

Company Name: AIG
 Company Ticker: AIG US
 Date: 2019-02-14
 Event Description: Q4 2018 Earnings Call

Market Cap: 37,640.06
 Current PX: 43.29
 YTD Change(\$): +3.88
 YTD Change(%): +9.845

Bloomberg Estimates - EPS
 Current Quarter: 1.091
 Current Year: 4.454
 Bloomberg Estimates - Sales
 Current Quarter: 12228.333
 Current Year: 48471.000

Q4 2018 Earnings Call

Company Participants

- Elizabeth A. Werner
- Brian Duperreault
- Mark Donald Lyons
- Peter Zaffino
- Kevin T. Hogan
- Douglas Adam Dachille

Other Participants

- Kai Pan
- Josh D. Shanker
- Elyse Greenspan
- Yaron Kinar
- Erik James Bass
- Andrew Kligerman
- Thomas Gallagher
- Meyer Shields

MANAGEMENT DISCUSSION SECTION

Elizabeth A. Werner

GAAP and Non-GAAP Financial Measures

Today's presentation may contain non-GAAP financial measures

The reconciliation of such measures to the most comparable GAAP figures is included in the slides for today's presentation and in our financial supplement which are both available on our website

Brian Duperreault

Business Highlights

Opening Remarks

- In addition to reviewing our 2018 fourth quarter and full year financial results I plan to spend a good part of my remarks reflecting on my first full year as CEO of AIG
- Throughout 2018 we uncovered many issues and challenges and took actions on a number of fronts to lay the foundation for long-term sustainable and profitable growth
- We reorganized and repositioned our businesses significantly reducing risk and volatility, recruited industry-leading talent and fostered a culture of underwriting excellence and accountability

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- The problems at AIG were deeper and more pervasive than I originally anticipated, but we have put the right people and the right strategies in place that will allow us to accelerate our progress in 2019

Net Investment Income and CATs Losses

- As Mark will discuss in more detail our fourth quarter results were significantly impacted by a decrease in net investment income due to volatility in both equity and credit markets particularly in the latter part of December, which impacted the operating results across our businesses
- Our results were also impacted by CATs, however, these losses came within our previously disclosed range
- In addition, we reported \$365mm of unfavorable prior-year loss reserve development driven mostly by underwriting decisions from 2016 and prior years
- We are pleased that Q4 also showed positive improvements in General Insurance reflecting actions we took in 2018 that demonstrate that we are in the right path to restoring this business to profitability
 - For example, the accident year combined ratio ex-CATs for Q4 was 98.8%, a 140 basis point improvement over Q4 2017, largely driven by an improved loss ratio of 63.9%

Expense Ratio

- The expense ratio of 34.9% was 90BPS better than Q3 2018 and we continue to work on reducing our overall expense base
- The foundational work we did over the course of 2018 particularly in General Insurance has positioned us well for the future and we are reaffirming the guidance we gave in mid-December including achieving a double-digit ROE excluding AOCI and DTA in the next three years as well as a combined ratio including AALs in General Insurance below 100 in 2019
- To be clear combined ratio below 100 is an inflection point
 - It is by no means where we expect to be longer term
- The crossing over into profitability for the first time in over a decade is an important milestone we will achieve in repositioning AIG for the future

Guidance

Now I want to step back to when I joined AIG in mid-2017

One of the first things I did was to spend guidance

I know that made it difficult for all of you to recalibrate your models and predict our earnings, but I had to do it because I knew I needed time to get a handle on the issues at the company before I could speak confidently about its future performance

So let me give you some insight into what I learned and more importantly what we've been doing about it about what we discovered

Organizational Structure

- I knew coming into the job that the organizational structure of the company and the split between commercial and consumer was different from our peers

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- In September 2017, I announced the reorganization of our business units to create General Insurance and Life and Retirement and made investments as separate business units
- I also restored greater accountability within the leadership team for business performance
- It was also clear to me that AIG experienced a major talent drain dating back to the financial crises but more acutely in recent years
- I knew I needed to bring in the best people in the industry to help me fully understand the extent of the company's issues and fix them

Executive Appointment

- Shortly after my arrival I added several new members to my leadership team including my first hire Peter Zaffino, who joined as AIG's Global COO and later in 2017 also took on the additional role of CEO of the newly constituted General Insurance business unit
- The caliber of people who joined AIG over the last 18 months has been a significant highlight and exceeded my expectations
- The combination of AIG's iconic status coupled with the professional and intellectual challenge this turnaround provides is a compelling proposition
 - And I am incredibly pleased that so many want to be part of it
 - And great talent attracts more great talent

Internal Talent and Recruiting New Hires

- We continue to fill key positions with the combination of elevating internal talent and recruiting new hires, all of whom have proven track records of success and are committed to our mission and are energized by what the future holds for AIG
- I also needed to make sure people were focused on the right issues
- By the fall of 2017 we shifted the company's focus from principally capital management back to insurance fundamentals
 - This shift in focus allowed us to concentrate on uncovering the underlying issues in our core insurance operations that have contributed to the unpredictably and volatility in AIG's financial results

General Insurance

- Our main priority in 2018 was to return General Insurance to profitability as soon as possible and restore its position as an industry leader
- We knew that any remediation efforts would need to be concentrated on critical foundational elements of insurance with Tom Bolt arrival on January 2018, Tom and Peter moved quickly to overhaul our risk appetite and redesign our underwriting philosophy
- Not only have we made significant progress in that regard but the discipline now being applied through revised underwriting guidelines for every underwriter in the world along with new assessment tools allows us to better measure our underwriting performance
- In addition our limit management coupled with improved underwriting discipline has helped us overall our reinsurance program, which had been deemphasized

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- The support we're receiving from broker and reinsurance partners and feedback regarding the changes we are making to our underwriting standards provides independent validation and endorsement of the actions we are taking and the strategy that we have laid out for the future

Key Positions

- As additional industry veterans stepped into key positions and focused on fixing the fundamentals we discovered issues and unintended consequences of prior strategies particularly as a result of what was referred to as the go-large strategy
- This approach to the market created outsized risk and volatility for AIG
- By expanding its risk appetite to encompass very large limits on a gross and net basis, AIG added significant risk to its with earnings pattern and balance sheet
 - Additionally, certain of these issues were exacerbated by risks being written on a multi-year basis and record CAT losses and \$30B of stock buybacks which reduced AIG's capital making the outsize limits more risky

Personal Insurance

- Another example of an unexpected trouble area that started to emerge in early 2018 but really manifested itself in H2 is Personal Insurance, particularly our Private Client Group PCG
- Problem areas that were discovered included geographic zones with disproportionately large and dense accumulations of total insured values in cat prone areas and inadequate pricing of the book
 - As these and other issues in PCG emerge we quickly began to reposition the portfolio as well as reduce risk and volatility

Remediation Plan

- In 2019, we will continue to work to reduce aggregate exposures and right-size risks in this business but it'll take some time to fully execute on our ongoing remediation plan
- We also brought focus and clarity admission to various businesses such as [ph] AIG REM (00:10:24) Lexington, again, adding world-class talent in leadership positions
- I could go on at length with other examples because with very few exceptions almost every business suffered from underperformance
- And while I had some understanding of the go-large strategy before I arrived at AIG I had not appreciated the extent of the issues it created or that have been deployed throughout the company
- The prior strategies coupled with the loss of underwriting discipline helps to explain the magnitude of the PYD recorded over the last few years
- I do want to emphasize that our team has been digging to every aspect of General Insurance and it has made significant progress on transforming the business
- Peter is going to give you more detail on what we accomplished in General Insurance in year one, which you will see is both impressive and more importantly sustainable

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Life and Retirement Business

- While I spent most of the past few quarters speaking about General Insurance, I have also been focused on our Life and Retirement business
- Life and Retirement has been stable considering almost five years of a low rate environment combined with uncertainty related to rule making on best interest and suitability standards
 - It has delivered consistent low to middle double-digit ROE including in 2018
- However, like the rest of AIG this business suffered from inadequate investment in developing technologies, which is critical for a business expected to deliver a high standard of care
- Kevin will go into more detail about the actions we are taking in this business

Legacy

- We've also made progress in Legacy by moving most of our runoff portfolios into a new entity Fortitude Re, bring up management to concentrate on our in-force business
- We continue to receive a significant amount of investor interest in this business since we announced the sale of a minority interest at Carlyle and are focused on fully deconsolidating this business while ensuring we meet our commitments to our policyholders and regulators

