WE ARE DEVELOPING AND IMPLEMENTING NEW COMPENSATION AND REWARD PROGRAMS THAT WILL RECOGNIZE OUR EMPLOYEES' CONTRIBUTIONS AND DIFFERENTIATE PAY BASED ON PERFORMANCE.

AT THE SAME TIME, WE ARE DEVELOPING LONG-TERM INCENTIVE COMPENSATION PROGRAMS THAT PROMOTE SOUND JUDGEMENT ON RISK. THESE ARE IMPORTANT STEPS IN CREATING A TRANSPARENT AND CONSISTENT PERFORMANCE MANAGEMENT CULTURE – ONE THAT ENSURES THAT OUR EMPLOYEES’ DAY-TO-DAY ACTIVITIES ARE ALIGNED WITH THE INTERESTS OF TAXPAYERS.

UNDER THIS APPROACH, WE ARE RETAINING TOP TALENT AS WELL AS ATTRACTING NEW TALENT WE NEED TO MANAGE OUR BUSINESSES. AND ALL OF US ARE WORKING TOGETHER TO ENSURE THAT AIG MEETS ITS OBLIGATIONS.

AIG IS NOW ON A CLEAR PATH TO REPAYING TAXPAYERS. IN RECENT MONTHS, WE HAVE BECOME LESS RELIANT ON GOVERNMENT AID AND HAVE BEEN ABLE TO INSTEAD TAP THE CAPITAL MARKETS. WE ARE WORKING HARD TO COMPLETE THE SALES OF AIA AND ALICO BY THE END OF THIS YEAR, TO INCREASE PROFITS AT OUR REMAINING BUSINESSES AND TO IMPROVE OPERATING RETURNS. THEN WE CAN BEGIN TO EXAMINE THE ALTERNATIVES WE HAVE TO ADDRESS THE TREASURY’S TARP INVESTMENT AND EQUITY HOLDINGS.



CHAIR WARREN AND MEMBERS OF THE PANEL, I AM CONFIDENT THAT  
AIG IS ON THE RIGHT TRACK, WITH SOUND, WELL-MANAGED BUSINESSES  
THAT ENABLE US TO REPAY THE U.S. GOVERNMENT AND THAT CONTINUE  
TO PROVIDE GREAT VALUE TO THE COMMUNITIES WHERE WE OPERATE.

THANK YOU AGAIN FOR YOUR INVITATION TO TESTIFY AND I LOOK  
FORWARD TO ANSWERING YOUR QUESTIONS.

**ADDENDUM TO TESTIMONY BY MR. ROBERT BENMOSCHE  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
AMERICAN INTERNATIONAL GROUP, INC.**

**BEFORE THE CONGRESSIONAL OVERSIGHT PANEL**

**WEDNESDAY, MAY 26, 2010**

- I. Chartis Progress Since September 2008**
- II. SunAmerica Financial Group Progress**
- III. AIG Restructuring Progress**
- IV. AIG Financial Products Corp. Unwind Progress**

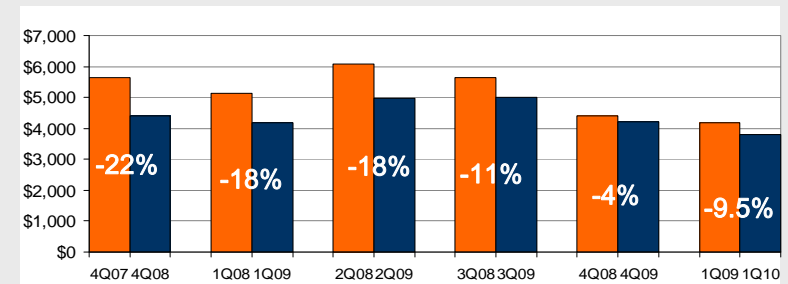


# I. Chartis Progress Since September 2008

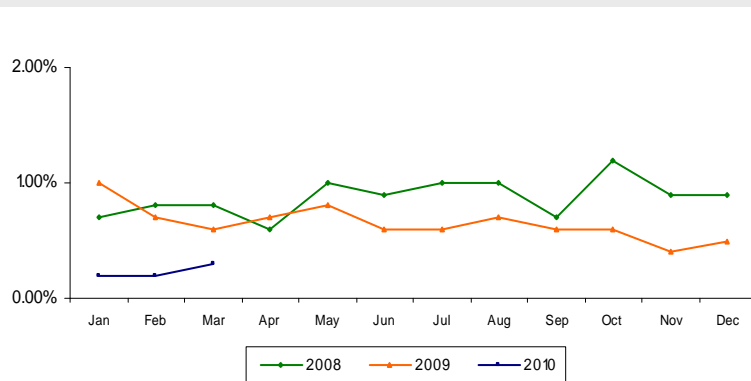
Chartis continues to show significant improvement in business performance quarter over quarter despite challenges from the economy and a soft property-casualty market. Its franchise has emerged from the issues of 2008-2009 more formidable and its leadership position is secure.

