SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

THE PEOPLE OF THE STATE OF NEW YORK, by ERIC T. SCHNEIDERMAN, Attorney General of the State of New York, Plaintiff, - against - MAURICE R. GREENBERG and HOWARD I. SMITH Defendants.	Hon. Charles E. Ramos Part 53 Index No. 401720/2005 **AFFIDAVIT OF CHARLENE HAMRAH**

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

CHARLENE HAMRAH, being duly sworn, says:

1. At the request of Plaintiff I submit this affidavit. I understand this affidavit will be offered into evidence as my direct testimony in the trial of the above-captioned matter. As to certain of the matters set forth below, my recollection has been refreshed by reviewing documents that are appended to this affidavit or that are publicly available and the transcripts of testimony I provided at a deposition in this action and as a witness in another proceeding involving the Gen Re transaction.

2. During the period 2000 through 2005, I was Director and then Vice-President, Investor Relations at AIG. In that capacity, I performed certain functions pertaining to AIG's

quarterly earnings reports that it issued in press releases, and the communication of financial information reported therein. I am personally familiar with the facts set forth herein.

Background: My Education and Employment at AIG

3. I earned a B.S. degree from Caldwell College and an M.B.A., with a concentration in finance, from Rutgers University.

4. After working as a teacher and for several years at another insurance company, I joined AIG in 1986. My initial responsibilities were financial planning and analysis in the corporate controller's office; after that I became the controller for an AIG subsidiary known as AIG Specialty Agencies, and after that I had a variety of special project responsibilities at different units within the company and on the corporate staff.

5. In 1991, I was appointed Director of Investor Relations at AIG. I held that title, or the title of Vice-President, Investor Relations, until I left AIG in late January 2009. In these positions, I was AIG's principal spokesperson to the investment community. Until they both left the company in 2005, I reported directly to AIG's then Chief Financial Officer, Howard I. ("Howie") Smith, and I had a regular working business relationship with the then Chief Executive Officer, Maurice R. ("Hank") Greenberg.

6. One of my responsibilities as head of Investor Relations included participation in the preparation of AIG's quarterly earnings releases and serving as the liaison between AIG and the investment community about those earnings releases. Especially around the time of the earnings release, I would field the calls the company received from representatives of the investment community, including institutional investors and research analysts who followed AIG, as well as relay the reactions of analysts and others to AIG's senior management, including Mr. Greenberg and Mr. Smith.

AIG's Earnings Releases; the Roles of Mr. Greenberg and Mr. Smith; Loss Reserves

7. Each quarter, AIG publicly announced its quarterly (and, in the case of the last quarter of the year, its year-end) earnings and other financial information in a written communication known as an earnings release. Typically, the earnings releases were issued on a Thursday a few weeks following the close of a calendar quarter. In my experience, the information in AIG's earnings releases and the information conveyed about the releases in follow-on conversations with analysts and others were elements relied upon by the investment community to evaluate the company's financial condition and future prospects and in making investment recommendations.

8. The drafting and preparation of earnings releases at AIG included the input of senior executives. Generally, before the first draft was prepared, senior AIG management met to discuss what, in addition to the financial figures, should be included in the earnings release. Until early 2005, the regular participants in those meetings were Hank Greenberg, Howie Smith, Ed Matthews (then a Vice-Chairman of AIG), Mike Castelli or whomever was then the Controller, the Vice President of corporate communications, and me. Once the quarterly financial figures were available from the controller's office, my staff and I, as well as the corporate communications department, would then prepare a draft for review by Hank Greenberg, Howie Smith, Ed Matthews, members of corporate accounting, Kathy Shannon (in-house counsel) and corporate communications. Occasionally, the senior AIG management group that met before the earnings release was drafted would again meet to discuss comments on the draft earnings release. On other occasions, my staff and I would receive written or oral comments from this group.

