April 10, 2012

WELLS FARGO SECURITIES

Equity Research

American International Group, Inc.

AIG: Upgrading Shares To Reflect Government Exit--Raising Ests

Outperform / V

Sector: Life Insurance
Overweight

Rating Change

- **Summary:** We are upgrading the shares of AIG to Outperform from Market Perform to reflect the likelihood that the company will be independent from the US Government over the course of the next year. To this end, we expect AIG to become an increasingly active capital manager, which could be accretive to the company's earnings per share and return on equity. Our EPS estimates for 2012 and 2013 increase to $3.38 and $3.06 from $2.50 and $2.80, respectively. Our valuation range is increased to $40 to $45 per share, up from $27 to $30 per share. We expect AIG shares to trade with a positive bias.

- **Only Two Remaining Government Links.** Since AIG restructured its relationship with the US Government over a year ago, the company has made tremendous progress in reducing its government ties. The actions taken are too numerous to summarize. Suffice to say, at present AIG has essentially two remaining ties to the US Government: (1) a $9 billion interest in the SPV Maiden Lane III and (2) a 70% interest in AIG shares.

- **Government Ties Can Be Ended.** We expect the elimination of these last two ties will remove a valuation overhang on AIG shares. Maiden Lane III should continue to wind down as the securities held within the SPV are paid down or liquidated through asset sales. We would expect the US Treasury stake in AIG common shares to be wound down through a combination of further secondary offerings and potential sales to sovereign investors as well as direct share sales to AIG (share repurchase). To boot, we think there may be corporate finance alternatives that can accelerate the process.

- **Considerable Repurchase Capacity.** Based on our analysis, we think AIG could repurchase $21.3 billion of its shares financed primarily with the proceeds from three asset sales or liquidations: (1) the remaining holdings in the foreign life insurer AIA, (2) the aircraft leasing company ILFC, and (3) the retained interest in ML III. Further, these proceeds could be supplemented via greater leverage at the AIG holding company and the use of cash flow from AIG's operating insurance subsidiaries.

- **Potential Operating Issues Already in Valuation.** From an operating standpoint, AIG may face near-term challenges associated with non-life insurance reserve adequacy, a shifting non-life insurance business mix, a tough non-life insurance pricing cycle, and a difficult, low interest rate environment. But we think AIG's present low valuation more than compensates for these potential difficulties. Our new valuation range anticipates a growing book value per share for AIG coupled with an expanding price-to-book value multiple.

EPS	2011A	2012E Curr.	2012E Prior	2013E Curr.	2013E Prior
Q1 (Mar.)	$1.30	**$1.32**	**0.59**	**$0.73**	**0.67**
Q2 (June)	0.69	**0.66**	**0.61**	**0.75**	**0.68**
Q3 (Sep.)	(1.60)	**0.69**	**0.64**	**0.77**	**0.70**
Q4 (Dec.)	0.82	**0.72**	**0.66**	**0.81**	**0.74**
FY	$1.02	**$3.38**	**2.50**	**$3.06**	**2.80**
CY	$1.02	$3.38		$3.06	
FY P/E	31.4x	9.5x		10.5x	
Rev.(MM)	NE	NE		NE	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, = Company is on the Priority Stock List

Ticker	AIG
Price (04/09/2012)	$31.99
52-Week Range:	$19-35
Shares Outstanding: (MM)	1,898.0
Market Cap.: (MM)	$60,717.0
S&P 500:	1,382.20
Avg. Daily Vol.:	19,048,200
Dividend/Yield:	$0.00/0.0%
LT Debt: (MM)	$13,489.0
LT Debt/Total Cap.:	11.3%
ROE:	6.0%
3-5 Yr. Est. Growth Rate:	12.0%
CY 2012 Est. P/E-to-Growth:	0.8x
Last Reporting Date:	02/23/2012 After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Valuation Range: $40.00 to $45.00 **from $27.00 to $30.00**
Our valuation range is $40-45 per share, which corresponds to 0.75x of our 2012 proforma book value estimate of about $58, which excludes AOCI. Risks to our valuation range include asset sales at distressed valuations, a lack of liquidity in the M&A marketplace, declining investment income, rising catastrophe exposure, business retention, and soft pricing conditions.

Investment Thesis:
We believe AIG will likely be independent from the US Government over the course of the next year, and rate the shares Outperform.

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Please see page 11 for rating definitions, important disclosures and required analyst certifications

Company Description:

American International Group, headquartered in New York, New York, is the leading U.S.-based international insurance and financial services organization and among the largest writers of commercial, industrial, and life coverages in the U.S. The company operates in the property casualty business globally under the name Chartis, and its U.S. life insurance business operates under the names American General, SunAmerica, and Western National, among others.

Summary: We are upgrading the shares of AIG to Outperform from Market Perform to reflect the likelihood that the company will be independent from the US Government over the course of the next year. In conjunction with the elimination of government ownership, we expect AIG to become an increasingly active capital manager, something that could be accretive to the company's earnings per share and return on equity.

As a result, we anticipate that rising EPS, an improving ROE and no further government ownership could combine to translate into a better book value trading multiple. Our EPS estimates for 2012 and 2013 increase to $3.38 and $3.06 from $2.50 and $2.80, respectively. Our valuation range is increased to $40 to $45 per share, up from $27 to $30 per share. We expect AIG shares to trade with a positive bias.

A lot has been accomplished. Since the US Government intervened on AIG's behalf in 2008, the company has made tremendous progress in reducing its government ties. The actions taken are a long list in total, which we describe below in a summary timeline of major restructuring events for AIG over the last several years.