Acquisitions and Share Repurchase

- In 2018 we also completed acquisitions including Validus and Glatfelter which deepened our talent bench and will help to accelerate improvements in our core underwriting fundamentals
- In addition, we repurchased \$1.8B of shares and warrants over the course of the year including \$750mm in Q4
- We also announced last night that AIG's board of directors has approved an increase in our share repurchase authorization to \$2B including the \$512mm that was remaining under the previous authorization
 - I have done turnaround work throughout my career and remain committed to completing this one

Closing Remarks

As I said earlier, I'm more confident today than I was a year ago that AIG is on the right path

We continue to focus on making sustainable changes that will yield long-term profitable results which means we are not taking shortcuts or settling on easy fixes, instead we are doing this the right way

We have the best talent in the insurance industry at AIG, we have the right strategies in place and we will restore AIG as the leading insurance company in the world

Mark Donald Lyons

Financial Highlights

Investments

- This morning I plan to go over the key financial impacts for the quarter as well as an actuarial discussion around prior year loss reserve development

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- I'll begin with some of the largest or in some cases most notable financial impacts occurred namely investments in Legacy then turn to General Insurance and Life and Retirement
- Despite volatile financial markets and their impact on investment returns and by consequence business segment results there are clear green shoots that bode well for the future and I will highlight them as well

Adjusted After-Tax EPS

- Turning to slide 4, on December 5 AIG provided some guidance at the Goldman Sachs conference in New York and I'll now provide some color on the actual variances from that guidance
- Consensus fourth quarter adjusted after-tax EPS was \$0.42 post the Goldman conference whereas AIG reported \$0.63 per share adjusted after-tax loss, representing \$1.05 variance
- All per share variances comments that I will make will be utilizing the consensus tax rate of 25.4%
 - This permits each variance discussed to be a pure impact without any tax interaction
 - Instead I will isolate the pure tax impact from consensus separately later in this conference

Capital Markets Volatility

- So the major items comprising the \$1.05 per share variance are as follows
- First, \$0.38 per share difference associated with capital markets volatility
- And by this we mean net investment income differences for General Insurance and Legacy and differences above credit and interest for Life and Retirement along with policy holder and advisor fee reduction net of associated offsets like DAC and advisory fee expenses
 - Included within this is an \$86mm pre-tax impact or \$0.07 per share after-tax impact associated with hedge fund as Japanese equity marks usually recorded on a one-month lag that were recognized in Q4 due to materiality

Loss Reserve

- Secondly, since the loss reserve reviews at the time of the Goldman conference were still underway, it was December 5, we gave no explicit guidance other than to indicate that we preliminarily saw no major issues at that time
- Having said that the consensus estimate of prior year reserve development seem to only reflect the amortization associated with the adverse development cover
- As we will explore in more depth later in my comments AIG reported \$365mm of pre-tax net unfavorable development so the variance from post-guidance consensus was \$26 per share

Legacy

- Thirdly and fourthly, Legacy represents \$0.17 per share variance and General Insurance's accident year underwriting income represents an \$0.08 per share variance, both of which we will delve into during these remarks
- Now, the pure tax difference between consensus and actual represents \$0.05 per share

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- Therefore, the remaining \$0.11 per share is the combination of corporate operations and miscellaneous items

Investment Results

- Now, shifting gears to slide 5 into investment results
- As you are all aware and as Brian mentioned, Q4 saw significant volatility in both equity and credit markets
- Consequently, net investment income for the quarter across all segments on an adjusted pre-tax income basis was \$2.8B, compared to \$3.4B in Q4 last year and \$3.4B sequentially in Q3 2018
 - This net investment income pre-tax reduction of \$600mm was driven by an approximate \$300mm decline in the quarter from hedge funds and roughly \$120mm quarter decline in equities, acknowledging that some of the hedge fund decline stems from targeted reductions
 - These reductions were partially offset by positive recurrence, primarily in private equity, and were aided by, in a valid sense, a relatively flat level of interest income from non-FBO fixed income securities

Hedge Funds

- With respect to hedge funds, this has been a profitable asset class historically and this quarter was the first loss since Q1 2016
- The biggest financial recognition from the widening credit spreads, however, was reflected in equity as approximately \$1.1B of unrealized pre-tax OCI losses, relative to a fixed income carrying value of about \$230B.
- As for the impact on segment reporting, due to differing asset composition the impact was not felt proportionally across the various segments, with General Insurance and Legacy taking the brunt of the market downturn impact
- General Insurance net investment income, for example, declined \$510mm relative to Q4 2017

Legacy

Adjusted Pre-Tax Income Loss

- Moving on to Legacy on slide 6
- Q4 adjusted pre-tax income loss of \$150mm was driven by \$105mm pre-tax charge or \$0.13 per share after-tax resulting from loss recognition testing on certain A&H cancer and disability blocks within the Legacy Life and Retirement subset of run-off lines, with an \$83mm sequential decline of net investment income primarily due to hedge funds declines relative to sequentially last quarter
- General Insurance component of the Legacy run-off was also negatively affected by an increase to unearned premium reserves related to the earnings pattern of certain environmental and cost containment policies amounting to roughly \$50mm pre-tax, which we'll earn through in future periods

General Insurance

Combined Ratio

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- Turning to General Insurance on slide 7, the accident quarter combined ratio ex-CATs for Q4 2018 was 98.8%, which represents a 140 basis point improvement over the corresponding quarter of 2017, virtually all driven by an improved loss ratio of 63.9% that Brian also mentioned
- The expense ratio of 34.9% is 10BPS lower than Q4 2017 and 90 points better sequentially
- Expense ratio reduction was a key objective that management previously identified, and the material progress made on this objective is worth commenting on further

GOE Component

- Moving to slide 8, there has been a 260 basis point improvement in the GOE component of the expense ratio, moving from 15.1% in Q4 2017 down to 12.5% in Q4 2018
- On an apples-to-apples basis, excluding Validus and Glatfelter that were acquired during the year, the dollar reduction is nearly 16% or \$152mm
- Although net earned premiums increased approximately 4%, the GOE ratio would have reduced 240BPS even if the premiums were flat relative to Q4 2017
- Before moving on to the acquisition ratio component of the expense ratio, it's important to note that the GOE ratio improvement emanates from all areas of the General Insurance operation, including: North America and International Commercial and Personal Lines
- And furthermore, it declined even with the broad amount of talent brought into the organization throughout 2018

Acquisition and Loss Ratio

- Now, the acquisition ratio had a nearly offsetting q-over-q increase of 250BPS, driven primarily by few high acquisition ratio transactions within our Personal Lines travel units, mostly domestically
- The travel transactions come with a lower loss ratio expectation, which has contributed to the 130 basis point reduced accident quarter loss ratio referred to earlier
- The loss ratio also improved due to a materially better International Commercial loss ratio q-over-q of about 1,500BPS.
 - Now, this segment represents about 25% of the worldwide General Insurance net earned premiums, so its influence is material
- Q4 last year reflected severe loss activity
- But even adjusting for this, the International Commercial accident quarter loss ratio, excluding CATs, still improved materially q-over-q
- Lastly, there has been a lot of focus on 2018's catastrophe losses this year, largely within our various Personal Lines operations that masks the improvement made within the North American Commercial segment, which historically has been a recurring pain point

North America Commercial Accident Combined Ratio

- The North America Commercial accident quarter combined ratios, ex-CATs, for the last two quarters have been 99% and 102.2%, respectively

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- On an absolute basis, they need to improve, but the underwriting action and reinsurance protection implemented during 2018 are expected to reduce them further going forward
- Most importantly, these North American Commercial accident quarter ex-CAT loss ratios are materially lower when compared to those in H1 2018, largely due to the decreasing influence of the prior management's go-large underwriting approach, which produced significant quarterly volatility
- That influence has been decreasing, but is not quite yet fully implemented due to multi-year policies that were bound in 2017 and prior in conjunction with those large limits

Catastrophe Losses

- Now, turning to catastrophe losses for the quarter, the company recorded \$798mm including Legacy for the quarter, which is in line with the guidance previously provided
- General Insurance recorded \$826mm of 2018 event catastrophic losses split as follows: \$520mm into North America; \$116mm Internationally; and \$190mm from Validus
- Hurricane Michael remains within the guidance range previously provided and, together with the California Woolsey wildfire event, constitutes the vast majority of the quarter's CAT losses
- Severe losses for the quarter at 1.3% of net earned premium represents the lowest severe ratio quarter of 2018 and further evidences the continuing favorable impact of underwriting and reinsurance actions that have taken place to reduce limits deployed within our various worldwide property and energy areas