- **Net Premiums:** Continue to improve; decline in recent period driven by the economy and deliberate strategy to reduce policy writings in lines with unfavorable pricing
- **Employee Retention:** Performing better than prior year periods and overall historically; over 14,000 U.S. employees
- **Business Retention:** Retention of business premium continues to improve; first quarter 2010 best performing quarter since Sept. 2008

### Net Premium Writings in U.S.



### Voluntary Employee Turnover (U.S.)



### Business Retention

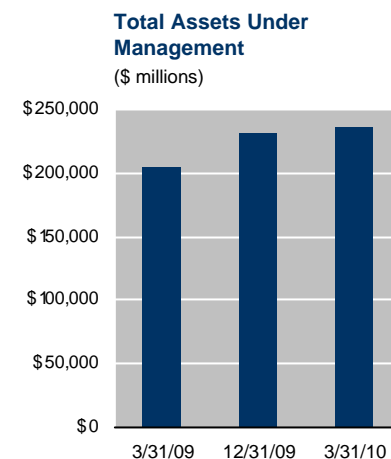
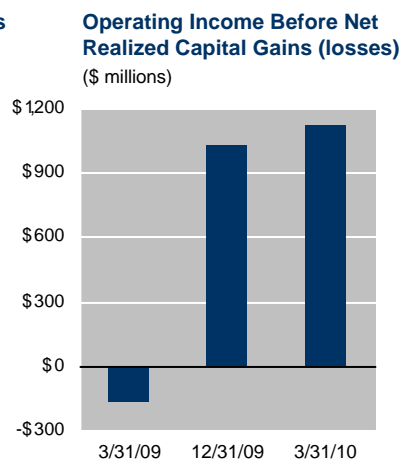
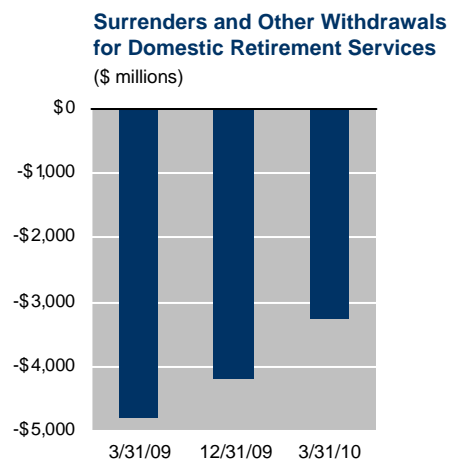
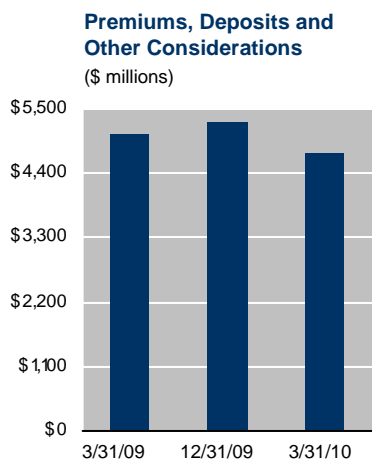




## II. SunAmerica Financial Group Progress

### Comparison of quarterly results shows progress toward stabilization and return to normalcy

- Premiums and deposits for fourth quarter 2009 were 4% higher than first quarter 2009
  - Premiums and deposits did decrease in first quarter 2010 primarily due to a decline in industry sales of individual fixed annuities as rates on bank CDs became more competitive; continued to maintain #1 ranking for fixed annuity sales in banks for first quarter 2010
- Surrenders have decreased significantly over the last year and have returned to historic levels
  - Domestic Retirement Services surrender levels for first quarter 2010 were 32% lower than first quarter 2009
- Operating income for first quarter 2010 was \$1.123 billion compared to a loss of \$160 million in first quarter 2009
- Total assets under management increased by 15% from March 31, 2009 to March 31, 2010





## III. AIG Restructuring Progress

**AIG has made substantial progress in achieving its restructuring objectives.**

### Goals / Objectives

- Development of strong insurance businesses worthy of investor confidence to stabilize and protect the value of AIG's important franchise businesses
- Divestment of assets and implementation of restructuring program to enable repayment to the U.S. government
- Comprehensive review of AIG's cost structure to significantly reduce operating costs
- Wind-down of AIG's exposure to certain financial products and derivatives trading activities to reduce excessive risk