9. Until he departed as CEO of AIG, Mr. Greenberg set the tone for the company's earnings release. He gave us an idea of what he wanted to see included, and he provided comments on the draft earnings releases. The release typically included quotes, sometimes extensive, from Mr. Greenberg. While Mr. Greenberg did not personally draft the quotes attributed to him, he directed the message the quotes were meant to convey, and he reviewed and approved all quotes attributed to him before any earnings release was finalized and published. Mr. Greenberg and Mr. Smith both reviewed AIG's earnings releases before they were published, and the final release would not go out without Mr. Greenberg's approval.

10. Once the earnings release was issued, it was my responsibility to field the calls about AIG's quarterly performance that came in from research analysts, institutional investors and others. In the 2000-2001 period, these calls were one-on-one, not conference calls with large groups of analysts as became the norm in later years. To prepare for these calls, and to be able to provide (to the best of my ability) accurate information in response to callers' questions, I had to familiarize myself with the financial information contained in the releases as well as the content of the accompanying narrative information. To do this, I would often speak with executives in the corporate controller's office and in the various AIG subsidiaries or business units whose results were highlighted in a particular earnings release. In this process, I relied on the accuracy of the financial information provided to me, and tried to convey the talking points that I prepared for my anticipated calls with investors and analysts that were reviewed by Mr. Smith.

11. Shortly after the earnings release was issued, I would field many calls from analysts and others, often one right after another. I generally took notes of the questions or issues raised by the analysts, so I could report back to senior management, including to Mr.

Greenberg and Mr. Smith, on the reaction of the investment community to the release and on the topics that were of interest or concern to analysts.

12. In the 2000-2001 period, most research analysts would publish a report on AIG within a day or two of the release, after, and sometimes before, I had spoken with the analyst. The analysts' initial published report on AIG following our earning release was contained in a so-called "First Call" note. Within a few days of the issuance of AIG's earnings release, my practice was to collect the First Call notes that had been published and pass them on to Mr. Greenberg and Mr. Smith, and a small number of others, with a cover note summarizing the theme or themes of the analysts' responses to the earnings release, as reflected in their First Call notes or as conveyed in their conversations with me.

13. Mr. Greenberg was keenly interested in the reaction of the investment community, including research analysts, to AIG's earnings releases. In my experience of years of working with him, Mr. Greenberg also had a high level of interest in the daily share price of AIG stock. We discussed it fairly often, and from my observation he appeared to regard AIG's share price as a report card on him as CEO of the company.

14. The financial information reported by AIG on a quarterly basis included, among other things, the company's loss reserves, as well as changes in those reserves, up or down, as compared to the prior quarter and to the comparable period in the prior year. Loss reserves are a liability on the balance sheet and changes in loss reserves, up or down, will be reflected in an expense item on the income statement. Loss reserves are the funds that insurance companies set aside to pay for future losses based on claims under the insurance policies issued by the company. Premiums, on the other hand, are the funds received by insurance companies when they sell policies, and the earned premiums appear as a revenue item on a financial statement.

15. The company's loss reserves were a subject about which the analysts who followed AIG were always interested, and they often discussed that subject with me. In my experience, the analysts preferred, as a general rule, to see changes in loss reserves move in tandem with changes in AIG's reported premiums. The calculation of loss reserves, however, involves more than relating it to an increase or decrease in premium income.

AIG's Third Quarter 2000 Earnings Release

16. On October 26, 2000, AIG issued its earnings release for the third quarter of 2000. It is attached as Exhibit A to this affidavit, and bears bates-stamp numbers AIG-F 29955-62. Consistent with regular practice, the release included a page of "Financial Highlights" and two pages of "Supplementary Data"; the Supplementary Data includes figures for Losses and Loss Expenses Paid, Change in Loss and LAE Reserve, Losses and Loss Expenses Incurred, and Net Loss and LAE Reserve. ("LAE" means "loss adjustment expense"; both items in this line reflect reserves.)