Reserves Review

- Now moving on to slide 9, Q4 reserves review are focused primarily on the remaining 25% of reserves not yet examined through Q3
- These areas were U.S. Financial Lines, workers' compensation buffer excess policies, International Casualty and Financial Lines other than the UK and Europe and Personal Lines exposures
- Net prior-year development, ignoring associated premium adjustments, was unfavorable by \$365mm for the quarter, which includes Legacy in this discussion or \$0.31 per share after-tax

PYD

- Unpacking that for you and referencing slide 10, the PYD was unfavorable by \$445mm on a pre-ADC basis, \$422mm on a post-ADC basis, and \$365mm recorded earlier which is net of \$57mm of ADC amortization
- On a pre-ADC basis, U.S. Financial Lines accounted for \$362mm of net unfavorable development emanating from our primary D&O facilities, employment practice liability insurance mostly in the private not-for-profit segment, and excess D&O.
 - This was partially offset by \$60mm of favorable development emanating from various professional E&O exposures

International Financial Lines

- International Financial Lines also experienced some unfavorable development of \$87mm, but this emanated from independent large claims from various countries around the globe

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- Therefore, as you can see, worldwide Financial Lines accounted for \$389mm of unfavorable development which really means that all the balance of the other lines had a combined unfavorable development of only \$55mm, most of which stem from an overall ULAE reserve strengthening adjustment

Prior-Year Development

- Now, I want to address the key differences I see it between this prior-year development and the current accident year
- The reserve strengthening in U.S. Financial Lines centered primarily in the 2016 and 2017 accident years which are not subject to be ADC, as can be evidenced by the small \$23mm ADC recovery this quarter

D&O Operations

- More importantly, the issues in these years stem from an influx of security class action claims, mostly impacting our primary D&O operations in those same two accident years
- The frequency of these claims reduced in our book from 2016 to 2017, and more dramatically so from 2017 to 2018, reflecting a concerted underwriting effort to reduce writing primary IPOs and primary life science and healthcare risks along with an approximate one-third reduction in total gross limits across various primary D&O units
- Additionally, in the private D&O sector, bankruptcies also fell off dramatically from 2016 through 2018
 - As a result of these actions and observations, I view the issues as being largely limited to the 2016 and 2017 accident years and having no material rollforward impact on accident years 2018
- I have now reviewed all the worldwide General Insurance loss reserves and feel that AIG is within a reasonable range, which dovetails with the opinion of our outside actuarial consultants for the group of segments that they have independently reviewed
- The ADC as of 12/31/2018 has approximately \$7.6B of limit remaining at 100% level and given the 80% cession has nearly \$6.1B of remaining limits still available to AIG
- During 2019, we will be working to have a more expansive view of reserves each quarter rather than focusing – mostly focusing on predetermined scheduled lines of business
 - This should help reduce volatility and provide interim views of any trends that may be arising throughout the year

Life and Retirement Segment

Adjusted Pre-Tax Income

- Given the earlier discussion on investment performance, let's now turn to the Life and Retirement segment
- The L&R segment recorded \$623mm of adjusted pre-tax income which represents \$90mm reduction sequentially from last quarter and there are many drivers of this sequential difference, and Kevin Hogan will discuss both, the quarter and the year, in detail during his comments
- Although, the L&R segment's fixed income was largely stable, the results reflect the impacts of the December equity market decline and widening credit spreads on certain assets, affecting net spreads, fee income and amortization which Kevin will also go into

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- Sequentially, however, including the impact of the annual assumption review, actuarial assumption review, independent retirement was down \$66mm of adjusted pre-tax income, Group Retirement was down \$83mm, Institutional Markets by \$12mm, while Life Insurance was up \$71mm sequentially

Tax Rate

- As respect to tax, we finished the year at a 24.9% effective tax rate, excluding discrete items, or ETR, on adjusted pre-tax income
- As you know, the ETR is updated each quarter using actual results then supplemented but re-forecast of the remaining quarters
- Q4 incremental tax rate, inclusive of discrete items, was 18.5%

Capital Management

- Moving on to capital management, we repurchased \$745mm of our stock during the quarter at \$41.22 per share, along with another \$5mm of warrants
- The shares outstanding as of 12/31/2018 for book value per share purposes is approximately 867mm whereas the average diluted shares outstanding used for EPS purposes is approximately 888mm shares

Share Repurchase Authorization

- As Brian already commented, we secured a board share repurchase authorization that now puts the available amount at \$2B
- Book value per share and adjusted book value per share, excluding OCI and DTA were \$65.04 and \$54.95 respectively, which represent reductions of 1.8% and 1.1% relative sequentially to 9/30/2018
- Our total capital at 12/31/2018 stands at \$81B, comprised of 71% equity inclusive of OCI and DTA, 2% hybrids and 47% debt, which is up from last year end primarily as a result of the Validus acquisition

AAL

- After Q1, we expect to begin discussing a more industry consistent view towards PML that centers around measurements against our established risk tolerance and the stated return level, rather than discussing the AAL, which is merely an expected value
- More importantly, we consider catastrophic risk to be primarily a balance sheet issue rather than the income statement view that AAL provides
- Given the way underwriting and reinsurance actions burn into calendar quarter results, we expect net improvements in CAT exposure and overall results as we cascade throughout the year

Closing Remarks

Finally, with now two months under my belt as CFO, I'm very appreciative of the support I received from my – all my colleagues and I'm extremely excited to see and I'm committed to reap the fruits of our hard labor in 2019

Peter Zaffino

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Highlights

Accomplishments

- Since Mark provided detailed financial information for General Insurance, I will expand on Brian's prepared remarks and highlight some of our more significant accomplishments in 2018
- This will include insight on the progress we have made to overhaul our core underwriting capabilities and reinsurance program
- I will then give a brief overview of market conditions and summarize our view entering 2019
- As Brian noted a significant amount of foundational work was completed in 2018 has been repositioned General Insurance and work towards creating a culture of underwriting excellence
- Our principal focus was to outline a new underwriting risk appetite, improve underwriting capabilities, and create business units that can positively distinguish themselves in the market
 - Key components of this were included a rigorous review of the entire portfolio, an aggressive limit reduction effort, and embedding an enhanced governance and control framework
- Detailed portfolio reviews uncovered significant complexity and exposures resulting from the prior large limit deployment strategy that made AIG an outlier in the industry

General Insurance Organizational Structure

- I'd like to provide you with more detail on our key areas of focus
- First, with respect to the General Insurance organizational structure, we established or reestablished numerous business units focused on the strategic positioning for each business within the portfolio and empowered our leaders with end-to-end accountability to drive results
- We also build critical positions including Chief Underwriting Officer, Chief Actuary, Head of International, Head of Claims, and the CEO of Lexington

New Leadership Team

- Our new leadership team is working to lead the company closer together and we are building a strong bench to execute on improving our underwriting performance
- The new organizational structure was designed to better position us to serve our brokers and clients and allowed us to outline a more coherent risk appetite and underwriting strategy
- Throughout 2018, we prioritized a reduction of gross and net limits to reduce risk and volatility in our portfolio

Property and Casualty Gross Limit

- Let me provide a few examples, in Property gross limit deployed in the field were reduced from \$2.5B to \$750mm
- Net limits were reduced from \$611mm at the end of 2017 to a range of \$5mm to \$50mm as we enter 2019 depending on the nature of the business
- In Casualty, gross limits were reduced from \$250mm to \$100mm and net limits were reduced significantly

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- I'll provide more detail when I discuss 2019 reinsurance
- Primary D&O gross limits at January 1, 2018 were reduced by over \$8B in the aggregate throughout the year

Caribbean Business

- In our Caribbean business, we moved away from PML and instead shifted to managing our exposures using TIV and on this basis, reduced gross limits over 50% and reduced net exposure by over 75% again through aggressive limit management and thoughtful execution on reinsurance
- With respect Lexington, our new leadership team led by Dave McElroy shifted his focus to the E&S market and reduced maximum Property limit deployment from \$2.5B to approximately \$100mm
- In 2019, we will continue to shift the Property and Casualty lines to have greater balance and risk selection, account size, attachment points, and geographic spread

