AIG's strategy to become a leaner, more profitable and focused insurer

Today at AIG we've announced important actions around strategy, around organizational change and around operating performance improvement. On strategy, we've announced the return of $25 billion of additional capital to shareholders over the next two years. In addition, we announced the IPO of United Guaranty, our mortgage insurer, within the first half of this year. So we'll be listing 19.9 percent of UGC in the second quarter of this year. And then third, we are announcing the sale of the Advisor Group, which is a group with about 5,000 financial advisors, and should close in the first half of this year.

What do the organizational changes mean?

The organizational changes that we're announcing come in two areas. One is we want to make the entire company much more modular, so we'll be creating a number of modules where business leaders of each module have full accountability for the end-to-end customer experience, the cost base, the technology they use, which will improve the control over the costs, make it more transparent where the performance is improving and where it still needs more work. In addition, we're creating a new legacy portfolio, which will have about a quarter of AIG's capital allocated to it, which is a number of assets and liabilities which are effectively in run-off and for sale. We've also appointed a leader of that, Charlie Shamieh, who will be the CEO of the Legacy group. This will make it much more transparent as we improve the ROE of the operating businesses, which we expect to have an ROE in excess of 10 percent in the calendar year 2017.

What do the operational actions include?

We're going to announce a number of important initiatives to improve our operating performance, starting with overall expenses. We expect gross expenses over the next two years to be reduced by a further $1.6 billion, in addition to the reductions we accomplished in 2015. Second, in the commercial underwriting we're going to reduce the accident year loss ratio by six full points over this two year period. And finally, when taken together with the legacy portfolio, the combined AIG ROE we'd expect to be 9 percent in the calendar year 2017.

Was this announcement a result of shareholder criticism of AIG's plans to date and what does the plan mean for shareholders?

I'm pleased to say that this plan to return $25 billion of capital to our shareholders over the next two years is the result of many discussions with our stakeholders. Those stakeholders, of course, include our shareholders, but they also include our customers, our regulators, our rating agencies and of course our employees and leaders. Our customers are extremely concerned to make sure that we have the risk expertise and the financial strength to deliver on our promises to them. We're in the business of making large, long-term promises, and we absolutely intend to keep those. Secondly, our regulators are watching very carefully to make sure that we do this in a prudent, sustainable way. And our employees want to know that we've given them the tools to execute this plan on time and on budget. And I'm very confident that all of these stakeholders will be behind us as we execute this plan.

What are the benefits of modularity?

I see three principal benefits of AIG shifting to a more modular structure. The first is much greater transparency. We'll see which of these modules are earning their cost to capital today, and which still have room to improve. And secondly, accountability. The leaders of each of these modules will have much greater control over their costs, their strategy and ultimately flexibility, the ability to decide whether these modules are better owned by AIG or by somebody else. And so this modularity really opens up strategic flexibility for AIG, which I think will add significantly to our shareholder value.

What do the changes mean for employees?

We're making a lot of changes and obviously it impacts all of our employees. I have been incredibly impressed over the years that I've been at AIG at our employees' resilience in the face of extraordinary challenges. This company has been through so much and our employees have learned to stay focused on what matters most, which is our clients. We aspire to be our clients' most valued insurer, and as our clients give us the encouragement to keep focused on their needs, all of these changes, whether it's in the organization or the strategy, become vehicles through which we can become a leaner, more focused and more profitable AIG. And our employees have seen that positive feedback and it gives them the courage to keep on that path.

How will this strategy continue to transform AIG?

I'm happy to say that AIG's management and board are fully aligned around this strategy to become more focused, leaner and more profitable, to deliver $25 billion of capital to our shareholders over the next two years, to improve our operating performance, our operating ROE north of 10 percent, our overall ROE around 9 percent by 2017, and to do so while maintaining all of the best interests of all of our stakeholders – of course our shareholders, our customers, our employees, our regulators – and to do so in a sustainable way, delivering top quartile TSRs as we demonstrate our performance relative to our peers.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION AND OTHER MATTERS

These materials include projections, goals, assumptions and statements that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only AIG’s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG’s control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as “will,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “view,” “target,” “goal” or “estimate.” It is possible that AIG’s actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause AIG’s actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include: changes in market conditions; the occurrence of catastrophic events, both natural and man-made; significant legal proceedings; the timing and applicable requirements of any new regulatory framework to which AIG is subject as a nonbank systemically important financial institution and as a global systemically important insurer; concentrations in AIG’s investment portfolios; actions by credit rating agencies; judgments concerning casualty insurance underwriting and insurance liabilities; judgments concerning the recognition of deferred tax assets; judgments concerning estimated restructuring charges and estimated cost savings; completion of the year end audit process; and such other factors discussed in Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Part II, Item 1A. Risk Factors in AIG’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, Part I, Item 2. MD&A in AIG’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, Part I, Item 2. MD&A in AIG’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 and Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A in AIG’s Annual Report on Form 10-K for the year ended December 31, 2014.

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. This document may also contain certain non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP measures in accordance with Regulation G is included in the Appendix to these materials.

Nothing in these materials or in any oral statements made in connection with these materials is intended to constitute, nor shall it be deemed to constitute, an offer of any securities for sale or the solicitation of an offer to purchase any securities in any jurisdiction.

COMMENT ON REGULATION G

Throughout these materials, including the financial highlights, AIG presents its financial condition and results of operations in the way it believes will be most meaningful and representative of its business results. Some of the measurements AIG uses are “non-GAAP financial measures” under Securities and Exchange Commission rules and regulations. GAAP is the acronym for “accounting principles generally accepted in the United States.” The non-GAAP financial measures AIG presents may not be comparable to similarly-named measures reported by other companies. The reconciliations of such measures to the most comparable GAAP measures in accordance with Regulation G are included within the Appendix to these materials.