### Progress to Date

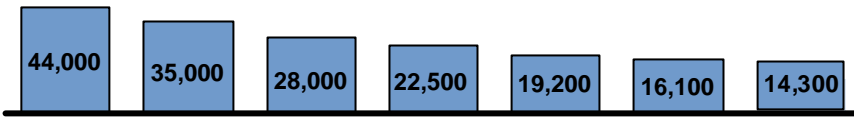
- Over the last several months, AIG has accomplished the following:
  - **Strengthening Capital Base** – AIG's insurance subsidiaries are strong and well capitalized
  - **Significant Asset Sales** – The pending sales of AIA, ALICO, and Nan Shan for \$53 bn will provide AIG with funds to repay the FRBNY Facility. In the aggregate, AIG has announced or completed over \$66 bn of divestitures
  - **Major Financings** – ILFC and AGF have stabilized their capital structures through nearly \$12 bn of financing and capital markets transactions, covering maturities into 2012
  - **Expense Reduction Initiatives** - AIG has initiated new policies and procedures aimed at reducing expenses and improving efficiencies
  - **De-Risking** – AIGFP has made substantial progress in its unwind



# IV. AIG Financial Products Corp. Unwind Progress

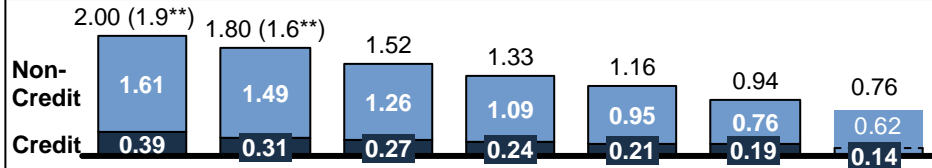
9/30/08 12/31/08 3/31/09 6/30/09 9/30/09 12/31/09 3/31/10 **Comments (since 12/31/08)**

## Approximate number of outstanding trade positions



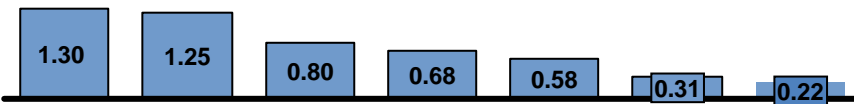
- Significant progress made in reducing portfolio size, with 59% of trades removed since 12/31/08
- Portfolio complexity has been greatly reduced
  - Counterparties reduced by ~43%
  - Long dated trades (>50 years) reduced by 91% from 67 to 6

## Notional of derivatives outstanding (\$ Trillion, FAS 161 adjusted\*)



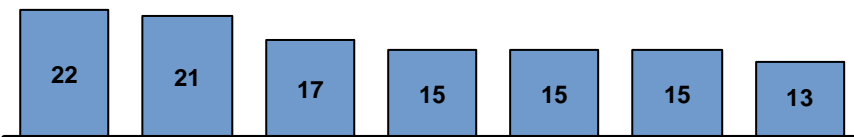
- Total derivative notional is \$755 B as of 3/31/10
- 58% of 'Non-credit' derivatives terminated or reduced since 12/31/08
- 55% of credit notional terminated or reduced since 12/31/08
  - 53% reduction in Reg Cap (\$234 B to \$109 B)
  - 69% reduction in Corp Arb (\$51 B to \$16 B)
  - 40% reduction in Other Credit (\$20 B to \$12 B)

## Estimated Exposure to change in volatility (Gross Vega in \$ Billion)\*\*\*



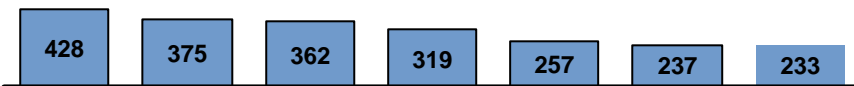
- Portfolio has been significantly de-risked, with overall hedging volatility reduced by 82% since 12/31/08
  - Interest Rates – down 82%
  - Commodities – down 99%
  - Foreign Exchange – down 88%

## Number of businesses (risk books)



- 8 books almost completely exited since 12/31/08, including both Commodities books, FX, Infra, 2 Fund of Fund books & PRD; prime brokerage exited in 2008
  - Priority in 2010 to pursue strategies to unwind complete books (e.g., business sales, portfolio transfers)
- Note: Risk book reduction determined as 75% of trade count or risk reduced*

## Number of employees



- Headcount reduction of 38% is in line with ongoing unwind of portfolio and operations since 12/31/08
- FP closed Tokyo office in Q3 2009

\* Due to FAS 161, FP is changing its methodology for computing notional, leading to a slight increase of previously reported values; Sept and Dec FAS 161 notionals are estimates

\*\* Unadjusted for FAS 161

\*\*\* The Gross Vega is calculated as the sum of all the individual positions' absolute vegas as if each position is not hedged. Although FP's books are almost completely hedged on a net Vega basis, the Gross Vega measure will help monitor how well the volatility risk is being eliminated. The interest rate option vega denotes the change in value due to a 0.1% increase in normal volatility. For other derivatives (i.e., Equity, Commodity and FX option), vega denotes the change in value due to a 1% increase in lognormal volatility.