Program Business

- Our program business had combined ratios well north of 100% and we've eliminated 20 program that no longer fit our risk appetite or did not meet profitability thresholds
- We are committed to maintaining a program business and in H2 2018 acquired Glatfelter, a company with talented leadership and a deep bench, a long track record of profitability and best-in-class underwriting, technology and systems capabilities
- Our progress and achievements from a risk management and underwriting perspective have already improved our portfolio and have been critical to our ability to execute on our reinsurance strategy

Reinsurance

- Taking a step back, our work relating to reinsurance started in late 2017 when we quickly evaluated the Legacy reinsurance strategy and discovered it had a large – it had largely been based on an assessment of capital benefits
- We found that the reinsurance programs have substantial shortcomings when it came to relevant in supporting the prior go-large underwriting strategy and managing volatility across return periods
 - Those programs did not adequately protect against tail risk events
- Our approach to reinsurance has dramatically shifted in line with our belief that there is strategic value in utilizing reinsurance to strengthen and enhance our portfolio, ensure a balanced book of business with appropriate management of net volatility and protect against extreme risk events

Net Risk

- Heading into January 2018, we made initial decisions to reduce the significant net risk in the portfolio
- This was most notable in the North American catastrophe tree, which provided us with meaningful recoveries in H2
- Throughout 2018 we undertook a much deeper review of all treaties and identified additional notable gaps

New General Insurance Reinsurance Team

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 Company Ticker: AIG US
 Date: 2019-02-14
 Event Description: Q4 2018 Earnings Call

Market Cap: 37,640.06
 Current PX: 43.29
 YTD Change(\$): +3.88
 YTD Change(%): +9.845

Bloomberg Estimates - EPS
 Current Quarter: 1.091
 Current Year: 4.454
 Bloomberg Estimates - Sales
 Current Quarter: 12228.333
 Current Year: 48471.000

- The new General Insurance reinsurance team worked with our reinsurance partners and outlined a revised and more sophisticated approach to underwriting while designing a global reinsurance program in the January 2019 renewal season
- This past renewal season was challenging and complicated by the following; the increased frequency of the catastrophes over the last couple of years; reduced supply in the retro market and market contraction in the ILS market; and ceded losses to our reinsurance partners in late 2018
- Having said that, we were extremely pleased with the outcome and with the strong support we received from the reinsurance market
- We believe the strong support provides independent validation of the progress we are making to enhance our core underwriting capabilities and is evidence of the confidence the industry has in this leadership team and its ability to execute on the turnaround taking place at AIG

Legacy Property per Risk Coverage

- A lot has been said and written about our reinsurance programs, so I'd like to give you more detail on what we've achieved
- AIG's Legacy Property per risk coverage was developed to support gross limits and Property coverage of up to \$2.5B
- In light of our underwriting actions in 2018 to reduce gross limits, we were able to redesign this aspect of our reinsurance program and purchase at lower attachment points
 - This new Property per risk reinsurance dovetails with the continued re-underwriting of our overall portfolio and reduces volatility across our worldwide Property business with the per risk attachment points now have a net retention of between \$5mm and \$50mm depending on the class and location of the risk

Property Catastrophe

- With respect to Property catastrophe, we now have a worldwide occurrence and aggregate covers reducing risk for both our North American and International businesses
- Overall, we have reduced the model standard deviation of our Property portfolio by 40% and have put in place programs that provide capital and earnings volatility protection
- For example, we reduced the modeled volatility on the worldwide all perils Occurrence Exceedance Probability by approximately 75% in the 1-in-100 return period
- Since 2017, the 1-in-100 U.S. hurricane Occurrence Exceedance Probability has reduced by 45% on a net basis excluding Validus
- And in 2019, our models expected worldwide all peril, 1-in-100 Occurrence Exceedance Probability decrease in excess of 15% and that includes Validus

Enhancements

- Recent enhancements to the worldwide catastrophe program resulted in significantly reduced Japanese net exposures which contributed towards the purchase of one combined Commercial and Personal lines Japanese tower
- In addition, we have much lower attachment points on our global catastrophe treaties particularly in International and Personal Insurance

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- Attachment points for International catastrophe outside of Japan range from \$50mm to \$75mm
- In addition, we recently completed the purchase of \$275mm CAT cover designed specifically for our Personal line business in the U. S. which provides additional coverage with variable attachment points in peak zones ranging from \$40mm to \$170mm

Casualty Programs

- We also made substantial enhancements to our casualty programs
- This included expanding to International \$75mm excess of – \$25mm excess of loss program to North America, which is now a global program and adding a new 50% quota share for the first \$25mm for our U. S. primary and excess Casualty lines
- Together, these treaties reduce our net limits in U. S. Casualty on a risk attaching basis and contribute to a rebalancing of our overall net portfolio

Market Conditions

North America

- Before concluding I also want to provide an update on market conditions in Q4 2018
- On a global basis, General Insurance achieved a weighted average 4% rate increase both in North America and in International
- Rate increases were higher in certain lines of business such as North America primary public D&O, which achieved low double-digit rate increases
- Commercial Auto, which also experienced rate increases in the low double digits, U. S. Excess Casualty which achieved double-digit rate increases in most units and commercial property who saw mid-single-digit increases

International

- In International, Asia-Pacific achieved approximately 3% rate increases led by Property and Financial Lines, which achieved a mid-single-digit increases
- UK and Europe also achieved roughly 3% rate increases led by motor business which achieved upper single-digit increases and D&O, which achieved mid-single-digit increases
- While rate is an important area of focus for us, the work we are doing to improve risk selection in our core underwriting capabilities as well as the overall repositioning of our portfolio will be the primary drivers of our future performance and profitability

Closing Remarks

As Brian noted 2018 was a year of heavy lifting

While a tremendous amount of foundational work was done, we still have more work to do

The General Insurance leadership team is fully committed and aligned with our strategic direction

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We continue to be laser-focused on the repositioning our portfolio, instilling underwriting discipline across General Insurance, improving profitability and continuing to evolve our reinsurance program

In addition, examining our expense base to identify additional efficiencies and cost-savings opportunities remains a priority

- We continue to expect that these actions together with benefits from acquisitions of Validus and Glatfelter will allow us to achieve an underwriting profit in General Insurance in 2019

We have momentum, a clear vision for the future, an improved risk profile and a culture that is evolving in General Insurance into business that strives for underwriting excellence

I'm proud of what our colleagues around the world accomplished in 2018 and I am confident, we are well positioned to continue our journey

Kevin T. Hogan

Highlights

Life and Retirement

- As you can see on slide 12, Life and Retirement recorded full year adjusted ROE of 12.6%, consistent with our long-term expectations
- The y-over-y change from the annual actuarial assumption update unfavorably impacted ROE by 156BPS, which was more than offset by the favorable impact of tax reform and reductions in attributed equity consistent with our ongoing de-risking

Adjusted Pre-Tax Income and Earnings

- Adjusted pre-tax income of \$3.19B represents \$641mm reduction from the prior year
- The primary drivers of the y-over-y difference were the annual actuarial assumption update which accounted for \$382mm of the decrease, lower returns on fair value option securities of \$114mm, higher deferred acquisition costs amortization of \$31mm, higher new business expenses of \$33mm, \$17mm from modernization investments and \$39mm from miscellaneous other items that lowered 2017 expenses
- Looking ahead to earnings in 2019, having largely completed our portfolio repositioning, we expect adjusted pre-tax income to be essentially flat with full year 2018 with a consistent adjusted ROE
 - These expectations assume a modest improvement in equity markets from year-end

Rate Environment

- In addition, absent significant changes in the overall rate environment, our current expectation is that base net spreads will decline by approximately zero to 2BPS per quarter at least through 2019
- We also expect lower yield enhancements as interest rates rise
- Our 2018 results reflect strong growth from our ongoing strategy to leverage a broad product portfolio and diversified distribution network to satisfy customer needs
- As pricing conditions improved in H2, we significantly increased sales of indexed and fixed annuities

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Group Retirement and Life Insurance

- With growth in Individual Retirement, Group Retirement and Life Insurance, we increased total premiums and deposits for the year
- We've maintained our disciplined opportunistic approach in Institutional Markets and closed a number of pension risk transfer deals from Q4
- We are well-positioned in 2019 to continue to serve a growing market, enabling us to continue to deploy capital at or above our targeted economic returns, while recognizing we will incur some additional new business expenses associated with such growth

