

## To Our Shareholders

**Robert H. Benmosche**

President and  
Chief Executive Officer



**The fundamental purpose of our company is to serve our clients professionally and fairly. We are also a company that honors its obligations.**

**D**uring this past year, AIG made substantial progress in refocusing our major businesses on growth and profitability, set in place the framework for repaying U.S. taxpayers for their support of our company during its darkest days, and significantly wound down and de-risked the AIG Financial Products Corp. (AIGFP) derivatives portfolio. We also revised our employee compensation programs in order to motivate and reward

AIG's cadre of outstanding professionals, who will form the center of our business success going forward. We

have significantly stabilized the company over the past year. Now it is up to us to get back to producing good business results.

The fundamental purpose of our company is to serve our clients professionally and fairly. We are also a company that honors its obligations. We have survived our major crisis of the past few years and are now on our way to regaining our stature as one of the world's largest and most successful property casualty insurance operations, with strong U.S. life and annuity companies and several other businesses that enhance our nucleus. Clearly, we will be a smaller and

more focused company than in the past. The only way we can repay taxpayers is to divest parts of the organization, and we are.

Over the course of my first seven months as AIG's CEO, I have been impressed by many things about our worldwide business portfolio and the

great organization built over many years. But nothing has impressed me more than observing firsthand the skilled and dedicated employee base of this company. It is only because of their hard work, experience, and depth of knowledge that we have succeeded in stabilizing our businesses and setting the strategies for moving forward. It is these strategies and achievements that I want to discuss in this letter.

Before doing so, however, let me review our financial performance in 2009. We operated under very difficult economic and market conditions, particularly in the first part of the year, and we are proud that we have started to recover. Business retention has improved. Employee retention has improved. And revenues have improved. Overall, we reported losses totaling \$10.9 billion in 2009, compared with losses of \$99.3 billion in 2008, a substantial improvement.

Let me spend a minute explaining \$5.2 billion of the pre-tax losses we sustained in the fourth quarter. When the Federal Reserve Bank of New York (FRBNY) provided AIG with \$85 billion in support in September 2008, AIG was required to turn over a 79.9 percent ownership stake in the company to a trust established for the sole benefit of the U.S. Department of the Treasury. This ownership stake represented in effect a pre-paid commitment fee that AIG valued at \$23 billion as an asset on its balance sheet to be amortized over the life of the facility. In the fourth quarter of 2009, we accelerated the amortization of \$5.2 billion, pre-tax, of this asset in connection with reducing the amount we

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could borrow from the FRBNY by \$25 billion. This reduction was achieved when we placed two of our international life

insurers in special purpose vehicles (SPVs) in which the FRBNY took preferred interests in exchange for reducing \$25 billion of the outstanding amount that AIG owed the

FRBNY. This is the second time we have reduced the amount we could borrow. Last year, we reduced the original \$85 billion to \$60 billion, and recorded a similar accelerated amortization amount of \$6.6 billion.

AIG's foreign life insurance operations have always been one of the company's crown jewels. By and large, they have weathered the storm of the global financial crisis in good shape, with strong earnings performance. In March 2010, AIG announced definitive agreements to sell American International Assurance Company, Limited (AIA) to Prudential plc, and American Life Insurance Company (ALICO) to MetLife, Inc., subject to regulatory approvals. These agreements marked critical milestones in our efforts to repay taxpayers. We are on track to generate approximately \$50.7 billion from these two transactions alone, consisting of approximately \$31.5 billion in cash to repay the FRBNY, plus another approximately \$19.2 billion in securities that we will sell over time to repay the government. In addition, both sales give AIG greater flexibility to move forward with our restructuring and rebuilding efforts, and focus on enhancing the value of our key insurance businesses.

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focused on repaying taxpayers, achieving growth, and balancing risks. The risk diversification represented by our property casualty operations (underwriting risk) and life and retirement services businesses (interest rate risk, market risk, and mortality risk) provides AIG with a stronger profile going forward. Let me give some examples.

Chartis, our worldwide property casualty insurance organization, is already one of the world's largest insurers covering commercial risks, large and small, with a global network built up over many

decades. The Chartis team is the best in the business, and has emerged from a very difficult period with its business intact and as focused as ever on profitability. During 2009, Chartis executed the largest marketing plan in its history, meeting with tens of thousands of brokers and customers to reassure them of the financial stability and operating strengths of the company. Chartis also integrated its domestic and foreign businesses to form, for the first time, a truly global property casualty operation. The benefits of one global franchise are already manifested through the enhanced service Chartis provides to customers transacting business across borders and around the world.

From an unmatched worldwide platform, Chartis' international businesses continue to seek out new opportunities in both established and emerging markets. This was clearly evident in Chartis' recent announcement that it will take a majority stake in Fuji Fire and Marine Insurance Company, Ltd., which will make Chartis, subject to regulatory approval, the fourth-largest insurance organization in Japan.

In the U.S., Chartis' industry leadership is largely derived from its ability to uncover new markets and to create innovative products and services that customers value. In 2009 alone, its U.S. businesses launched a new product or service every two weeks. We will continue that emphasis.

When I think about AIG's life insurance and retirement services business, I see enormous growth opportunities that exist in the U.S. for our products. During 2009, AIG's Domestic Life and Retirement Services division was rebranded as SunAmerica Financial Group, and now represents the fourth-largest life insurance organization in the United States, with over \$19 billion in premiums and deposits and more than 16 million customers. SunAmerica Financial Group offers a comprehensive suite of life insurance, retirement savings, and guaranteed income products through a multi-channel distribution network.