2008 – 2009
US Government, through the Federal Reserve and US Treasury, establishes loans, lines of credit, special purpose vehicles (SPV), and issues preferred stock to keep AIG afloat. The primary SPV's include Alico, AIA Aurora, Maiden Lane II and Maiden Lane III. Total resources extended to AIG reach to $182 billion and the US Government's equity stake in AIG amounts to roughly 80%.

2010 — 2011
US Government restructures its interests in AIG by converting debt and preferred stock holdings to common equity. AIG establishes independent, third-party lines of credit. US Government consolidates its ownership interests in AIG with the US Treasury and the government equity stake in AIG rises to 92%.

2011
US Treasury sells $5.8 billion of AIG common shares in a secondary offering. AIG concurrently issues $2.9 billion of AIG common shares. AIG liquidates the Alico SPV with transaction proceeds and other cash and commences the pay down of the AIA SPV. US Government common ownership of AIG falls to 77%.

2012
AIG liquidates the Maiden Lane II SPV through asset sales. AIG sells $6 billion of AIA shares. Proceeds from the share sale; combined with residual SPV proceeds, transaction escrow proceeds, and other cash, are used to liquidate the AIA SPV. US Treasury sells $6 billion of AIG common shares via another secondary offering. AIG repurchases $3 billion of its common shares from the US Treasury in the secondary offering. US Government common ownership of AIG falls to 70%.

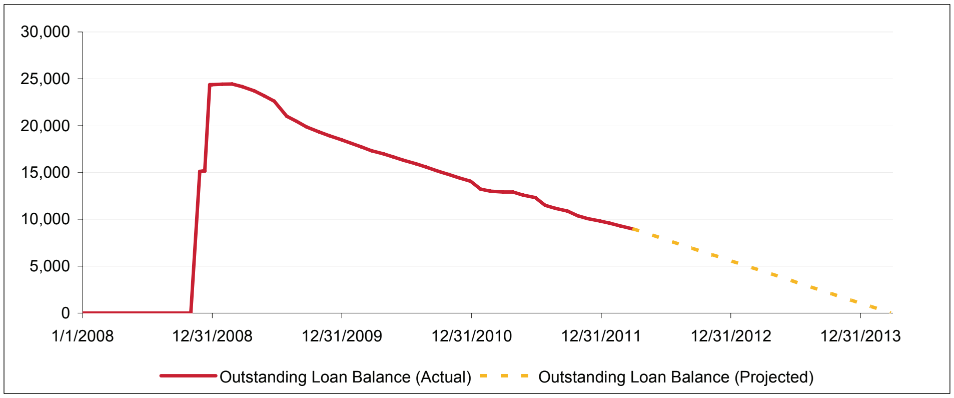
Nearing the end. Of critical importance, recent actions, which include the full pay down of the AIA SPV, push AIG past what we consider a positive tipping point, leaving AIG with essentially two remaining ties to the US Government: (1) a $9 billion interest in the SPV Maiden Lane III (ML III) and (2) a 70% interest in AIG common shares. We expect the elimination of these two ties will remove a valuation overhang on AIG shares.

How does ML III go away? Maiden Lane III should continue to wind down as the securities held within the SPV are paid down or liquidated through asset sales. Maiden Lane III was created to alleviate capital and liquidity pressures at AIG stemming from credit default swap contracts by purchasing $29 billion in multi-sector collateralized debt obligations from counterparties of AIG Financial Products, enabling the termination of the associated CDS.

The majority of the assets held in the SPV are asset backed collateralized debt obligations, primarily residential mortgage backed securities and commercial mortgage backed securities. Since inception, ML III has consistently reduced the balance of the Federal Reserve loan; which now stands at approximately $9 billion, using interest, pay offs and asset sales. Similar to Maiden Lane II, bulk buyers of these assets could speed this process along. The complexity and the private nature of the securities held in ML III have held back sales in our view. Still recent press reports have pointed to the third-party asset manager of ML III, BlackRock

Financial Management, seeking bids for parts of the portfolio from various dealers. Regardless, the pace of loan repayments over the past several years points to the elimination of the Federal Reserve loan balance over the course of the next 24 months, in our opinion.

Figure 1. Historical and projected outstanding loan balance for Maiden Lane III LLC
($ in millions)



Source: Federal Reserve Releases H.4.1 and Wells Fargo Securities, LLC estimates

According to the Federal Reserve, AIG has roughly $5.6 billion of equity held within Maiden Lane III. Once the Federal Reserve loan balance is paid off and other ordinary expenses of the SPV are satisfied, AIG is entitled to recover its $5.6 billion of equity. Further, the company has a claim on one-third of any gains generated by the SPV over the course of its existence. The balance of gains is due to the Federal Reserve. Based on current numbers disclosed by the Federal Reserve, we project AIG should be able to recover approximately $6.4 billion from Maiden Lane III after dissolution.

Figure 2. Total recovery to AIG from Maiden Lane III LLC
($ in millions)

As of April 4, 2012	
Net portfolio holdings of Maiden Lane III	$17,507
Outstanding principal amount and interest of Federal Reserve loan	$8,994
Less expenses	$500
Less AIG's interest	$5,589
Plus 1/3 of Residual to AIG	$808
Total recovery to AIG	$6,397

Source: Federal Reserve Releases H.4.1 and Wells Fargo Securities, LLC estimates

How does the US Treasury reduce its interest in AIG? We would expect the US Treasury stake in AIG common shares to be wound down through a combination of further secondary offerings and potential sales to sovereign investors as well as direct share sales to AIG (share repurchase). We think it is possible to see the US Treasury stake in AIG to fall well-below control level by the end of 2012. To boot, we think there may even be some creative corporate finance alternatives that could accelerate the process.