Digital Capabilities

- The investments we have made into the last few years and continue to make to modernize our operating platforms and enhance digital capabilities are already demonstrating benefits in each of our businesses
- In Group Retirement, where we have invested in enhancing the participant web experience, DALBAR recognized our efforts by awarding us the ranking of number one Behavior-Centric Plan Participant Website
 - We followed this in 2018 by launching a web-based platform to also modernize the plan sponsor experience
- In Individual Retirement, we continued to enhance our award winning platform that is consistently recognized by DALBAR where excellence across multiple customer touch points, ranking number one for Variable Annuity statements 17 years in a row, receiving an annuity service award for 12 consecutive years and being the only recipient of the Communications Seal of Excellence for 2018

Enhancements

- Further enhancements for 2018 included a redesigned mobile-friendly website and the implementation of a new administration system for our fast-growing index annuity new business
- We continued to enhance our digital capabilities for our Life business, while planning the necessary infrastructure changes to completely separate our operating model from Fortitude Re

Institutional Markets Business

- Finally, for our Institutional Markets business, we converted the administrative system for pension risk transfers to a new platform to enhance our competitiveness in this growing market
- Our modernization effort to fix the core is broad, mostly bringing immediate benefits in the form of automation, use of robotics and digitization, all of which improve our efficiency, quality and customer experience

Q4 Results

- Turning to Q4, against the backdrop of a quarter marked by attractive new business margins and growth in total premiums and deposits, our results reflected the impact of sharply declining equity markets and widening credit spreads over the last month of the year
- For the quarter, we reported adjusted pre-tax income of \$623mm, which represents \$159mm reductions in the prior year quarter
- The primary drivers of the q-over-q difference were market-driven, including:

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- Lower returns on fair value option securities of \$94mm
- Lower net policy fee and advisory fee income of \$44mm
- And lower base investment spreads of \$33mm due in large part to reduced accretion income
- Finally, despite the significant equity market and credit spread volatility during the quarter, I am pleased to report that our hedging program for living benefit guarantees once again performed as expected, resulting in a modest hedging gain

Individual Retirement

Premiums and Deposits

- Turning to Individual Retirement on slide 13, premiums and deposits grew by over 35% with particularly strong growth in fixed and indexed annuities
- With these strong sales levels, we achieved positive net flows for the quarter, excluding Retail Mutual Funds
- Retail Mutual Funds, which is a comparatively small part of our earnings, is a defensively positioned portfolio that is counter-cyclical to our individual annuities and may continue to face headwinds in the current rate environment
- Assets under management declined along with the markets impacting fee income, with net spreads also pressured by the market impact on yield enhancements, as well as lower accretion income for fixed annuities

Group Retirement

Premiums and Deposits

- Turning to Group Retirement on slide 14, premiums and deposits grew by approximately 14% for the quarter, with continued growth in individual product sales resulting in record high premiums and deposits for the full year
- Our surrenders and other withdrawals also increased for both [Technical Difficulty] (00:49:28) year and quarter periods, driven by the loss of some large groups due to competitive factors, which I've talked about on previous calls, and higher individual surrenders and other withdrawals
- We expect higher surrenders and other withdrawals to continue negatively impact net flows in 2019
 - However, we continue to believe that our differentiated model, which focuses on the value of the adviser, positions us well as a leader in attractive segments of the growing not-for-profit defined contribution market

Net Spreads and New Money Rates

- In addition to decreased assets under administration and fee income due to declining equity markets, net spreads were pressured primarily by the market impact on yield enhancements and lower accretion income
- Adjusting for lower accretion income and specific non-recurring items, base net investment spread was in line with the prior-year quarter
- Across the Retirement portfolio, new money rates are still below portfolio yields, resulting in reduced, but still attractive spreads in many products

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- Also, in a rising rate environment, it may be appropriate for us to reflect this in crediting rates for certain of our in-force business

Life Insurance

- Let's now move to Life Insurance on slide 15
- Total premiums and deposits increased for the quarter and we continued to produce healthy sales in the U.S. and strong new business growth in the UK.
- Our adjusted pre-tax income reflects a material impact of non-deferrable acquisition costs associated with new business, masking an underlying contribution consistent with our long-term low to mid-double digit return targets
- Lastly, our overall mortality experience for the quarter and full year were favorable to pricing assumptions and the prior-year periods

Institutional Markets

- Turning to Institutional Markets on slide 16, we executed several opportunistic pension risk transfer transactions in Q4 at attractive economic, statutory and accounting returns
- The market pipeline for pension risk transfer transactions over the next 12 to 18 months continues to be robust
- Overall, our Institutional Markets business continues to be well-positioned to capitalize on available growth across its product lines, while remaining focused on achieving targeted returns

Closing Remarks

To close, as we enter 2019 with a sustainable business model well-positioned to continue to leverage our broad product expertise and distribution footprint to deploy capital to the most attractive opportunities as we reposition the portfolio and prepare to return to overall growth

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: You guys have reaffirmed the guidance for 2019. I just want to make sure, like, including the underwriting probability in Q1 2019, from the 98.8% underlying combined ratio, you need more than 3-point improvement, assuming a 4.5% of sort of AAL, to get to that level in Q1. I just wonder how do we bridge the gap, the 3-point improvement in one quarter. Is that mostly from expense savings or from the underlying loss ratio?

<A - Brian Duperreault>: Well, I think it's going to come from a variety of sources. We thought you might ask this question. So Mark's going to answer, and Peter is probably on the supplement.

<A - Mark Donald Lyons>: Yeah, we can tag team that. Hi, Kai.

<Q - Kai Pan>: Hi.

<A - Mark Donald Lyons>: So let me address that in kind of two ways. A conceptual approach that you get it and a partial numerical approach. So, first off, if you look at how the book has changed and you look at some of the issues, all areas of the book have gotten a lot of focus. Now, North American Commercial is book that, as I said before, a lot of recurring pain points. It's probably got a little more focus on it, but good kind of improvements.

So when you look at Q4 last year to Q4 this year, North American Commercial was 31% of the earned premium; now it's 36% of the earned premium, where all the focus has been. And with Validus and Glatfelter coming into play, that's going to be pushing a little bit more. And then you got very good – Glatfelter, in particular – very good program

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results. And the program unit terminated about 20 programs. So you can see loss ratio improvement because of what left and new business coming in with Glatfelter that's going to help that skew.

Secondly, we've talked about rate changes that we've gotten on the book that overall averaged like 4%. 4% really belies mixtures by unit. And when you get into North American Commercial, first – rate changes are on a gross basis. And what's going to happen in 2019 is going to be a little different skew to where the rate increases are little bit higher. And, therefore, there is more distance between loss trend and achieved rate change. So keep that in mind.

Next is, think about that – well, all the Reinsurance that Peter described, you're going to have a changing mix more so on a net basis that we believe is to our favor. So that's important, I think, to recognize. So on top of that, when you think about portfolio construction, it's just as important. I mean, we focus on rate change, but rate change is just a piece of the pie. It's just as important to understand the impacts on the book by what left. So what got non-renewed and what was the economics associated with that, vs. what stayed on the books and what got onto the books and that's a pretty material incremental improvement.

And, as Peter highlighted, when you change your underwriting risk appetite to make them clear to the outside and you start to get more lasered and focused to the kinds of risks that you want and, therefore, the quality of the average flow into the business is superior. By doing nothing else, you've increased the rate adequacy; by doing nothing else. So you've got all that.

So on the portfolio construction, all that aspect is little more conceptual. So let's get back into some of the numbers. So we just had a 98.8%, and you can throw on whatever CAT load you choose for that. So that was a 63.9% and a 34.9%. So you asked a sequential question. So we got 22 points roughly of ACS. Let's assume that doesn't change, even though there'll be a lot of action taken place to improve that. Let's assume that doesn't change. You've got the fixed expenses, which we demonstrably show massive improvement on.

So rate changes are going to help that because, everything else being equal, you're going to get a bigger premium base. It's going to help the loss ratio. So just on the margin expansion, without giving any credit to the portfolio change, you're going to be in my view in the middle 96s on that regard without CAT or AAL.

So, even if everything else I talked about, from the rate changes growth, how it's better on a net basis, the fact that there's effective rate changes on the book by what's left, not just what we report, let's just say that's worth a point and there's no way it's only a point. But let's say it's a point, you're at 95.5%, so pick your CAT load, you want to pick four, you want to pick three, you want to pick four and a half, we're there. So that's how I view it.

<A - Brian Duperreault>: Peter, do you want to say anything about the expenses?

