AIG Annuity

Talking Points:
AIG's Compensation Practices and Retention Planning

March 15, 2009

Executive Compensation Practices

- AIG is focused on repaying the government and the taxpayers, selling assets, and preserving the value of AIG's diverse businesses.
- In recognition of AIG's obligation to taxpayers, the company has taken several voluntary steps to restrict executive compensation beyond the requirements of TARP. These restrictions are far more onerous than measures taken by any other company that has received federal assistance.
- In all, 2008 total compensation for the top 47 AIG executives is 56% lower than their 2007 total compensation.

These actions include:

- An annual base salary of $1 and no bonus for Chairman and CEO Edward Liddy in 2008 and 2009. Mr. Liddy will also not be eligible for severance payments.
- No salary in 2008 for AIG's Chief Restructuring Officer, Paula Reynolds.
- No salary increases in 2009 for any of the Executive Officers or other Senior Partners of AIG.
- No annual bonuses for 2008 or salary increases through 2009 for AIG's Leadership Group (7 top executives).
- "Clawback" provisions" for any future bonus or incentive payments to Senior Executive Officers that allows AIG to recover the payments if the bonuses are based on inaccurate financial results.

Letter to Treasury Secretary Geithner

- On March 14, 2009, AIG CEO Ed Liddy wrote to Treasury Secretary Tim Geithner about a retention program for employees in AIG Financial Products Corp. that was created months before Mr. Liddy arrived at AIG.
- In the letter, Mr. Liddy said that he would never have created this program, and that he finds it "distasteful." He says that the company has tried to change the program, but it is a binding contract and unfortunately, "AIG's hands are tied."
- Mr. Liddy says that he has cut salaries for Financial Products employees 10%, and the top 25 highest paid people at Financial Products will have their salaries cut to $1.
- Mr. Liddy also says AIG will employ its best efforts to reduce AIGFP retention payments in the future by 30%.

Future Planning

- AIG will continue to closely scrutinize all of ongoing compensation planning to ensure that all decisions are absolutely critical to the business and in the best interests of taxpayers. All future compensation actions, including raises, incentive awards and other forms of compensation, have been put on hold pending further review.

Retention Planning

AIG is completely focused on repaying the U.S. government, and making decisions that are in the taxpayers' best interests. The retention of AIG's key employees is a critical component in these efforts for several reasons:

- **Asset Divestitures.** AIG is the only company with a clear plan to pay back taxpayers – predicated on the divestiture of AIG's assets. Buyers value those assets based largely on the people who work at those businesses, and in particular, the strong leadership of key business units.

- **Maintaining the Value of AIG's Insurance Businesses.** To keep AIG's insurance businesses healthy, AIG must hold on to the talented people running these businesses, who have deep business relationships that are not easily duplicated. The credit rating agencies have recognized the importance of retaining management talent, and now that many of our managers have lost much of their life savings, our competitors are becoming more aggressive.

- **Unwinding AIG Financial Products (AIGFP).** Ensuring AIG has the right people to unwind this complex, highly customized business – including $1.5 trillion of notional swap transactions as of the end of 2008 – efficiently for the benefit of taxpayers remains key as AIG seeks to repay the government loan as quickly as possible.

AIGFP's Employee Retention Plan ("ERP") – which was adopted nearly a year ago, in the first quarter of 2008, and disclosed in AIG's first, second, and third quarter 2008 10Qs – prevents an uncontrolled meltdown of AIGFP, which would put its multi-trillion dollar book of business at significant risk of further loss. This plan helps retain many employees that would otherwise leave AIGFP and join other firms due to large deferred compensation earnings losses, limited 2007 compensation, and uncertain compensation for 2008 and 2009.

Employees of AIGFP will face substantial compensation reductions over 2008 and 2009 compared to their historic earnings, with the most senior employees suffering the most substantial reductions. Nearly $800 million in employees' deferred compensation will be wiped out. Deferred accounts for prior years have been eliminated by losses – in some instances wiping out compensation awarded over the last six years. As a result, the most senior employees will see compensation levels about 57% below historic levels.

The ERP is also a contractual obligation of AIG Financial Products, and the non-deferred portion of the compensation is guaranteed by AIG. Under the legal terms of the plan, AIG cannot change this program.

To date, AIG Financial Product's wind down is being successfully executed, and employee departures (excluding layoffs) have been limited.