Buy back capacity. Based on our analysis, we think AIG could repurchase $21.3 billion of its shares financed primarily with the proceeds from three asset sales or liquidations: (1) the remaining holdings in the foreign life insurer AIA, (2) the aircraft leasing company ILFC, and (3) the retained interest in ML III. Further, these proceeds could be supplemented via greater leverage at the AIG holding company and the use of cash flow from AIG's operating insurance subsidiaries.

Figure 3. Potential cash proceeds for share repurchases
($ in billions)

	Potential Cash Proceeds
Retained interest in ML III	$6.4
Remaining stake in AIA	$7.6
ILFC	$4.8
42% of 2012 earnings	$2.5
Total	$21.3

Source: Company data and Wells Fargo Securities, LLC estimates

Substantial value associated with AIA. Now that the government has been paid in full on the loan extended to the AIA SPV, the remaining value of within the SPV is available to AIG. At present, AIG holds 2.24 billion shares of AIA with a present market value of $8.1 billion. Over time, AIG has reduced its holding in AIA through a series of sales including initial public offering, secondary offering, and private sales. In our opinion, there has been more than sufficient liquidity to absorb AIA shares when they have been presented to the market. We would expect that to continue to be true over the course of 2012. With the last sale of AIA shares by AIG taking place in March, we would not anticipate another sale until late summer or early fall but we do expect the company's holdings in AIA to be liquidated by year end 2012.

*2.24 billion shares of AIA * market price of $3.63 per share - $500 million in discounts and expenses = $7.6 billion = value of AIG's stake in AIA*

Potential proceeds from ILFC. AIG filed for an initial public offering of ILFC Holdings Inc. in September, but has not moved forward due to unfavorable market conditions. Per the company, ILFC had a net book value of about $7.5 billion at the end of 2011 and the CEO of AIG has been quoted expressing the view that the aircraft leasing company is worth $8 to $10 billion. Other market reports have pointed to a value of $6 to $8 billion. There are four publicly traded aircraft lessors currently trading at price-to-book multiples between 0.64x and 1.12x. See Figure 4 below for more detail on the valuations of publicly traded aircraft lessors.

Figure 4. Aircraft lessor valuations
($ in millions, except per share data)

Valuation Comps	Apr 9, 2012			
	AerCap Holdings	Air Lease Corp.	Aircastle	FLY Leasing
Ticker	AER	AL	AYR	FLY
Rating	1	2	1	NR
IPO Date	11/20/06	4/18/11	8/7/06	9/27/07
Share price	$10.91	$23.11	$11.96	$12.01
Market cap	$1,526	$2,285	$866	$308
GAAP Price/Book	0.70x	1.07x	0.62x	0.70x
Aircraft:				
Owned	251	102	144	109
Commitments (net)	47	217	4	2

Note: 1=Outperform; 2=Market Perform; NR=Not Rated
All stocks rated by Gary S. Liebowitz, CFA

Source: Bloomberg, company data and Wells Fargo Securities, LLC estimates

The lessor with the highest valuation is Air Lease Corp. (AL, rated Market Perform by Gary Liebowitz), the most recent addition to the publicly traded aircraft lessor space. AL has the youngest fleet on average relative to its peers, which we believe is the primary reason for its valuation premium. To boot, the company is run by the former CEO and Chairman of ILFC, aircraft leasing pioneer Steven Udvar-Hazy.

In assessing the market value of ILFC, the company's strengths include its size and scope in the aircraft leasing business coupled with what we believe is the largest industry purchase backlog of many the most desirable aircraft such as Boeing 787's, Airbus Neo's and Airbus 350's. Offsetting these strengths is an aging fleet, which has translated into shrinking revenues and aircraft impairments over the last several years.

Figure 5. ILFC revenues and aircraft write offs, Q1 2009 – Q4 2011
($ in millions)

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Total revenue	$1,271	$1,330	$1,347	$1,049	$1,244	$1,173	$1,212	$1,171	$1,169	$1,126	$1,123	$1,109
Impairments & fair value adjustments	$ -	$ -	$ -	$ 86	$ 353	$ 61	$ 407	$ 841	$ 103	$ 44	$1,459	$ 131

Source: Company data

We don't think it is likely that AIG will be able to monetize its aircraft leasing company at net book with most comps trading below book value. To be *conservative*, our valuation of ILFC anticipates a further $1 billion of after tax aircraft impairments, $300 million of operating earnings and price-to-book multiple of 70%, which results in a market value of $4.8 billion. This is a public market valuation, which would follow if ILFC is sold via public offering. A private market transaction with a buyer that has high credit ratings may be able to pay a higher value owing to an operating financing advantage. AIG has indicated that the sale of ILFC at book value would reduce AIG's book value by roughly $1.50 per share. The larger the discount to ILFC's book value, a greater charge to AIG's book value will result. Clearly, market conditions will determine the timing and manner that AIG chooses to divest ILFC. Still, if there are any US Government preferred interests in AIG outstanding on May 1, 2013, the government can compel the sale of ILFC per terms and conditions of the government's choosing.

($7.5 billion of ILFC BV - $1.0 billion of charges + $300 million of op. earnings) 0.70x P/B*
= $4.8 billion = value of ILFC

Asset sales and buybacks likely, but when? AIG has demonstrated the ability to buyback its shares from the US Treasury and, based on our analysis, we think the company has considerable capacity to sell assets to fund future share repurchases. To us, what remains in question is the timing of such asset sales and repurchases. Unfortunately, we can't answer that question but we can offer some *"what if"* analysis. The following several figures are the result of that analysis. Essentially we assume that by the end of 2012, AIG succeeds in liquidating the three assets we've identified; ML III, AIA SPV, and ILFC, and deploys the assumed proceeds into share repurchase with the US Treasury. Our primary objective is to isolate the potential effect on AIG's book value and book value per share. To this end, we vary our share price repurchase assumption, which has an effect on the potential accretion to book value per share for AIG. Nonetheless, this exercise points to substantial accretion in book value per share of at least 10% to 15%, in our view.