<A - Peter Zaffino>: Yeah, I think as Mark said, I mean when we looked at it in terms of looking at how we're going to be below 100%, it was the mix of business, it was going to be how we're reducing the volatility in the portfolio and we ended up having a forecasted better accident year loss ratio, the reinsurance then reduced volatility but also shifted that balance, as Mark said, on the overall loss ratio. So, we'll see Casualty business in the U.S. having a bigger session, so therefore better balance.

And then I don't want to lose sight again of Validus and what Glatfelter will contribute. And as Brian said on the expense side, we saw a lot of ramping up of the acquisition expenses this year that was from a portfolio shift.

In addition when you looked at the comparisons in 2017, there were one-time anomalies, so it looked like it was growing a little bit more and we've been addressing the general operating expenses in the back half of the year. So, while you didn't see perhaps a lot of material impact in H1 2018, you saw it in the back half of 2018 and we believe that that will continue to not only sustain, but we're going to be focused on it throughout the year. So, I think when you look at all those different components, you'd get to below 100%.

<A - Brian Duperreault>: And I'm just – let me just add two things. One, Mark said, pick an AAL. The AALs, we haven't given you one, but one can assume they're not going up, they're down either – well, through a combination of efforts, reducing our gross and net risk, reducing concentrations and of course reinsurance structures that we put into place which are all reducing the AAL, that's – I'd say that.

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So the only other thing I'd say a little caveat, so give me a break here is – and we talked about volatility. So volatility in this book is diminishing. But it's not – we haven't gotten it at all out of the system yet. We've got risk attaching covers and things like that. So there's still a few of the multi-year policies left and the unearned bleeding in is – we still have some stuff with larger per risk limit. So the volatility in Q1 should be greater than the volatility by the end of the year. So, I mean, you got to just recognize that volatility thing is there. But I think Mark and Peter outlined why we've said entering 2019.

<Q - Kai Pan>: That's very helpful. My follow up is on net invest income, the \$13B annual run rate you guided to. What's the base assumption for market return in that \$13B? I'm wondering what's the sensitivity around that. For example, this quarter market up 10%, how much is sort of better than that run rate you're going to realize in net investment income?

<A - Mark Donald Lyons>: So I mean we're making assumptions consistent with what we made in the financial supplement last year. I mean to give you a sense of the volatility from a perspective of return on assets, I mean, we're managing \$313B of assets. The volatility of net investment income which is a function of both the economic risk and the accounting mechanisms by which we account for these things is roughly 25BPS of return volatility on assets.

<A - Brian Duperreault>: Like I said, that was Doug Dachille, our head of investments. Okay, next question – next questioner?

<Q - Josh D. Shanker>: I fear all these questions are going to be about how to get to 100%, but I'm going to also try and dovetail on Kai. In the quarter, we saw a big increase in the acquisition expense ratio offsetting the improvements you guys have made on the GOE expenses. Going forward, where should we see the acquisitions since you're buying more reinsurance and whatnot, that's taking up. Is that going to offset the improvements you're making on the operations in terms of people and proper allocation of expenses?

<A - Brian Duperreault>: Well, I think let me start by saying, that increase in the acquisition expense was really related to Personal Insurance in particular, right? That book of business runs at a high combined ratio but 1% under a 100%. So it actually is added to the portfolio particularly when you think about the volatility of it.

What was masked was the PCG business deteriorating. So you didn't see the loss ratio improvement. So the acquisition will stabilize. We don't see that growing. I think there is reason to believe we would get that down. And we will be working on the fact that the offset didn't happen because of the PCG loss ratio deterioration. So Peter, do you have anything you want to add anything to that?

<A - Peter Zaffino>: No, I think it's fair and we don't see acquisition expenses increasing in 2019. We just had, like you said, the ramp-up of shift in portfolio and then again having some tough comparables y-over-y and believe that will continue to focus on the GOE and don't expect to see expenses go up in acquisition.

<Q - Josh D. Shanker>: Okay. And one related question, I guess, may be unrelated. You are not responsible for the decisions made by previous management team. But trying to understand what this go-big strategy meant. There was also a strategy called rapport, where they were trying to minimize, I guess, the capital consumption of various underwriting decisions. Were the two things in conflict with each other? Did one of them not exist? Was the company trying to minimize its underwriting appetite in order to return capital? How do those two things dovetail with each other? And were there conflicting messages I guess give to underwriters? What's – I guess explain sort of what was going on before little better, so we can understand how it can improve.

<A - Brian Duperreault>: You know, sometimes you can't explain things. I'm not sure I can. But let me try and answer this thing. So, look, I think there was a belief in the balance sheet – it starts with a belief in the balance sheet. And that's okay. We need a balance sheet. We need a balance sheet to take risk. And it's got to – your risk was got to be matching that balance sheet, but if you tell underwriters it's okay to write \$2.5B and by the way who else is going to do it, so you think you'd corner the market, right? So, if you don't get paid for it you got a problem. So you put out an extra \$1B of limits with almost no payment because it's impossible to get value for that kind of additional limit.

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So when you add that to, let's say, underwriting where the underwriters were not selecting properly or they were adversely selecting against, being selected against and you go large, you go large on risks you shouldn't be writing, it just exacerbates everything. And then you try, then as an actuary you try to reserve this stuff where the volatility is impossible. How much risk can you put into your reserve levels to try to recognize the extreme volatility that might occur. So, look, I don't – all I know is, I wouldn't have done it and I know we're not doing it. That all I can say. Hope that helps.

<Q - Elyse Greenspan>: My first question on so in response to Kai's question, Brian, I think you said that sometimes there are some volatility given some multi-year policies potentially in Q1. I just want to reaffirm that based on how you see your book running that you do expect to come in below 100% in General Insurance in Q1?

And then a couple of Q4 numbers that might help us think through that. Was there any kind of current accident year adjustment that would have impacted Q4 chewing up earlier quarters? And can you let us know what Validus, if it was additive to margins in Q4?

<A - Brian Duperreault>: Okay. Well, those are three different questions. You are good, Elyse. But anyway, let's me see if I can remember them all. Yes, I just put a little caveat at this volatility. But, yes, I'm reaffirming that we were entering 2019 expecting to make an underwriting profit including AAL. So that's answer number one. Then there was a question about whether or not there were things that occurred in Q4. Mark, do you want to take that?

<A - Mark Donald Lyons>: Yeah. I also applaud you, Elyse. That's like an SAT question, Part A through H. That was very good. So to the question about accident year 2018, were there any movements, there were some ups and downs, but the net was 30BPS, basically \$7mm for the whole year. So it's \$20mm. So it's nothing to get excited about.

<A - Brian Duperreault>: Yeah. And there was one other one, right?

<A - Mark Donald Lyons>: Validus.

<A - Brian Duperreault>: Validus.

<A - Peter Zaffino>: Hey, Elyse. This is Peter. It was – is it with or without CAT because if it's with CAT it was not accretive because the one – if you look at 2017, they are very good at how they buy reinsurance. But 2017, if you look at comparables was more active in Q3 than Q4. So if you look at both quarters together, it was roughly the same in terms of what contribute to net CAT. If you take out CAT, it was in the range of where we were in General Insurance, so it wasn't terribly far off.

<A - Brian Duperreault>: Right. Okay. Do you have a follow-up, series of questions, Elyse?

<Q - Elyse Greenspan>: Yeah, I mean, the one other thing that I think that stood out to me, Mark, maybe you can give a little bit more color. Peter, the International margins, I know you – maybe the y-over-y compare that they got better relative to Q4. They didn't get better relative to Q3. Did you guys see any one-off kind – were you guys on any large Property losses or something that might have impacted the numbers or was it seasonality that you're not necessarily comparing international Q4 to Q3?

<A - Brian Duperreault>: Mark?

<A - Mark Donald Lyons>: Yeah. It's a good question. I mean, if you look at the history, you're going to see it bounce all over the place. It's a lot of different lines of business, it's 80 countries reflecting kind of like what I – my prepared comments on FL. Internationally you get a pop here out of India, then you get one out of APAC, and then [indiscernible] (01:08:56) the next quarter. But if you look back to the full accident year of 2018 and the full accident year of 2017, they're basically mirror images of each other. One was 65.2%, one was 65% even. So you're going to get pop, so sequentially I don't think it gives you any information content.