Book Value Per Share Excluding Accumulated Other Comprehensive Income (AOCI) and Book Value Per Share Excluding AOCI and Deferred Tax Assets (DTA) are used to show the amount of AIG's net worth on a per-share basis. AIG believes these measures are useful to investors because they eliminate the effect of non-cash items that can fluctuate significantly from period to period, including changes in fair value of AIG's available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts are estimates based on projections of full-year attribute utilization. Book Value Per Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding. Book Value Per Share Excluding AOCI and DTA is derived by dividing Total AIG shareholders' equity, excluding AOCI and DTA, by Total common shares outstanding.

Return on Equity – After-tax Operating Income Excluding AOCI and Return on Equity – After-tax Operating Income Excluding AOCI and DTA are used to show the rate of return on shareholders' equity. AIG believes these measures are useful to investors because they eliminate the effect of non-cash items that can fluctuate significantly from period to period, including changes in fair value of available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts are estimates based on projections of full-year attribute utilization. Return on Equity – After-tax Operating Income Excluding AOCI is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders' equity, excluding average AOCI. Return on Equity – After-tax Operating Income Excluding AOCI and DTA is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders' equity, excluding average AOCI and DTA.

Normalized Return on Equity, Excluding AOCI and DTA further adjusts Return on Equity – After-tax Operating Income, Excluding AOCI and DTA for the effects of certain volatile or market-related items. Normalized Return on Equity, Excluding AOCI and DTA is derived by excluding the following tax adjusted effects from Return on Equity – After-tax Operating Income, Excluding AOCI and DTA: catastrophe losses compared to expectations; alternative investment returns compared to expectations; DIB/GCM returns compared to expectations; fair value changes on PICC investments; update of actuarial assumptions; net reserve discount change; Life insurance IBNR death claim charge; and prior year loss reserve development.

Normalized Return on Equity, Excluding AOCI and DTA – Operating and Legacy Portfolios further adjust Normalized Return on Equity, Excluding AOCI and DTA for the allocation to the operating businesses of Corporate GOE, Parent Financial Debt and the related Interest Expense. AIG uses the following operating performance measures because it believes they enhance the understanding of the underlying profitability of continuing operations and trends of AIG's business segments. AIG believes they also allow for more meaningful comparisons with AIG's insurance competitors. When AIG uses these measures, reconciliations to the most comparable GAAP measure are provided, on a consolidated basis.

After-tax operating income attributable to AIG is derived by excluding the following items from net income attributable to AIG: income or loss from discontinued operations; income and loss from divested businesses (including gain on the sale of International Lease Finance Corporation (ILFC) and certain post-acquisition transaction expenses incurred by AerCap Holdings N.V. (AerCap) in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and related tax effects); legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments; non-operating litigation reserves and settlements; reserve development related to non-operating run-off insurance business; restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization; deferred income tax valuation allowance releases and charges; changes in fair value of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense); changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses; other income and expense — net, related to Corporate and Other runoff insurance lines; loss on extinguishment of debt; and net realized capital gains and losses; non-qualifying derivative hedging activities, excluding net realized capital gains and losses.

Operating revenue excludes Net realized capital gains (losses), Aircraft leasing revenues, income from non-operating litigation settlements (included in Other income for GAAP purposes) and changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense (included in Net investment income for GAAP purposes).

General operating expenses, operating basis, is derived by making the following adjustments to general operating and other expenses: include (i) loss adjustment expenses, reported as policyholder benefits and losses incurred and (ii) certain investment and other expenses reported as net investment income, and exclude (i) advisory fee expenses, (ii) non-deferrable insurance commissions, (iii) direct marketing and acquisition expenses, net of deferrals, (iv) non-operating litigation reserves and (v) other expense related to a retroactive reinsurance agreement. AIG uses general operating expenses, operating basis, because it believes it provides a more meaningful indication of ordinary course of business operating costs.

AIG uses the following operating performance measures within its Commercial Insurance and Consumer Insurance reportable segments as well as Corporate and Other. Commercial Insurance: Property Casualty and Mortgage Guaranty; Consumer Insurance: Personal Insurance Pre-tax operating income: includes both underwriting income and loss and net investment income, but excludes net realized capital gains and losses, other income and expense — net, and non-operating litigation reserves and settlements. Underwriting income and loss is derived by reducing net premiums earned by losses and loss adjustment expenses incurred, acquisition expenses and general operating expenses.

Ratios: AIG, along with most property and casualty insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of losses and loss adjustment expenses, and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

Accident year loss and combined ratios, as adjusted: both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Catastrophe losses are generally weather or seismic events having a net impact in excess of $10 million each.

Commercial Insurance: Institutional Markets; Consumer Insurance: Retirement and Life
Pre-tax operating income is derived by excluding the following items from pre-tax income: non-operating litigation reserves and settlements; changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense); net realized capital gains and losses; and changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses.

Premiums and deposits includes direct and assumed amounts received and earned on traditional life insurance policies, group benefit policies and life-contingent payout annuities, as well as deposits received on universal life, investment-type annuity contracts and mutual funds.

Corporate and Other
Pre-tax operating income and loss is derived by excluding the following items from pre-tax income and loss: non-operating litigation reserves and settlements; reserve development related to non-operating run-off insurance business; loss on extinguishment of debt; net realized capital gains and losses; changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; income and loss from divested businesses, including Aircraft Leasing; net gain or loss on sale of divested businesses (including gain on the sale of ILFC and certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and AIG's share of AerCap's income taxes); and restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization. Results from discontinued operations are excluded from all of these measures.