17. The Financial Highlights page in the October 26, 2000 release (Exhibit A, at AIG-F 00029960) showed that the premiums written by the company in the third quarter of 2000 had increased by more than $300 million as compared with the premiums written by AIG in the third quarter of 1999, a reported increase of 8.1%. The Supplementary Data on the next page (*id.*, at 00029961), in the line item titled "Change in Loss and LAE Reserve", showed that the amount AIG had set aside to pay future claims in the third quarter had decreased from the second quarter by nearly $59 million; in comparison, in the third quarter of the prior year (1999), the figures showed that the company's loss reserves had increased by over $12 million from the prior quarter. For the nine months ended September 30, the same line item showed that loss reserves had gone up in 2000 by a little less than $10.25 million, as compared to the first nine months of

1999, when loss reserves had increased by $76.2 million -- a reported decline in the year-over-year loss reserve growth rate of (negative) 86.6%.

18. The October 26, 2000 earnings release provided limited commentary on the reported decline in third quarter loss reserves and on loss reserves generally. In the narrative portion of the release (*id.*, at 00029957), in the context of discussing Transatlantic Holdings, Inc., a partially owned affiliate whose results were consolidated with AIG's, the release quoted Mr. Greenberg as stating: "Claims resulting from prior periods' catastrophes are being paid currently, resulting in a reduction in outstanding losses." And, in footnote (d) to the "Change in Loss and LAE Reserve" line item (*id.*, at 00029962), the release added: "The reduction in loss and loss adjustment expense reserve is primarily attributed to Transatlantic Holdings, Inc., as discussed above."

19. In the course of preparing this October 26, 2000 earnings release, we all knew that the investment community would have questions regarding the decline of loss reserves in the quarter. Mr. Greenberg and I discussed that this would be an issue on the phone calls with analysts and investors after we reported the third quarter results. Mr. Greenberg told me that it was going to be a problem that I would have to deal with or address.

20. Although the company's reported quarterly earnings were generally in line with analysts' expectations, AIG's share price dropped following the issuance of the company's earnings release on October 26, 2000; the stock closed that day down 6.1 percent from the prior day's closing price. Over the next several days, AIG's share price recovered from that decline.

21. Mr. Greenberg called me several times that day, October 26. I reported to him that the analysts were concerned about the decrease in loss reserves. Mr. Greenberg was unhappy about the drop in the stock price.

22. On October 31, 2000, I sent Mr. Greenberg copies of the First Call notes that analysts had written (in most cases after speaking with me) about AIG's third quarter 2000 earnings release. The collection of First Call notes that I sent, together with a cover note, is attached as Exhibit B to this affidavit and bears production numbers AIG/GEN-RE TRANS 0001049-1124. My cover note stated, in part: "These notes are positive and a number of them address the issues raised on Thursday when we reported earnings and the stock declined; that is, loss reserves and acquisition appetite. Although growth both in life insurance and at SunAmerica were concerns in verbal discussions, the results were on target for many analysts."

AIG's Fourth Quarter 2000 Earnings Release

23. On February 8, 2001, AIG issued its earnings release for the fourth quarter and year-end 2000. It is attached as Exhibit C to this affidavit and bears production numbers AIG GEN RE TRANS 00041325-34. As shown in the Supplementary Data (AIG GEN RE TRANS 00041333), the reported Change in Loss and LAE Reserve was a positive $106 million for the quarter, resulting in a reported increase in loss reserves for the entire year of more than $116.5 million. This time, there was no footnote added to the line item in the Supplementary Data, and the earnings release addressed loss reserves directly; it quoted Mr. Greenberg as saying, "We added $106 million to AIG's general insurance net loss and loss adjustment reserves for the quarter, and together with the acquisition of HSB Group, Inc., increased the total of those reserves to $25.0 billion at year-end 2000." (*Id.*, at 00041327)

24. A few days later, on February 14, 2001, I sent Mr. Greenberg the First Call notes for that earnings release, together with a cover note; the collection, with my cover note, is attached as Exhibit D to this affidavit (AIG/GEN-RE-TRANS 0000909-990).