In addition, it is our expectation that AIG shares will see book value multiple expansion on top of this book value accretion to reflect (1) a faster rate of improvement in return on equity and (2) a diminishing government linkage. This exercise provides the basis for our new valuation range for AIG shares. For instance, using an average repurchase price of $35 per share, AIG's book value per share would accrete to $57.71. If AIG's book value multiple increases to 0.75x, reflecting less government linkage, that would imply a share price in the range of $43. See Figure 9 below for more detail.

Figure 6. Projecting AIG's Proforma 2012 ending BVPS excluding AOCI
(in billions, except per share data)

AIG shareholders' equity as of 12/31/2011	$	105
attributable to ILFC		7.5
attributable to AIA		12.4
attributable to ML II		1.3
attributable to ML III		5.7
EITF 09-G impact		(3.3)
Sold 14% of AIA stake and paid down AIA SPV		(5.4)
Utilized ML II proceeds and paid down AIA SPV		(1.3)
Bought back $3 billion of shares from USG		(3.0)
2012 Earnings		6.0
Gain on Liquidation of ML III		0.8
AIG proforma shareholders' equity as of 12/31/2012	$	99
Diluted share count		1.799
AIG's proforma 2012 ending BVPS	$	54.92
AIG's proforma 2012 ending BVPS ex. AOCI	$	51.92

Source: Company data and Wells Fargo Securities, LLC estimates

Figure 7. Scenario 1 -- Unleveraged buyback with asset sales and liquidations
(in billions, except per share data)

AIG proforma shareholders' equity as of 12/31/2012	$	99	
Share repurchase using cash proceeds from:			
Selling remaining AIA stake		(7.0)	
Selling ILFC at $4.8 billion		(9.5) [1]	
ML III liquidation		(5.7)	
AIG proforma shareholders' equity as of 12/31/2012	$	76.6	
Cash available for buyback	$	18.8	
Number of shares repurchased @ $30/share		0.63	
Diluted share count		1.172	
AIG's proforma 2012 ending BVPS ex. AOCI	$	60.73	+16.98%
Number of shares repurchased @ $40/share		0.47	
Diluted share count		1.329	
AIG's proforma 2012 ending BVPS ex. AOCI	$	53.57	+3.19%

[1] Includes book and estimated tax loss effects of $7.5 billion and $2 billion, respectively.

Estimated AIG share prices:

BVPS ex. AOCI	P/B	Price
$60.73	x0.55	$33.40
	x0.75	$45.55
BVPS ex. AOCI	P/B	Price
$53.57	x0.55	$29.47
	x0.75	$40.18

Source: Company data and Wells Fargo Securities, LLC estimates

Figure 8. Scenario 2 -- Unleveraged buyback with asset sales, liquidations and earnings
(in billions, except per share data)

AIG proforma shareholders' equity as of 12/31/2012	$	99	
Share repurchase using cash proceeds from:			
Selling remaining AIA stake		(7.0)	
Selling ILFC at $4.8 billion		(9.5) [1]	
ML III liquidation		(5.7)	
42% of 2012 earnings		(2.5)	
AIG proforma shareholders' equity as of 12/31/2012	$	74.1	
Cash available for buyback	$	21.3	
Number of shares repurchased @ $30/share		0.71	
Diluted share count		1.089	
AIG's proforma 2012 ending BVPS ex. AOCI	$	63.09	+21.51%
Number of shares repurchased @ $40/share		0.53	
Diluted share count		1.267	
AIG's proforma 2012 ending BVPS ex. AOCI	$	54.24	+4.48%

[1] Includes book and estimated tax loss effects of $7.5 billion and $2 billion, respectively.

Estimated AIG share prices:

BVPS ex. AOCI	P/B	Price
$63.09	x0.55	$34.70
	x0.75	$47.31
BVPS ex. AOCI	P/B	Price
$54.24	x0.55	$29.83
	x0.75	$40.68

Source: Company data and Wells Fargo Securities, LLC estimates

Figure 9. Shares buyback in Scenario 2 under different assumed buyback prices
(number of shares in billions)

Assumed buyback price	$30.00	$32.50	$35.00	$37.50	$40.00	$42.50
# of shares bought back	0.71	0.66	0.61	0.57	0.53	0.50
Implied BVPS ex. AOCI	$63.09	$60.07	$57.71	$55.81	$54.24	$52.93

Source: Company data and Wells Fargo Securities, LLC estimates

How accretive could share repurchase activity be to ROE and EPS? Let's assume AIG is able to execute the actions that we describe above during the course of 2012, what would that mean to our projections for return on equity in 2013? The liquidation of the asset that we discuss would have a limited effect on operating earnings for AIG. The earnings effect of AIA is not reflected in our forward projection of earnings for AIG, due to the capital market influenced nature of its respective earnings. We do forecast ILFC and ML III operating earnings in 2013 to total $419 million and $483 million pre-tax, respectively. To cast our 2013 operating earnings estimate proforma for the assets sales, we remove ILFC and ML III earnings. We use this proforma earnings number to calculate proforma return on equity. Proforma equity reflects the asset sales. See below. This math implies a return on equity of 6.3%, closer to AIG's target return on equity of 10%. In addition, depends on the assumed buyback price, proforma 2013 EPS could range from $3.55 to $4.23, by our math.

