

American International Group, Inc.

Fed Provides \$85 Billion Loan in Exchange for 79.9% Equity Stake; Suspending Rating and Research Coverage

Highlights

- After the markets closed on September 16, the Federal Reserve Board, with the full support of the Treasury Department, authorized the Federal Reserve Bank of New York to lend up to \$85 billion to AIG under the premise that a disorderly failure of AIG could add to already significant levels of financial market fragility and adversely affect broader public interests.
- The purpose of this liquidity facility is to assist AIG in meeting its obligations as they come due. This loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner and has a 24-month term. Interest will accrue on the outstanding balance at a rate of three-month Libor plus 850 basis points, and AIG will be permitted to draw up to \$85 billion under the facility.
- The loan is collateralized by all the assets of AIG, and of its primary nonregulated subsidiaries. These assets include the stock of substantially all of the regulated subsidiaries. The loan is expected to be repaid from the proceeds of the sale of the firm's assets. The U.S. government will receive a 79.9% equity interest in AIG and has the right to veto the payment of dividends to common and preferred shareholders.
- Ed Liddy, the former CEO of Allstate, will replace current CEO Robert Willumstad. No details have been shared regarding the post-Fed era, although GAAP book value of about \$29 per share as of June 30, 2008, which will decline further during the third quarter, will be diluted down to the midsingle-digit level. We obviously underestimated the liquidity needs of the company to effect an orderly divestiture of its very valuable assets, but given the significant dilution facing shareholders and the lack of details and execution risk associated with this process, we have suspended our rating and research coverage on AIG to take more time to assess these developments and gather more details. Our last published rating was Outperform and should not be relied on.

Financial | Insurance

September 17, 2008

Stock Rating: **NR**

Company Profile: **NR**

Symbol: AIG (NYSE)
 Price: \$3.75 (52-Wk.: \$1-\$70)
 Market Value (mil.): \$13,812
 Fiscal Year End: December
 Long-Term EPS Growth Rate: 13%
 Dividend/Yield: \$0.85/22.7%

	2007A	2008E	2009E
Estimates			
EPS FY	\$3.58	NA	NA
CY		NA	NA
Valuation			
FY P/E	1.0x	NA	NA
CY P/E		NA	NA

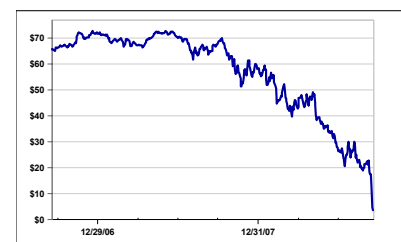
Trading Data (Thomson Financial)

Shares Outstanding (mil.)	2,689
Float (mil.)	2,330
Average Daily Volume	76,651,744

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	69.0
Book Value Per Share (MRQ)	31.9
Enterprise Value (mil.)	190,320.9
EBITDA (TTM)	18,700.0
Enterprise Value/EBITDA (TTM)	10.2x
Return on Equity (TTM)	-19.7

Two-Year Price Performance Chart



Source: Thomson Financial, William Blair & Company estimates

Mark Lane
 (312) 364-8686
 mlane@williamblair.com

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Additional information is available upon request.



Current Rating Distribution (as of 08/31/08)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	60	Outperform (Buy)	11
Market Perform (Hold)	39	Market Perform (Hold)	5
Underperform (Sell)	1	Underperform (Sell)	1

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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William Blair & Company, L.L.C. 222 West Adams Street Chicago, Illinois 60606 312.236.1600 www.williamblair.com

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