

## **What is the plan to improve the Commercial P&C Accident Year Loss Ratio by 6 points?**

We've got a clear plan to improve the Commercial accident year loss ratio. The Commercial Insurance portfolio is a diverse portfolio, geographically and by product. Many of our geographies and many of our products today meet or exceed our targeted ROE thresholds. Where I'm really focused is in the two areas where I don't think we're currently performing up to our standards, and that's in U.S. Casualty and certain parts of our Global Property business. The first element of our plan is to narrow our focus – narrow our focus with respect to geography, narrow it with respect to our product offering and narrow it with respect to our clients. We've got many geographies where we have great opportunity for significant profitable long-term growth, and that's where we should focus our efforts. With respect to our products, we don't need to offer every product that's out there, we need to offer the products that give us the long-term opportunity for long-term profitable growth. And with respect to our clients, in the U.S. Casualty space, for example, 78 percent of our U.S. Casualty clients only buy one product from us. And where those relationships are unprofitable or nowhere near our current targeted ROE thresholds, that's a place where we should take a step back and ask ourselves the question of, are we achieving the vision of AIG? And the vision of AIG is to be our clients' most valued insurer. And I think where we can focus our efforts is where we have a chance to be our clients' most valued insurer, and that's where our clients have three or four products with us, or five or more products with us. With respect to the next element of our plan, it really includes using all of the tools that are available to us in our toolkit. More recently, we've used reinsurance broadly as a catastrophic protection mechanism, but what if we could use it instead as a capital management tool, as a much more effective way of reducing the degree of volatility in our book, and a much more effective way of locking in profitability and sharing the risk with a reinsurer. So those elements of the plan very clearly are within our control and will help us to achieve a significant improvement in the return on equity and in the loss ratio for Commercial Insurance.

## **How will the recent reserve strengthening impact your underwriting strategy going forward?**

Sixty percent of the recent reserve strengthening relates to U.S. Casualty lines. Since 2011 we've reduced our writings in U.S. Casualty by 30 percent, we've increased our rates in the aggregate by 20 percent and we've made a significant effort to shift our emphasis in those lines from longer tail lines to shorter tail lines. So I expect for our exercise moving forward to be basically the same, but just faster and more. Other lines of business that were impacted by the reserve strengthening include Financial Lines and International Casualty. Both of these lines, previously as well as currently, have returns that are in excess of our target threshold for return on equity. And so in both cases, I liked the business before, I like the business now and I don't expect to make any significant change with respect to my underwriting activities or my underwriting appetite.

## **What are the benefits of the new “modular” structure?**

I think that modularity is designed to increase the degree of transparency into the operations of the business. We have a two-dimensional Commercial business. We have a product dimension where we have our shorter tail lines, which we call Property and Specialty Risks, and we have longer tail products, which we call Liability and Financial

Lines. The second dimension of modularity for Commercial Insurance is our geographic dimension. We have an operation in Europe – it's a legal entity that includes all of the countries of Europe where AIG does business. It's known as AIG Europe Limited. We refer to that as Europe Commercial business, and the Europe Commercial business is end-to-end responsibility for everything that happens inside of Europe. Same basic story here in the largest commercial insurance marketplace in the world, which is the United States. We have a view of the United States, end-to-end accountability with a single responsible executive. And so modularity gives you a full view of our two key geographies and our two key pieces of the product segmentation.

## **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.

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## **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.