Proforma 2013 operating earnings of $4.6 billion / proforma equity ex. AOCI of $73.3 billion = implied ROE = 6.3%

Figure 10. Proforma 2013 EPS under different assumed buyback prices
(number of shares in billions)

Assumed buyback price	$30.00	$32.50	$35.00	$37.50	$40.00	$42.50
# of shares bought back	0.71	0.66	0.61	0.57	0.53	0.50
Proforma 2013 EPS	$4.23	$4.02	$3.87	$3.74	$3.63	$3.55

Source: Company data and Wells Fargo Securities, LLC estimates

Cash flow from operations. AIG's Chairman and CEO, Bob Benmosche, has repeatedly emphasized that the company over solved for capital during its restructuring. To this point, AIG has a fairly low level of financial leverage compared to other insurance companies. Based on our numbers, AIG's debt-to-total capital ratio is roughly 18%. Figure 11 below offers a leverage comparison between AIG and other major US insurance companies, both life insurers and non-life insurers. As a general rule, those companies that are predominately life insurers tend to have higher debt to total capital ratios and the ceiling for debt to total capital ratios for A to AA rated insurers would be about 25%.

Figure 11. Debt to Total Capital Ratios among major US insurers

	Debt/Total Capital at 12/31/2011	Financial Strength Ratings Moody's	S&P's
AIG	18.4%	A2	A
ACE	15.7%	A1	AA-
AFL	27.0%	Aa3	AA-
ALL	26.0%	Aa3	AA-
CB	18.7%	Aa2	AA
HIG	21.3%	A3	A-
MET	30.0%	Aa3	AA-
PGR	25.4%	Aa2	AA
PRU	25.3%	A2	AA-
TRV	23.4%	Aa2	AA

Source: Company data, Moody's Investors Service, Inc. and Standard and Poor's Financial Services LLC

If AIG is unable to execute on its asset sales to fund share repurchase, the company could still buyback shares, increasing leverage temporarily, and use the proceeds of future asset sales to de-lever. By our math, AIG could boost its financial leverage in the absence of asset sales to a manageable debt to total capital ratio of 24% by issuing $5 billion of long-term debt to repurchase shares. Based on our earnings model, a summary of which is included at the end of this note, we would project AIG's operating subsidiaries to generate $5 to $6 billion of cash that can be paid to the holding company on an annual basis. We would expect about 42% of this amount, $2 to $2.5 billion, would be available for capital management.

What else is there? How about a share repurchase funded with value represented by AIG's deferred tax assets? AIG is in an extraordinarily unusual situation. The company has substantial net deferred tax assets (DTA) of $16.6 billion on its balance sheet and the company's majority owner is the US Government via the US Treasury. While many companies have DTA, few of them are effectively owned by the government. IRS rules make DTA's notoriously difficult to transfer to third parties. But for AIG, we believe the company's DTA, as a claim against future tax revenues, represents a form of value to AIG's majority owner – the US government. Food for thought: why can't AIG place a present value on its DTA and use it as a store of value to repurchase its shares from the US Government?

It is less about operations right now, in our view. From an operating standpoint, AIG may face near-term challenges from non-life insurance reserve adequacy, a shifting non-life insurance business mix, a challenging non-life insurance pricing cycle, and a difficult, low interest rate environment. And all the operating improvements underway at the company including those focusing on risk management, claims, underwriting and investments, are appropriate and necessary. But for instance, the financial repercussion to shareholders of a material non-life reserve addition is fairly muted. The math is just not that damaging: a hypothetical ten percent addition to Chartis reserves would cost $3.68 per share after tax. Given a multiple of 55% of book value, the market value hit could be potentially $2.02 per share.

Figure 12. Estimated market value hit from 10% addition to Chartis reserves
($ in millions, except share data)

Chartis reserves as of 12/31/2011	$88,211
10% addition to reserves	$8,821
After tax (@25% tax rate)	$6,616
Negative impact on book value per share	$3.68
Price to book multiple	0.55x
Estimated market value hit	$2.02

Source: Company data and Wells Fargo Securities, LLC estimates

2012 and 2013 Operating Earnings Update

Earnings adjustments. We are increasing our estimates on AIG largely to reflect the impact of the share repurchase, the full repayment of preferred equity interests and the sale of all remaining Maiden Lane II securities. Further, we have made some refinements meant to reflect changes in some of our underlying assumptions. Our EPS estimates for 2012 and 2013 rise to $3.38 from $2.50 and to $3.06 from $2.80, respectively. A summary of key assumptions associated with our estimates follows below as well as a summary model in Figure 13 on the following page. Our working AIG model aligns with the company's segmentation of results into four segments: Chartis, SunAmerica, Aircraft Leasing and Other Operations.

Chartis

- Operating assumptions for Chartis include combined ratios of 101.2% for 2012 and 100.1% for 2013.
- We are assuming net earned premium to decrease by 0.9% for 2012, largely due to renewals restructuring initiatives in commercial casualty lines.
- For 2013, our model expects a net earned premium growth rate of 4.7%.
- We expect underwriting expense to increase by 1.2% for 2012 and 2.3% for 2013, attributable to the business mix shift and investment in growth economy nations.
- We estimate pretax operating income of $3.9 billion for 2012 and $4.3 billion for 2013.

SunAmerica

- SunAmerica operating assumptions include retirement asset growth of 8% annually for both years.
- We expect variable annuity sales to keep improving in 2012 due to broader distribution opportunities.
- For variable annuity, our model expects a decline in sales for 2012, attributed to the extended low interest rates environment.
- We are also building in SunAmerica investment income growth of 8.8% in 2012 and 5.2% in 2013, including $300 million pretax gains from the sale of all remaining Maiden Lane II securities in Q1 2012.
- We estimate pretax operating income of $3.9 billion for 2012 and $4.1 billion for 2013.

Aircraft Leasing

- For ILFC, we expect additional losses on sales and impairment charges or fair value adjustments in 2012.
- We are modeling pretax operating income of $419 million for both 2012 and 2013.