25. The majority of the analysts' First Call notes for the fourth quarter of 2000 expressly noted the reported increase in AIG's loss reserves, and a number reported on the development in quite favorable terms. Bear Stearns financial analyst Michael A. Smith, for example, commented (Exhibit D, at 0000925):

> In past quarters, American International Group has received criticism from some corners regarding what has been viewed to be a rather small increase in loss reserves, but we believe there is little room for criticism on that score in the most recent quarter. The company increased reserves by a total of $106 million, of which we believe roughly $30 million was put up by 21st Century (TW, not rated) that is also consolidated in AIG,s [*sic*] results, and $7 million by Transatlantic Holdings. That would leave roughly $70 million of reserves put up on the AIG core business.

Kenneth Zuckerberg of the Wassestein Perella firm stated (*id.*, at 0000910):

> That said, AIG added to loss reserves during the quarter -- the net change was $106 million -- a clear positive from an earnings quality standpoint.

Brian Meredith, an analyst with Bank of America/Montgomery Securities, observed (*id.*, at 0000955):

> Additionally, we believe that AIG was conservative (more than in previous quarters) in its reserving assumptions for 4Q00 on commercial lines business, dispelling some investors' concerns regarding loss reserve growth (or lack thereof) in prior periods.

Blair, Williams & Co.'s analyst, Mark Lane, wrote in his First Call note (*id.*, at 0000960):

> One concern over the past several quarters has been sluggish reserve growth, which has triggered speculation that AIG is either not reserving adequately or harvesting excess reserves to make its numbers. We do not believe that any definitive conclusion can be reached when looking at changes in such a short period of time. Management attributes sluggish reserve growth to the coincidental acceleration of paid losses and business mix changes to shorter tail businesses. Net loss reserves increased $106 million this quarter and $117 million for the year.

Merrill Lynch analyst Jay Cohen wrote (*id.*, at 0000918):

> Net loss reserves rose by $106 million, revising the 3Q trend, given the renewed premium growth we would expect reserves to continue rising.

And Morgan's Stanley Alice Schroeder – an analyst whom Mr. Greenberg respected – wrote as follows in her report, which she titled "No Reason to Get Twitchy" (*id.*, at 0000941-42):

> We think this quarter was a good example of AIG doing what it does best: growing fast and making the numbers. The key takeaways were 20% local currency growth in international life premium equivalents, an increase from last quarter's 18.5% growth rate, another acceleration of growth in nonlife insurance, with domestic general premiums growing 17.7% compared to 8.7% last quarter. As important was the change in reserves: AIG added $106 million to reserves and the paid/incurred ratio fell to 97.1%, the lowest level since the first quarter of 1999. . . . Finally, AIG put to rest a minor controversy from last quarter by adding $106 million to reserves, worth 7.1 points on the combined ratio.

AIG's First Quarter 2001 Earnings Release

26. AIG issued its earnings release for the following quarter, the first quarter of 2001, on April 26, 2001; it is attached as Exhibit E to this affidavit (AIG-F 00029910-17). In this release, the company reported a quarterly Change in Loss and LAE Reserves of $62.78 million, up from the equivalent change in the first quarter of 2000 of less than $22 million (*id.*, at 00029916). The release quoted Mr. Greenberg as saying: "We added $63 million to AIG's general insurance net loss and loss adjustment reserves for the quarter, bringing the total of those reserves to $25.0 billion at March 31, 2001." (*Id.*, at 00029912)

27. Four days after the release, on April 30, 2001, I sent to Mr. Greenberg the First Call notes on that earnings release with a cover note. The collection of analyst notes that I sent, with my cover note to Mr. Greenberg, is attached as Exhibit F to this affidavit (AIG/GEN-RE-TRANS 0000772-844). In the first two sentences of my cover note to Mr. Greenberg, I wrote: "Analyst comments were positive and analysts all commented that it was a good, solid quarter with no surprises. There were very few questions on the change in loss reserves." (*Id.*, at 0000772.)

28. Once again, most of the analysts' First Call notes expressly noted the reported net growth in AIG's loss reserves for the quarter, with a number commenting favorably on the development. Mr. Zuckerberg of Dresdner Kleinwort Wasserstein, for example, wrote (*id.*, at 0000775-76):

> The quarter's combined ratio was 95.89%, about 50 bps better than our target and relatively steady with 1Q00. Importantly, AIG had a positive addition to loss reserves.