<Q - Yaron Kinar>: Mark, I thought your walk through mid-90s accident year combined ratio was very helpful. And I think I understand the math around the impact of rate improvement. But ultimately there must be some assumption around loss trends there as well, right? So I just want to make sure that the way I'm thinking about, the way you guys

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are thinking about are roughly the same namely that to get to this mid-90s, you're assuming that the rate improvements are in excess of loss trends even in lines that where you're getting the rates clearly – those are lines that are also facing steeper loss trends?

<A - Mark Donald Lyons>: Yeah, I think – yes, the answer is yes. But let me – I just want to emphasize something here and that is rate alone would not have improved this portfolio, okay, even if it was above the loss trend because the portfolio is a collection of risks you shouldn't be writing, you can't get enough money for that stuff. So there's – the untold story is the improvement of portfolio which really affects the loss ratios and combined ratios and that's an important thing to keep in mind. Anything else you want to ask, Yaron?

<Q - Yaron Kinar>: Yes, I do. Actually, maybe shifting gears to the investment portfolio. So you guys have clearly spent a lot of time and effort to de-risk the liability portfolio, especially in general insurance. What are your thoughts around the investment portfolio today broadly and in General Insurance specifically?

<A - Brian Duperreault>: Doug?

<A - Douglas Adam Dachille>: Well, actually we've had three years to do the de-risking of the investment portfolio. So if you look out over the past three years we have dramatically reduced all the fair value option equities, we eliminated a whole host of Legacy investments that we took over in 2015, things like life settlements which were both illiquid and had modest returns for the risks that we were getting. We reduced our hedge fund exposures by over \$7B, we reduced our private equity exposures. We changed where the investments, those risk investments were held. We reduced the amount of those exposures in the Life and Retirement business because there's so much more capital markets exposures to be underlying core business that it didn't make sense to include those type of asset classes in those books of business.

If you look at the exposures that we have to equity markets, let's understand when you look at our overall investment portfolio, it's still an ALM-based book of business designed to match our liabilities. So, all the alternatives are really allocated to the surplus of the General Insurance books and it's very modest. And what we try to do is manage liquidity, economic and accounting volatility and also try to get excess risk-adjusted returns. So in looking at that portfolio we're very comfortable with what we currently have in our alternatives which is a mix of private equity and hedge funds, but we're always tweaking it. But the absolute holdings that we have and scale, we're very comfortable with. We'll continue to make ongoing re-balancings of how we allocate that risk bucket, but I think the size of it will continue on going forward.

<Q - Erik James Bass>: Two questions on Life and Retirement. First, can you talk about how much impact the markets had on DAC amortization in Q4? And then secondly, you've talked about expecting a couple basis points of core spread compression per quarter. I think the decline was much greater this quarter due to higher crediting rates and you mentioned some unusual items, but how should we think about the rate base level of this for 2019?

<A - Kevin T. Hogan>: Yeah, thanks, Erik. First of all, in terms of Q4 impact, the impact on DAC from the market was vs. the prior year just over \$80mm. And, of course, it's a combination of where the equity markets levels are impact from the credit spread widening et cetera. And so, as we look at the overall fourth quarter, the sharp decline, the AUM in the last four weeks impacted not just the DAC, but also fee income which is a reflection generally of where the equity markets are and also the impact of the spread widening on mostly the fair value options. And the impact of the markets on yield enhancements and accretion income is also something to keep in mind.

So, as we look at the whole question of the cost of funds and base spreads, I think what's important is there were some anomalous items mostly in Group Retirement in Q4. But y-over-y cost of funds was 273BPS which is just 3BPS from the 276BPS in the prior year. So it's not actually above the prior year. Fixed annuity y-over-y was flat at 265BPS and variable and index almost flat at 124BPS vs. 126BPS. So, really the cost of funds is not something other than that one-off item in Q4 significant concerns.

And as we look at the base spreads, obviously, in particular, some of the market effects were primarily what you saw in the effect in Q4. And assuming where the markets were at the end of the year and where we believe interest rates are going to be, or where interest rates were we are still confident that that maximum negative spread compression of the

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2BPS to 2019.

<Q - Erik James Bass>: Thank you. That's helpful and then just -.

<A - Brian Duperreault>: Thanks, Erik. Go ahead. Go ahead.

<Q - Erik James Bass>: Just want to clarify your guidance you talked about Life and Retirement earnings being flat in 2019. Just to be sure, that's off of the adjusted 2018 number you show in the supplement? And then what are you assuming for the equity market return?

<A - Brian Duperreault>: Kevin?

<A - Kevin T. Hogan>: Yes, that is correct. We are assuming that's comparable also on the ROE 2019 vs. 2018. In terms of equity markets we're assuming a modest improvement in the equity markets from where they were as of the EOY.

<Q - Andrew Kligerman>: First question goes to Mark. Last quarter on the call late November, you talked about how you had reviewed much of the book. And so no material red flags upon that material review. So Mark, I'm wondering I think you mentioned a little earlier something about amortization. I'd like a little clarity on what you saw subsequent to that November call? And what your confidence is with regard to prior year developments going into 2019?

<A - Mark Donald Lyons>: Okay. So with respect to November, so when we look at for Q4 effectively backwards, there's really no adjustments of note on anything prior reviewed. So as far as I'm concerned, those numbers are stable. We might see reallocations between couple lines. In the aggregate, nothing moved. So by end of November you're really talking about Goldman's December 5 conference, which I assume you're referring to, December 5...

<Q - Andrew Kligerman>: They didn't invite me.

<A - Mark Donald Lyons>: Okay. Well, I am sure you...

<A - Brian Duperreault>: You might have heard about it.

<A - Mark Donald Lyons>: Yeah. You read a few things, sorry.

<A - Brian Duperreault>: It's an invitation...

<A - Mark Donald Lyons>: But what's our responsibility as an insurer, it's setting reserves for all occurrences that have happened 12/31 and prior; and this was December 5. So you still had three weeks of losses to emerge. So at the time, everything was still in flight. But I'm not making any excuses. But the point is that when you get into the depth, you didn't hear us talk about Personal Lines problems, you didn't really hear us talk about rest-of-world Casualty in any material way, and you didn't really hear us talk about the buffer or comp excess on it.

So with Financial Lines that was the center issue. It had mostly U.S. issues and scattered a pop. So once back to the reasonable range, we're comfortable with that. To your question about - well, I think that really was the net of your question is, how do we feel about things, how we've been for a whole cycle? I feel pretty good about it.

<Q - Andrew Kligerman>: On prior year development, yeah, that's what I mentioned...

<A - Mark Donald Lyons>: Reserve adequacy.

<A - Brian Duperreault>: Yeah.

<Q - Andrew Kligerman>: Yeah.

<A - Mark Donald Lyons>: I mean, look, the confidence of the reserves starts with - let me say something. I mean confidence of the reserves starts with the confidence in the underwriting that's producing those reserves. So the more and more comfort we have about what we're doing as a company and the workaround, taken the volatility out to make the results more predictable, just adds to our confidence, okay.

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<A - **Brian Duperreault**>: You want to ask something else, Andrew?

<Q - **Andrew Kligerman**>: Yes, thank you. So I understand the business mix and the pricing increases. But what I'm not getting the math is, if I make an estimate of Validus and Glatfelter premium, I still see 2019 over 2018 getting a premium increase. And even with the rate increases, which you say are about 4%, if I subtract that out maybe premium are about flat. And so, I guess, how are you going to get this loss ratio improvement? What business are you departing that would get this improvement? If premium is so flat, it's just hard to see what the moving parts are that are going to get you this loss ratio improvement. So maybe you could give me a little math on what's going away and what's coming in and still being able to maintain flat premium?

<A - **Brian Duperreault**>: Peter?

<A - **Peter Zaffino**>: Well, thank you for the question. And it's a complicated answer because the portfolio has been shifting across the world, as we outlined in terms of going from a large limit strategy to using limits a little bit more discreetly. But also Brian keeps emphasizing it's also the risk selection and re-balance in the portfolio. So within every business, within every geography, we have been looking very hard at getting the appropriate returns. Once we make good risk selections we have the right coverage; and that has happened in a dramatic way.

So the one I will highlight, because it's happening across many of the portfolios, would be the Lexington. The Lexington was doing admitted and non-admitted. It was doing business from wholesale and retail. It was doing large limits on Property and Casualty, as well as having a very large program business. And so, it has been recalibrating its risk appetite to substantially play in a role where it has very strong expertise.