Other Operations

- For UGC, we are incorporating $100 million of pretax income for both 2012 and 2013.
- We are projecting $1.4 billion of pretax income from holdings of AIA for 1Q12.
- Our model also expects $25 million per quarter pretax income from Global Markets for both years.
- We are incorporating other interest expense of $400 million for Q1 2012, and $311 million per quarter starting in Q2 2012, attributed to the complete repayment of preferred equity interests in AIA SPV. Further, we are assuming net other corporate expenses of $250 million per quarter.
- We are also modeling Maiden Lane III pretax income of approximately $125 million quarterly, which assumes a 9% yield on average invested assets of $17.1 billion for 2012 and $16.0 billion for 2013, a 6.5% decline annually.

DAC Accounting Change, Weighted Average Diluted Shares and Tax Rate

- We are incorporating a negative impact from deferred acquisition cost accounting change (EITF-09G) of $3.3 billion to the company's book value as of 1/1/2012.
- The impact includes a $3.7 billion decrease in retained earnings and a $0.4 billion increase in accumulated other comprehensive income.
- Our EPS estimates incorporate weighted average diluted shares of 1798.5 million for both 2012 and 2013.
- The share count incorporates AIG's $3 billion share repurchase in Q1 2012, and assumes no additional buyback in 2012 and 2013.
- Our EPS estimates are presented on an after-tax basis utilizing an effective tax rate assumption of 25%.

Figure 13. AIG Summary Earnings Model for 2012 and 2013

American International Group

($ in millions, except as noted)

Summary

	2011	2012E	2013E	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012E	Q2 2012E	Q3 2012E	Q4 2012E	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E
Segmented Operating Income Before Taxes															
Chartis	1,116	3,920	4,324	(463)	789	442	348	976	988	981	975	1,081	1,082	1,064	1,097
SunAmerica	3,261	3,873	4,053	1,143	743	444	931	1,130	856	917	971	952	974	1,040	1,087
Aircraft Leasing	(995)	419	419	117	86	(1,317)	119	105	105	105	105	105	105	105	105
Other Operations	(4,711)	(112)	(1,457)	(1,563)	113	(4,242)	981	944	(365)	(357)	(334)	(376)	(373)	(365)	(342)
Total Pretax Operating Income	**(1,329)**	**8,101**	**7,339**	**(766)**	**1,731**	**(4,673)**	**2,379**	**3,154**	**1,585**	**1,646**	**1,717**	**1,762**	**1,788**	**1,844**	**1,946**
Amortization (expense) benefit of DAC, VOBA, and SIA related to net realiz	(357)	0	0	17	(59)	(173)	(142)	0	0	0	0	0	0	0	0
Realized Capital Gains (losses) ex. Consolidation and Elimination Adjustme	590	0	0	(605)	106	381	708	0	0	0	0	0	0	0	0
Consolidation and elimination adjustments	31	0	0	(26)	28	107	(78)	0	0	0	0	0	0	0	0
Taxes	(18,036)	2,025	1,835	(200)	(288)	(634)	(16,914)	788	396	411	429	440	447	461	486
Tax Rate (as reported)	n/a	25.0%	25.0%	26.1%	-16.6%	13.6%	-711.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Income from continuing operations	16,971	6,075	5,504	(1,180)	2,094	(3,724)	19,781	2,365	1,188	1,234	1,287	1,321	1,341	1,383	1,459
Income from discontinued operations	1,535	0	0	1,653	(37)	(221)	140	-	-	-	-	-	-	-	-
Net Income	18,506	6,075	5,504	473	2,057	(3,945)	19,921	2,365	1,188	1,234	1,287	1,321	1,341	1,383	1,459
Minority Interest Net of Tax	708	-	-	204	217	164	123	-	-	-	-	-	-	-	-
Net income attributable to AIG	**17,798**	**6,075**	**5,504**	**269**	**1,840**	**(4,109)**	**19,798**	**2,365**	**1,188**	**1,234**	**1,287**	**1,321**	**1,341**	**1,383**	**1,459**
Net income from discontinued operations, net of tax	1,516	-	-	1,646	(49)	(221)	140	-	-	-	-	-	-	-	-
Net gain on sale of divested businesses, net of tax	(48)	-	-	(47)	(1)	(1)	1	-	-	-	-	-	-	-	-
Net income from divested businesses, net of tax	16	-	-	6	10	-	-	-	-	-	-	-	-	-	-
Deferred income tax valuation allowance (charge)/release	16,561	-	-	(563)	570	(1,226)	17,780	-	-	-	-	-	-	-	-
Amortization of FRBNY prepaid commitment fee asset, net of tax	(2,358)	-	-	(2,358)	-	-	-	-	-	-	-	-	-	-	-
Net realized capital gains (losses), net of Tax	336	-	-	(387)	44	302	377	-	-	-	-	-	-	-	-
SunAmerica DAC offset related to net realized capital gains (losses	(232)	-	-	11	(38)	(112)	(93)	-	-	-	-	-	-	-	-
Non-qualifying derivative hedging activities, excluding net realized capital ga	181	-	-	(69)	28	187	35	-	-	-	-	-	-	-	-
Goodwill impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bargain purchase gain	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income, A/T and adj.	**1,826**	**6,075**	**5,504**	**2,030**	**1,276**	**(3,038)**	**1,558**	**2,365**	**1,188**	**1,234**	**1,287**	**1,321**	**1,341**	**1,383**	**1,459**
Adjusted undistributed earnings allocated to Series C preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net operating income attributable to AIG common shareholders	**1,826**	**6,075**	**5,504**	**2,030**	**1,276**	**(3,038)**	**1,558**	**2,365**	**1,188**	**1,234**	**1,287**	**1,321**	**1,341**	**1,383**	**1,459**
Per Share Data															
Operating EPS (weighted average diluted)	**$1.02**	**$3.38**	**$3.06**	**$1.30**	**$0.69**	**($1.60)**	**$0.82**	**$1.32**	**$0.66**	**$0.69**	**$0.72**	**$0.73**	**$0.75**	**$0.77**	**$0.81**
Annual % Change	n/a	232.8%	-9.4%	37.1%	-41.4%	n/m	n/m	0.9%	-4.9%	n/m	-12.6%	-44.1%	12.8%	12.0%	13.4%
Sequential % Change	n/a	232.8%	-9.4%	n/m	-46.7%	-330.2%	n/m	60.5%	-49.8%	3.9%	4.3%	2.6%	1.5%	3.1%	5.5%
Net Income Per Share	$9.89	$3.38	$3.06	$0.17	$1.00	($2.16)	$10.41	$1.32	$0.66	$0.69	$0.72	$0.73	$0.75	$0.77	$0.81
Avg. Diluted Shares Outstanding	1,799.0	1,798.5	1,798.5	1,557.7	1,836.8	1,899.5	1,902.0	1,798.5	1,798.5	1,798.5	1,798.5	1,798.5	1,798.5	1,798.5	1,798.5
Book Value Per Share															
BVPS As Reported	$55.33	$58.40	$61.47	$47.26	$48.80	$45.30	$55.33	$56.33	$56.99	$57.68	$58.40	$59.13	$59.88	$60.65	$61.47
AIG proforma	**$55.33**	**$58.40**	**$61.47**	**$47.66**	**$49.18**	**$45.30**	**$55.33**	**$56.33**	**$56.99**	**$57.68**	**$58.40**	**$59.13**	**$59.88**	**$60.65**	**$61.47**
AIG proforma ex. AOCI	**$52.69**	**$55.38**	**$58.45**	**$43.83**	**$44.39**	**$42.23**	**$52.69**	**$53.31**	**$53.97**	**$54.66**	**$55.38**	**$56.12**	**$56.87**	**$57.64**	**$58.45**
Return On Equity															
Return On Equity (as reported)	2.1%	5.9%	5.1%	-20.3%	-25.1%	-33.4%	2.5%	2.4%	2.3%	6.4%	5.9%	4.8%	4.9%	5.0%	5.1%
AIG proforma BVPS	2.1%	5.9%	5.1%	-30.7%	-31.2%	-32.9%	2.5%	2.4%	2.3%	6.4%	5.9%	4.8%	4.9%	5.0%	5.1%
AIG proforma BVPS ex. AOCI	**2.3%**	**6.3%**	**5.4%**	**-44.4%**	**-40.3%**	**-37.8%**	**2.7%**	**2.6%**	**2.4%**	**6.8%**	**6.3%**	**5.1%**	**5.2%**	**5.3%**	**5.4%**