Jay Cohen of Merrill Lynch, in a note he titled "Kickin' It Up a Notch," observed (*id.*, at 0000783):

> Net loss reserves increased by $63 million. Given the renewed premium growth we would expect reserves to continue rising at an accelerating pace, especially since the growth is coming in the longer-tail commercial lines business.

And, after commenting on the company's increase in premiums written during the first quarter of 2001, Bear Stearns' Michael Smith wrote as follows (*id.*, at 0000778):

> Perhaps as attractive, the underlying quality of the general insurance results also improved, evidenced by the increase in loss reserves that in turn drove the paid-to-incurred claims ratio down to 98% from last year's 99%. The loss reserve increase of $62.8 million was three-times the $22.0 million reported last year. . . . In recent quarter, the declining rate of increase, and even decreases, had raised some concern in the market when reported, although those figures were explainable by the company's retrenchment in exposures as it went through a rigorous re-pricing/re-underwriting of its book of business.

<u>Events in 2005</u>

29. On February 14, 2005, AIG publicly announced that it has been served with subpoenas from the Office of the New York State Attorney General and the U.S. Securities and Exchange Commission relating to investigations of various reinsurance transactions. Following that announcement, I received numerous calls, with increasing frequency over the next several weeks, concerning the Gen Re transaction. I was unable to answer many of the questions analysts asked me.

30. As part of its periodic meetings between management and investors, AIG had a dinner planned for the second week of March 2005, sponsored by Goldman Sachs, at which Mr. Greenberg and other AIG executives to be invited by Mr. Greenberg were scheduled to provide remarks and answer investors' questions. I was asked to cancel that dinner. After the cancellation, the phone calls from investors and analysts only increased. I remained unable to provide satisfactory answers to the callers' questions.

31. Following AIG's receipt of governmental subpoenas in 2005, I had a conversation with Howie Smith about the Gen Re transaction. We discussed the topic of risk transfer. Mr. Smith told me that he believed the Gen Re transaction passed the risk transfer test. That is the only conversation I recall having had with Mr. Smith regarding the Gen Re transaction, and I do not recall discussing the Gen Re transaction with Mr. Greenberg at any time.

32. On May 31, 2005, AIG issued its financial statements for the year 2004, restated its results for certain prior years and quarters, and advised that its previously issued financial statements for these periods should no longer be relied upon.

33. In its restated financial statements, AIG reported that it had concluded that the assumed reinsurance transaction between National Union Fire Insurance Company, an AIG subsidiary, and Cologne Re Dublin, a subsidiary of Gen Re Insurance Corporation, did not entail sufficient qualifying risk transfer and should not have been recorded as insurance. Insofar as the Gen Re transaction was concerned, the restatement had the effect of reducing AIG's previously-reported reserves for losses and loss expenses by $250 million in 2000 and by $500 million in each of 2001, 2002 and 2003; it also had the effect of reducing AIG's reported premium income by $250 million in 2000 and $258 million in 2001.

34. More specifically, the impact of the restatement, insofar as the Gen Re transaction was concerned, was to render incorrect the statements about loss reserves that AIG had made in its fourth quarter 2000 and first quarter 2001 earnings releases. Instead of the previously reported fourth quarter 2000 increase in loss reserves of $106 million, AIG concluded that the correct figure for that quarter was a decrease in loss reserves of $144 million. Instead of the previously reported first quarter 2001 increase in loss reserves of approximately $63 million, AIG concluded that the correct figure for that quarter was a decrease in loss reserves of approximately $187 million.

Charlene Hamrah

CHARLENE HAMRAH

Sworn to before me this
30 day of September, 2014

Thomas J. Brennan

Notary Public
THOMAS J. BRENNAN
Notary Public, State of New York
No. 01BR5048229
Qualified in Dutchess County
Commission Expires August 21, 2017
Certificate Filed in New York County