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EDWARD LIDDY DELIVERS TESTIMONY TO HOUSE SUBCOMMITTEE

NEW YORK, Mar. 18, 2009 – AIG Chairman and Chief Executive Officer Edward Liddy delivered the following remarks today at a hearing held today by a subcommittee of the U.S. House of Representatives:

"Thank you Chairman Kanjorski, Ranking Member Garrett, Members of the Subcommittee. I appreciate the opportunity to appear before you, as the representatives of our largest shareholder – the American people.

"My name is Edward Liddy. Six months ago, I came out of retirement to help my country. At the government's request, I have had the duty and extraordinary challenge of serving as Chairman and Chief Executive Officer of American International Group – AIG. I speak to you today on behalf of 116,000 AIG employees around the world who are united around one simple belief: when you owe someone money, you pay that money back.

"I'm sure we all share that belief. I believe that you and I also share a common agenda today – to clean up the mess at AIG, and in the process help get the American economy moving again.

"Let me speak directly to the situation at AIG that has sparked the nation's outrage over the past several days.

"No one knows better than I that AIG has been the recipient of generous amounts of government aid. We are acutely aware not only that we must be good stewards of the public funds we have received, but that the patience of America's taxpayers is wearing thin.

"Where that patience is especially thin is on the question of compensation. I am personally mindful both of the environment in which we are operating and the President's call for a more restrained compensation system.

"At the same time, we are essentially operating AIG on behalf of the American taxpayer so that we can maximize the amount we pay back to the government. We weigh every decision with one priority in mind: will this action help our ability to pay monies back to the government or hurt it?

"Although we have wound down more than \$1 trillion in the portfolio of AIG Financial Products – the unit that is at the root of our financial problems – that portfolio remains very large – \$1.6 trillion – and it continues to contain substantial risk. The financial downside for taxpayers is potentially very large and very real, and that's why we're winding this business down.

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"To prevent undue risk exposure in the meantime, AIG has made a set of retention payments to employees based upon a compensation system that prior management put in place. Payments were made to employees in the Financial Products unit that caused many of AIG's problems. And Americans are asking – why pay these people anything at all?

"Here is why. I am trying to prevent an uncontrolled collapse of that business. This is the only way to improve AIG's ability to pay taxpayers back quickly and completely, and the only way to avoid a systemic shock to the economy that U.S. Government help was meant to prevent.

"Make no mistake, had I been CEO at the time I would never have approved the retention contracts that were put in place over a year ago. It was distasteful to have to make these payments. But we concluded that the risks to the company, and therefore the financial system and the economy, were unacceptably high.

"That said, we have heard the American people loudly and clearly these past few days. The payment of large bonuses to people in the very unit that caused so much of AIG's financial trouble does not sit well with the American taxpayer, and for very good reason.

"Accordingly, today I have asked the employees of AIG Financial Products to step up and do the right thing. Specifically, I have asked those who received retention payments of \$100,000 or more to return at least half of those payments.

"Some have already stepped forward and offered to give up 100 percent of their payments.

"The action we are taking today is the result of discussions with numerous parties, including Attorney General Cuomo of New York. We will work to ensure the highest level of employee participation in this effort in the days ahead. And we will keep the Congress and the American people informed of our progress.

"Obviously, we are meeting today at a high point of public anger. I share that anger. As a businessman of some 37 years, I have seen the good side of capitalism. Over the last few months, in reviewing how AIG had been run in prior years, I have also seen evidence of its bad side.

"Mistakes were made at AIG on a scale few could have ever imagined possible. The most critical of those was the creation of a credit default swap portfolio, which eventually became subject to massive collateral calls that created a liquidity crisis for AIG.

"I agreed to take the reins at AIG last September, after the company had turned to the U.S. Government for financial support. On behalf of my colleagues, I want to thank the Federal Reserve and the U.S. Treasury for making the extraordinarily tough call to provide that support. It has meant that together we have been able to preserve jobs and businesses, and protect policyholders who rely on the promise of insurance to secure their well-being.

"We are moving urgently on a business plan designed to maximize the value of our core businesses, so that in turn we can maximize the amount that we repay to American taxpayers. We at AIG want to believe that we are all in this together. I have led AIG for six months now. And I want to assure you that the people at AIG today are working as hard as we can to solve this problem for the benefit of America's taxpayer.

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"And we need your help. We need the support of the congress to do this. And if we do this together, I am confident we can achieve two hugely important things:

- Repayment of AIG's debt to the government to the maximum extent possible;
- And a solution to AIG's condition that is a giant stepping stone to the economic recovery we all desire.

"With that, Mr. Chairman, I would request that my remarks and several additional documents be included in the hearing record, and I am happy to respond to your questions. Thank you."

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