Modularity Overview

February 14, 2017
Why Modularity?

Our new modular management framework gives our stakeholders greater transparency into our Core businesses, empowers our leaders to make decisions for better business performance, and increases efficiency so we can focus more on profitability.
The Modules

A coherent structure of measurable business modules with the services and capabilities required to most efficiently meet our clients’ needs.

The 6 Core business modules represent AIG’s future. Disclosure of each module’s return on equity and capital allocation demonstrates the strength of our go-forward businesses and our potential for profitable growth.

The 3 geography modules provide a view of the results of Core according to the broad locations where AIG conducts significant insurance operations.

Legacy includes non-core assets and run-off businesses that we intend to divest to maximize capital return with minimal impact to book value.

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(1) United Guaranty included in Other Module for reporting of historical results. AIG successfully completed the sale for United Guaranty to Arch Capital Group Limited on December 31, 2016.
The Benefits of Modularity

THREE KEY BENEFITS

1. GREATER TRANSPARENCY
   Granular measurement and financial disclosure highlights specific performance of each module. We can amplify our competitive strengths, and move quickly to address challenges.

2. MORE EMPOWERED
   Each module combines the services and capabilities required to efficiently meet our clients’ needs, further empowering leaders to make decisions for the future success of the businesses and AIG as a whole.

3. EFFICIENCY AND PROFITABILITY
   Modularity reduces complexity, eliminates duplication, and promotes greater efficiency so we can focus more on profitability.
Modular financial disclosures enable more granular view of performance.
Capital Allocation: Approach

- Allocate equity and debt from AIG’s capital structure on an annual basis
- Equity¹ for each module based on its risk profile, measured using AIG’s Economic Capital Model
- Diversification benefit allocated to individual modules
- Allocate AIG’s total financial debt based on ‘frictional’ capital representing other capital requirements above economic capital (e.g. regulators, rating agencies)

1) Equity allocated to modules in form of GAAP Shareholders’ Equity excluding AOCI and DTA
2) Includes CTA adjustments

AIG Total GAAP Shareholders’ Equity

- AOCI
  (Excluded due to mismatch between marking of assets and liabilities²)
- DTA
  (Only included once utilized)
- Financial Debt and Hybrids

Total Capital

- Liability and Financial Lines
- Property and Special Risks
- Individual Retirement
- Group Retirement
- Life Insurance
- Personal Insurance
- Legacy
- Other Operations (including unallocated debt and equity)
Capital Allocation: Considers Economic and Frictional Capital

- Economic Capital is our internal view of financial, insurance and operational risks undertaken by the firm
- Diversification benefits resulting from being a multi-line insurance company with exposure to broad-range of risks are allocated to modules

<table>
<thead>
<tr>
<th>Economic Capital</th>
<th>Frictional Capital</th>
<th>Total Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital required based on risk profile</td>
<td>Additional capital to meet binding constraints</td>
<td>Debt funded: Cost of debt included in module P&amp;L</td>
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<tr>
<td></td>
<td></td>
<td>Equity funded: Equity used to calculate ROE of module</td>
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<tr>
<td></td>
<td></td>
<td>Unallocated equity or debt is included in Other Operations</td>
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</tbody>
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1) Frictional Capital is primarily funded through debt
Asset and NII Allocation: Approach

Asset allocation aligns assets with characteristics of liabilities and capital usage within a module.

**Asset Composition**

- **Assets Backing Surplus** *(includes other assets, e.g. Alternatives)*
- **Assets Backing Reserves** *(primarily fixed income)*

**Module Asset Backing Reserve Characteristics**

- Increasing Investment Yield
- Lengthening Duration

**Assets backing reserves allocated**
- to match duration and currency, and account for concentrations

**Assets backing surplus allocated**
- based on economic capital requirements

**Modules**

- Life Insurance
- Individual Retirement
- Group Retirement
- Liability and Financial Lines
- Personal Insurance
- Property and Special Risks

**Module**

INCREASING INVESTMENT YIELD

LENGTHENING DURATION
**Effective Tax Rate Estimation: Approach**

- Allocate income taxes as reported to each core business and geographic module
- Apply an Annualized Effective Tax Rate to pre-tax operating income in interim periods

- **PTOI for each Core Module by geography**
- **Significant permanent book-to-tax differences**

  - **Base Annualized Effective Tax Rate**
    - Base Annualized Effective Tax Rate is determined by analyzing Module PTOI by tax jurisdictions where earnings are taxed and applying simplified statutory or blended tax rate assumptions
      - United States = 35%
      - Europe = 25%
      - Japan = 30%

  - **Items Treated Discretely**
    - Core Business Module Adjustments:
      - Income tax impacts of expense and debt allocations are apportioned to each module
      - Significant tax-related discrete items are applied directly to each module

  - Annualized Effective Tax Rate
Modularity Supports AIG’s Hierarchy of Goals

Modular management framework empowers AIG leaders with the tools to enhance Intrinsic Value and achieve Return on Equity improvement.