To the Congressional Oversight Panel,

The equity research team at KBW on 4/27/10 downgraded the common shares of AIG to an Underperform and established a price target of $6. Key conclusions were:

1. **Common Shares Overvalued**. From a fundamental perspective, we view that AIG continues to own some very valuable businesses, however, in its totality, under the current operating and financial structure, we view that the publicly traded shares are grossly overvalued.
2. **Earnings Do Not Accrue to Common Shareholder**. We expect no net EPS near term. After liquidity needs are met, we expect that earnings generated by the underlying operations are obligated to be used to make Series E dividend payments. While the company may report positive EPS, we believe these earnings cannot be valued in the normal sense because these earnings do not accrue to the common shareholder but to the preferred shareholder.
3. **Book Value Is Not a Measure of Value**. We view that tangible book value is an irrelevant measure of value, given AIG's highly unusual capital structure. In addition, we see many risks to that book value calculation.
4. **The Taxpayer Will Outrank the Common Shareholder**. As the threat of systemic risk fades, we view that there will be a shift in government priorities to favor its own interests. Without a material transfer of value from the taxpayer to the shareholder, we believe the effects of full dilution, debt/preferred repayment and stock sales will leave little value left for the stub common shareholder.

Strong Global Franchise but Earnings Are Not Accrued to Common Shareholders

AIG's global insurance franchises were long the envy of the industry and even today, despite it all, AIG's global platform, size, diversity and technical expertise position the company among the world's best insurers. In our estimation the company is capable of run-rate after-tax earnings in the range of $2.8 billion, excluding the companies slated to be sold and before government interest expense and excluding dividend payments on the Series E preferred stock. Within our estimate, we include approximately $2.0 billion for the Chartis P&C business, $2.6 billion for the domestic Life businesses and a loss of $1.8 billion at the parent level for other items including normal corporate expense and debt service. In 1Q10, adjusted operating earnings were $809 million with signs of stabilization throughout the underwriting businesses.

We would stress, however, that at this stage, these earnings cannot be valued as is done typically for publicly traded companies. AIG continues to face the challenges of public debt refinancing which has resulted in additional government borrowing and moreover, the company's net earnings do not accrue to the common shareholder but to the higher ranking Series E Preferred holders.

Book Value Is Irrelevant

In normal equity analysis, tangible book value is a natural starting point. Tangible book value is viewed to be a measure of the store of value created by a company over time, or an approximation of a run-off value. However, AIG's capital structure is so unusual that we believe it does not fall under this definition. Would AIG be in business today without government aid? Or consider the CEO's public admission that selling all of the pieces of

AIG would not be enough to fully repay AIG's debts. Doesn't this imply negative real worth, despite a positive book value calculation?

The typical insurer, P&C or life, carries debt loads at 20-30% of total capital. While AIG's business model and capital structure were always different from the typical insurer, today, AIG's debt levels are enormous. If one were to include the Series E preferred stock as debt, then the total AIG debt level is $188 billion versus diluted common equity of just $25.9 billion. Debt is more than 8 times greater than equity! In comparison, most insurers have the inverse relationship at a four-to-one level and even the "old AIG", at its most highly leveraged, was less than 2-to-1 of debt-to-equity.

In addition, we see potential risks to several balance sheet items including P&C reserves, the DAC asset, the valuation of ILFC, the valuation of AGF, AIGFP's remaining exposures and the carrying values of Maiden Lanes II and III.

On the positive side, the completion of the sales of AIA and ALICO both result in material gains to book value and the formation of an SPV in December of 2009 to hold these entities has already materially reduced government-owed debt.

Issues to Consider in Valuation

1. Can AIG "go it alone" without taxpayer support? ILFC has accessed public debt markets, although expensive. AIG has yet to do so and refinancing has led to further accessing government lines of credit.
2. The company may eventually need to raise significant equity capital from public markets in order to fully stand alone.
3. Impact of the exercise of government-held warrants and their sales.
4. Resolution of Series E & F shares. Should a conversion to common shares be pursued, we would assume that conversion would need to take place significantly below the current shares trading price and would be soon followed, if not done concurrently, with a material sale of shares.
5. Aforementioned risks to the balance sheet.
6. A peer group valuation trading below book value.

Conclusion

The underwriting franchises of AIG have great value but they always have, even in September of 2008. We believe the main issue facing the common shareholder is how to value the company on a "normalized" basis, which presumes a full exit of government interests and the ability to operate independent of government backing. As a result of systemic concerns, the financial interests of the U.S. government have been placed behind those of the common stock and debt owners. However, as systemic risk fades, we view that there is risk of a shift in government priorities to favor its own (the taxpayers') interests. Without a material transfer of value from the taxpayer to the shareholder, we believe the effects of full dilution, debt/preferred repayment and stock sales will leave little value left for the stub shareholder.

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