SunAmerica has terrific opportunities associated with the aging baby boomer population. As members of this group approach age 65, they are dealing with

uncertainty and are seeking more financial guarantees about their future. In addition, companies have cut back dramatically on traditional retirement plans and lifetime benefits, and even on 401(k) plans. We are well-positioned to help relieve the

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tremendous burden on these individuals, who can look to insurance and annuity companies to help them prepare for, and manage, their retirement.

Our Advisor Group, which we decided to retain, provides independent, face-to-face financial advice to thousand of clients, and plays a key role in our ability to provide investment and life insurance products.

I appreciate the patience and confidence of this group, which is excited to remain part of AIG. Our team at VALIC, another part of SunAmerica Financial Group, acts as a leading provider of retirement plan services to higher education, public K-12 schools, and healthcare institutions. VALIC performed well in 2009 and will continue to play an important role going forward. American General, a provider of life insurance for over 150 years, will continue to help protect the hopes and dreams of American families. Finally, Western National has helped Americans achieve financial security with innovative fixed annuity products for more than 50 years. We are very proud that Western National, one of the first insurance companies to develop fixed annuity products specifically for sale through banks, successfully regained its number one position in that market in the third quarter of 2009.

One of our specialty businesses that has suffered through the financial crisis is United Guaranty Corporation (UGC), which provides residential mortgage guaranty insurance. The company tightened underwriting guidelines in the fourth quarter of 2008, resulting in a far superior risk profile on new business written in 2009. In addition, the company increased

its resources to manage the large number of claims submitted by mortgage lenders to ensure appropriate loss mitigation.

At AIG Star Life and AIG Edison Life in Japan, it became clear that we were not going to be able to realize an acceptable sale price that recognized full value for these established franchises. So our strategy changed, and we will work with these companies to streamline their operations and processing. We believe they will continue to produce strong results, and that they will contribute positively to AIG's overall business portfolio.

On AIGFP, I am pleased to report that our employees continued to make substantial progress in reducing and de-risking the portfolio—and in a very deliberate way. AIGFP cut the number of positions in its portfolio by 54 percent in 2009 to approximately 16,000, and the notional amount of derivatives outstanding fell below \$1 trillion from \$2.7 trillion in 2008. All key risk measures are down significantly from last year, and I expect continued progress in 2010. Our strategy remains to exit the vast majority of the risk at AIGFP by the end of 2010. Any remaining positions, which will be largely de-risked and not require active management, will either be managed by AIG or third parties.

International Lease Finance Corporation (ILFC) is the international market leader in its field—leasing and remarketing commercial jet aircraft to airlines around the world. Its leasing portfolio consists of more than 1,000 aircraft. We remain confident in the future of ILFC as a market leader, and we are working with the ILFC Board to enhance its long-term potential and meet its funding requirements. Likewise, American General Finance, Inc. (AGF), which provides first lien mortgage and other consumer loans to the middle income segment, is a well-run business, and we continue to explore a variety of options to protect its value and meet its obligations.

Let me turn now to my priorities for AIG going forward. I joined the company last August to succeed Ed Liddy. Ed did a terrific job under very difficult and often unfair circumstances to stabilize the company, and develop and begin to implement

a plan to repay the government. He faced a variety of external forces that made it very hard to accomplish those goals. Nonetheless, by the time I joined, things were beginning to look better. It is my task to accelerate this momentum and restore the reputation of this world-class organization.

In taking on these responsibilities, I regard my first priority to be empowering our people. One thing I've learned in my career is that people count. Too often we underestimate the power of people and take them for granted. Our 96,000 employees worldwide, approximately 35,000 of whom work in the U.S., are absolutely outstanding individuals. They represent an asset of immense value to AIG, and, absent their resilience and dedication, we would surely not be where we are today. We are developing and implementing compensation and reward programs that will

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recognize their contributions. Compensation at AIG will reflect on-the-job performance, and we will implement strong performance management systems

that will differentiate performance. This will include the ability to set goals and measure results against them. Nothing is more important to AIG's success going forward.

Over the last several quarters, we have been able to report stabilization and improved operating results in a number of our key businesses. While these are welcome events, we expect continued volatility in coming quarters, partly due to ongoing restructuring activities. We are working hard to execute our asset disposition plan as we remain sharply focused on business results. During 2009, we sold or entered into agreements to sell assets that are expected to generate approximately \$5.6 billion of aggregate net cash proceeds. In March, we restructured our relationships with the U.S. Department of the

Treasury and the FRBNY to reduce the debt that AIG owes the U.S. government, improve AIG's capital structure, and enhance the value of our businesses. These specific steps, which are discussed in detail in AIG's 2009 Form 10-K, helped give us the breathing room we needed to implement our strategies.

All of us at AIG consider repaying the U.S. government our top priority. While this may not occur in the very near term, it is our goal and we believe it will happen. But we are not going to sell our assets at fire-sale prices. When I first came on board as AIG's CEO in August, I held a series of meetings with our management and employees throughout the company. I told them that I was a builder, not a liquidator. I also noted that I believed AIG was too big, too diverse, and not transparent enough, and that we were going to have to create more discrete businesses. This is the only way we can create fair value for what are indisputably outstanding businesses, with strong, often unique franchises, distribution networks, product offerings, and experienced staff built up over many years.

I am pleased to report to you that AIG's employees have taken up the challenge of making a better company with gusto. I am so impressed with their attitude and their willingness to roll up their sleeves and make things happen. We have a clear strategy for the corporation overall and for our principal businesses. Now we just have to execute with precision and a sharp focus on results. The last year and a half have been very difficult for AIG. But we have to look forward, not backward. I am confident that, with our outstanding team of employees, we will succeed.



**Robert H. Benmosche**

March 10, 2010