We have brought in industry leaders focusing on the E&S space, focusing it through wholesale, making sure we're using tighter limits when we do the risk selection, going into having a better balance with not only large accounts, but in the middle market. And so, the portfolio has been starting to move in a direction where we're recalibrating and reconstituting what the portfolio looks like.

At the same time, there are some businesses that are further along some that are not. And with that, you're going to have the General Insurance excluding Validus and Glatfelter will decrease y-over-y on a premium basis, then the complexity of the reinsurance. So I know it's hard to do the math, but we believe that we have repositioned the portfolio with a better risk selection; and that will be reflected in the accident year loss ratios as we earn into 2019. Mark, do you want to add anything to that?

<A - **Mark Donald Lyons**>: Yeah. Just the fact that I think what we said on last quarter's call that we don't need a hard market through this book. It comes back to the composition and what we're letting go if we can't get rate structure that we want and what's coming in. And everybody focuses on price, I get it, because it's measurable and something you can compare.

<Q - **Andrew Kligerman**>: Yeah.

<A - **Mark Donald Lyons**>: But the whole flow of business, the whole understanding of the CAT exposures, the whole structure prices last; and that's what we measure.

<Q - **Andrew Kligerman**>: And, Mark...

<A - **Brian Duperreault**>: Andrew, can I just – can I just give you an example. Andrew, let me just.

<Q - **Andrew Kligerman**>: Yeah, sure.

<A - **Brian Duperreault**>: So you have a risk that comes in the door, right? And we've been writing it for some time, we've been attaching too low. So it's either a deductible or it's an excess placement. We've been attaching too low and we've been giving way too much limit at the top, okay? So you get rid of the limit at the top you weren't getting paid for, you just improved your portfolio immediately. You raise up from where you were to a higher limit where the risks diminish, right?

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Now, that all cause you to get less premium. You got a much better risk on your hands. And that doesn't even count getting rid of the bumps that we shouldn't be writing in the first – let's just say risk selection was not peak. So you've got to trust us on this. And I'm telling you the premium got flat and we don't need a hard market to make this thing better as Mark said. Anything else you want to ask?

<Q - Andrew Kligerman>: I mean just very bluntly then, I mean, your strategy makes impeccable sense. Bluntly, it'd sound to me with these reinsurance issues and lower limits that at least 25% of your portfolio is turning over the good stuff in, the bad stuff out. Is that a good assessment?

<A - Mark Donald Lyons>: Some stuff is going, clearly. But we're not like getting wholesale out of the line of business. But what Brian said is key. You can stay. If we get a 100 risk, we could still stay on the 100 risk, but we – on a different size on the structure where the risk-reward trade-off is better, 100% renewal retention on the account and the volume is down 33%, but it's a better loss ratio expectation. That's what you've got to internalize.

<Q - Thomas Gallagher>: Brian, so your description of the go-large strategy and large limits and de-risking is, can we talk about where we are on this de-risking process? Would you say it's largely done or is 2019 going to continue to be a risk reduction year? And the point of my question is, usually when you materially reduce risk, normalized earnings go down, absolute ROE goes down.

I understand risk-adjusted earnings should be getting better and cost of capital should be lower. But I guess broadly speaking, where are we on that risk-reduction journey? What does that really mean for ROE about 2019? I know you've really given out like 3-year forward ROE. Does it mean near-term ROE is going to be more depressed, you're going to get more of a back-end loaded improvement, anyways pretty broad question there, but what are your thoughts?

<A - Brian Duperreault>: Yes. So it is the process done. Well, as we described, Peter and I, that Tom Bolt's work with all our underwriters has been distributed. So we've set the tone of what we know to do, okay? So the strategy, yeah, I think the strategy is done. The implementation is being done. And risk by risk as they come up for renewal, you make adjustments and things bleed off.

So that's what I was saying, Q1 is going to be riskier in terms of volatility in Q4 just as the portfolio earns in at the strategy that we've been deploying. So strategy is done, implementation is weaving its way through the book this year. This de-risking ROE thing, well, that just presupposes that you were getting paid for the risk. But if you don't get paid for the risk and you start taking it, your RFP goes up, right? And that is not even risk-adjusted. So when I said it travels to double-digit a lot of that has to do with a continuing effort on our expenses, which is a significant task for us over the next several years. And that's why that journey is a little longer. Hope that helps.

<Q - Thomas Gallagher>: No, that does. And when I think about, to your point, to me the clearest expression of what risk reduction is going to mean is AAL, but can – I know previously it was 4.5 points and I guess you're not giving specific guidance on that. Why not give specific guidance on that? Because that's the one tangible thing we can point to to describe the actual earnings benefits from the risk reduction program?

<A - Brian Duperreault>: Yeah. Well, first of all, the AAL is one measure, right? But it's not the only measure of risk, right? So you've got a lot of the risk kinds of measurements that you should deploy. Obviously, this AAL number is moving, it's moving, right? Obviously, it's moving for a lot of reasons. We're reducing concentration. So as I said earlier, we're changing risk profile in terms of per risk size, the per risk limits that are being deployed out there and the reinsurance is being put into effect. So, you have to understand that the AAL is a moving number right now, getting better. So when we feel we've got a good number, I wouldn't have any problem telling you what it is, so I'm not hung up about it. But I can tell you it's moving south. And it's not the only measure though.

<Q - Thomas Gallagher>: Got it. And...

<A - Brian Duperreault>: Yeah, yeah. So Mark wants to say something.

<Q - Thomas Gallagher>: Okay.

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<A - Brian Duperreault>: Tom, just one thing on your preface on that the AAL. AAL is explosive, the underlying risk associated with AAL, right. So it's just affecting your face. CAT occurs, earthquake occurs, front page of the journal, right, everybody can focus on it, that's why with CAT bounds everyone thinks they understand the model risk and all that. Now look at the history of AIG, look at the history of any large company. If there's deferred risk not immediate risk associated with Casualty business, so Primary Casualty excess comp, I mean look at it at the past of the industry, that risk is simply deferred, but it's as big and real and more capital exposed as Property, but everybody gets a short shrift, but that's what you have to focus on and that's what Peter and his team has done.

<Q - Meyer Shields>: So looking forward to 2020, if I can, is it fair to assume that the impact of multiyear P&C contracts and the expenses associated with 2019 Life and Retirement growth that both of those will be sources of improvement in 2020?

<A - Brian Duperreault>: Well, certainly, the multiyear should have bled off by that, no question about that. I'll let like Kevin talk about the...

<A - Kevin T. Hogan>: Yeah, so, Meyer, on the expenses, I think, I mean, if you look y-over-y, right, 2018 vs. 2017, we had a reported increase in GOE of about \$110mm. \$40mm of which were one-time items in 2017 that helped 2017 and don't repeat. So, the expense increase base is about \$70mm. Around half of that is actually directly associated with new business growth. Obviously, our premiums and deposits were way up, serving those policies et cetera has its additional burden. So relative to the projects we're recently getting an immediate benefit from those and we'll continue to invest what we need to in order to keep up with the increasing regulatory demands and customer expectations. But a part of that increase in GOE is related to new business. And so to the extent that our business continues to grow then we're going to continue to see new business expenses associated with that growth.

<Q - Meyer Shields>: Okay.

<A - Brian Duperreault>: Meyer, we'll take a follow-up if you have one and then I'm going to cut this off, so do you have anything else?

<Q - Meyer Shields>: Yeah, I do. Just looking within Casualty, is the mix of business between the four lines of business you report; Property, Special Risks, Liabilities, Financial Lines is that going to shift dramatically when we take into account all of the things that have been done on gross and net writings?

<A - Brian Duperreault>: Yeah, Peter, do you want to do that?

<A - Peter Zaffino>: Yeah, thanks Meyer. Yeah, the portfolio will continue to shrink on a net premium earned basis because we just placed the 50% quota share of the first \$25mm. And like property, we have been reducing the gross limits substantially, so that portfolio will continue to be recalibrated. And, again, you'll have the impact of the reinsurance in 2019 and 2020.

Brian Duperreault

Closing Remarks

Okay. Let me just close here – thanks, Meyer

Let me just close here and first of all I want to thank you for participating on our extended call today and bearing with us

We had a lot that we wanted to talk about. I hope we gave you a good sense of the hard work we've been doing and continue to do here at AIG. May be it's a cliché, but it's absolutely true our greatest strength is our colleagues and I want to thank them all, for all they're doing not just for the company, but for our clients and our stakeholders, thanks guys and have a good day

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