Source: Company reports and Wells Fargo Securities, LLC estimates

Required Disclosures

	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	4/7/2009		Hall			
	4/7/2009	NA	2	20.00	40.00	21.00
❐	7/1/2009		1-for-20 reverse split			
●	7/20/2009	13.52	2	14.00	18.00	13.46
●	8/10/2009	27.14	2	21.00	29.00	28.70
▼ ●	9/11/2009	37.85	3	10.00	20.00	37.55
●	10/19/2010	42.26	3	20.00	30.00	41.01
●	2/9/2011	42.05	3	28.00	31.00	41.11
▲	5/13/2011	31.06	2	28.00	31.00	30.42
●	8/8/2011	25.10	2	25.00	28.00	22.58
●	2/24/2012	28.41	2	27.00	30.00	28.41

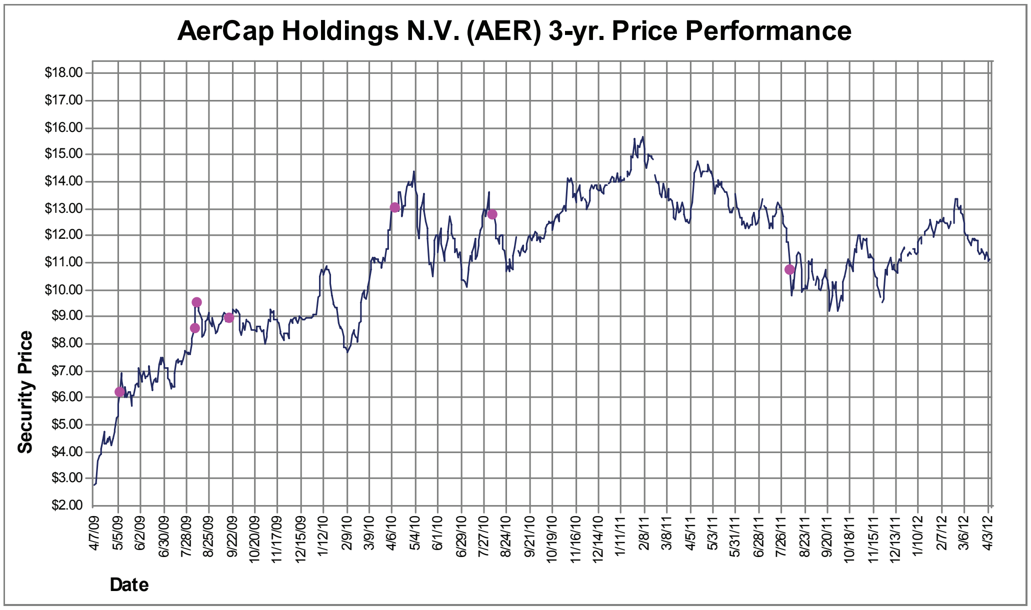
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	4/7/2009		Liebowitz			
	4/7/2009	NA	1	8.00	10.00	2.76
●	5/7/2009	5.87	1	9.00	11.00	6.24
●	8/6/2009	8.66	1	11.00	12.00	8.55
●	8/10/2009	9.37	1	14.00	15.00	9.54
●	9/18/2009	8.50	1	13.00	14.00	8.94
●	4/9/2010	12.92	1	17.00	18.00	13.01
●	8/5/2010	12.90	1	17.00	19.00	12.76
●	8/5/2011	10.99	1	15.00	16.00	10.77

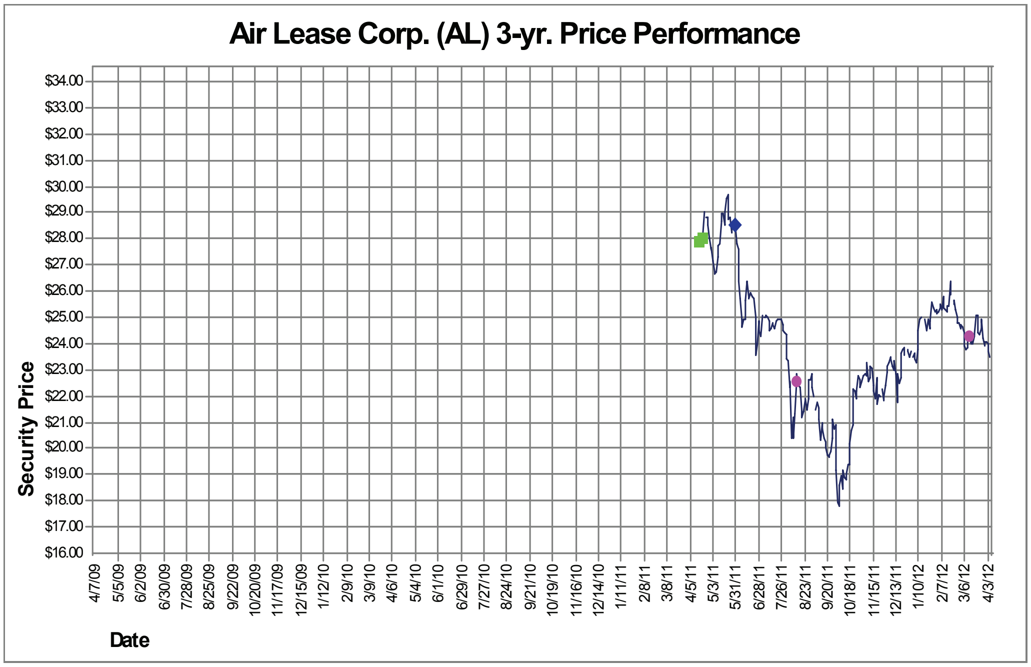
Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	❐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

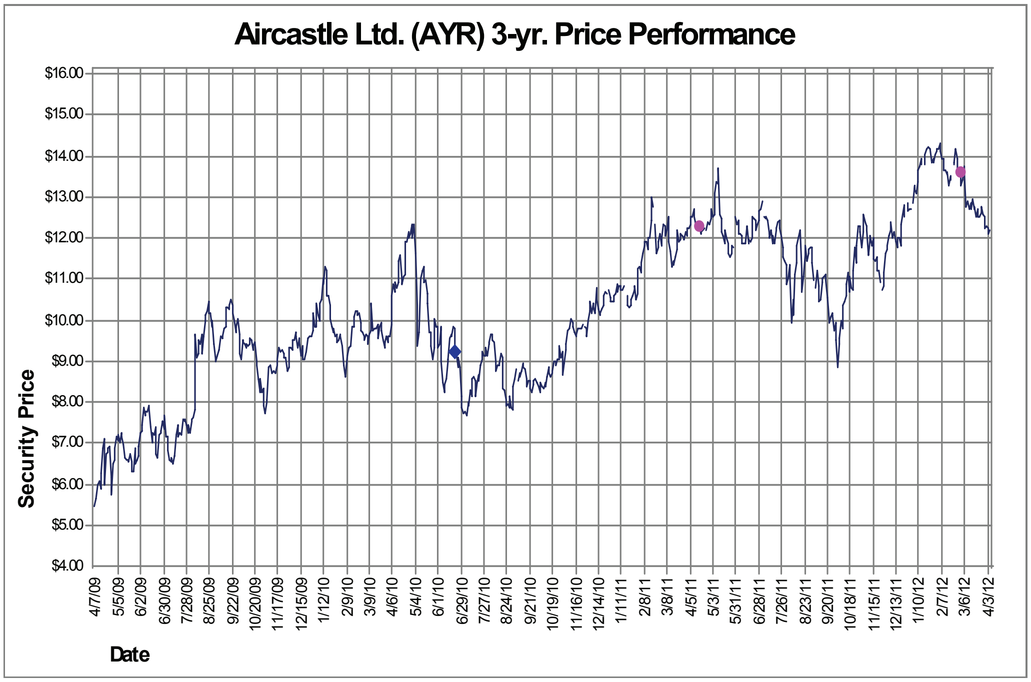


	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
❐	4/19/2011		IPO at $26.50			
	5/31/2011		Liebowitz			
◆	5/31/2011	28.43	2	28.00	29.00	28.50
●	8/12/2011	21.30	2	23.00	24.00	22.56
●	3/12/2012	24.40	2	24.00	25.00	24.29

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❐ Split Adjustment

Rating Code Key
- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	6/21/2010		Liebowitz			
◆	6/22/2010	9.79	1	14.00	15.00	9.21
●	4/15/2011	12.21	1	15.00	16.00	12.28
●	2/29/2012	13.61	1	15.50	16.50	13.61

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
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- 1 Outperform/Buy
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