Company Name: AIG
Company Ticker: AIG US
Date: 2018-05-03
Event Description: Q1 2018 Earnings Call

Market Cap: 46,625.67
Current PX: 51.94
YTD Change($): -7.64
YTD Change(%): -12.823

Bloomberg Estimates - EPS
Current Quarter: 1.295
Current Year: 5.158
Bloomberg Estimates - Sales
Current Quarter: 12044.250
Current Year: 49215.667

Q1 2018 Earnings Call

Company Participants

- Elizabeth A. Werner
- Brian Duperreault
- Siddhartha Sankaran
- Peter Zaffino
- Kevin T. Hogan

Other Participants

- Elyse B. Greenspan
- Kai Pan
- Jay A. Cohen
- Erik Bass
- Ryan J. Tunis
- Jay Gelb
- Joshua D. Shanker
- Thomas Gallagher
- Jon Paul Newsome
- Yaron Kinar

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 our financial supplement, which are available on our website

Brian Duperreault

Business Highlights

Opening Remarks

- Today, I'd like to reflect on the past 11 months, our first quarter results, and our future outlook
- It's nearly a year since my return to AIG and over that time we've driven a meaningful change and have accomplished a great deal
- During last year, we successfully reorganized our businesses into General Insurance and Life and Retirement and have attracted world class talent and that momentum is picking up augmenting an already strong talent base

- We benefited from the change in federal regulatory status and are no longer a nonbank SIFI

DSA Re

- We showed incredible strength and resiliency, both financially and as an organization in the wake of unprecedented catastrophes over the last three quarters and entered the year with an extremely strong balance sheet
- We created DSA Re, a more focused, single entity capital efficient structure for managing our runoff and we announced the strategic acquisition of Validus, which is on track to close in mid-2018

Strategy

- Our strategy to grow AIG and position it for long term profitable growth is taking hold
- Q1 demonstrated solid progress and another period of earnings stability
- For the quarter, we reported $1.2B of pre-tax operating income, including $376mm in catastrophe losses as well as high severe and winter weather losses
- The actions we've been taking to reduce volatility should continue to be evident in our future results
- Peter will provide more detail on the execution of our reinsurance strategy across products and geographies

ADC

- General Insurance first quarter underwriting results were in line with 2017 full year results despite higher severe and winter storm losses
- Our reserves were stable and we had positive net development of over $100mm, including the ongoing $62mm in amortization of our ADC gain
- Sid will speak to reserves and our ADC, where claims came in as expected

Life and Retirement Results

- Stability was also evident in our first quarter Life and Retirement results
- Returns were solid despite continuing spread compression and we remain disciplined in writing new business, focusing this quarter on Life and Index Annuities, while maintaining steady Group Retirement deposits and engaging in opportunistic Institutional Markets transactions
- Kevin will speak to the outlook for these businesses

Underwriting Profit

- Last quarter, I said 2017 was a starting point from which we would improve upon and we remain confident in our positive trajectory
- I've mentioned on past calls we don't provide guidance
- That said, I have declared 2018 as the year of the underwriter and we do expect to deliver an underwriting profit by the end of this year as we enter 2019, reaching a combined ratio of below 100% will come through a combination of actions to improve loss and expense ratios

Equity Performance

- We also expect to reach top quartile book value growth and return on equity performance over time as a result of our decisive actions and the investments we're making to position the company for long-term profitable growth
- In addition to working towards certain financial goals, we will also measure our success in attracting and retaining top talent, focusing on increasing diversity and inclusion across AIG, modernizing and updating our systems and technology and managing risk
- My entire leadership team is committed to the goals I've outlined and our sense of urgency will continue

Siddhartha Sankaran

Financial Highlights

Adjusted After-Tax EPS

- This morning, I'll comment on our first quarter financial results, our capital and liquidity position, and provide an update on the status of the Validus acquisition and DSA Re
- Turning to slide 4, we reported adjusted after-tax EPS of $1.04 and an adjusted core ROE of 8.6%, which reflected $376mm of pre-tax catastrophe losses, which were over $100mm higher than our quarterly AAL

AAL

- For financial reporting purposes, we assume that our AAL is spread evenly throughout the year
- Cat losses included $171mm from the California mudslides in early January, $122mm from U.S. winter storms and approximately $80mm in losses from the Papua New Guinea earthquake
- The majority of our cat losses were in our North American Personal Insurance business

International Commercial Loss Ratio

- The General Insurance accident year loss ratio as adjusted was 63.1% for the quarter, which was in line with full year 2017
- This reflected improvements in our International Commercial loss ratios as well as the portfolio mix in North American Casualty and Financial Lines
  - However, this improvement was offset by the net earned premium impact of changes to our reinsurance structure, higher severe losses and attritional losses related to non-cat winter weather that impacted both North American Commercial and Personal Insurance
- We estimate that the above average impact of the U.S. winter storms increased GI's overall accident year loss ratio by about one point

Reinsurance Structure

- As you can see from our financial supplement, changes to our reinsurance structure improve our AAL by over one point against full year 2017
- Additionally, as we mentioned at year end, we completed our Japan merger

- As a result of the merger, Fuji's fiscal period was conformed to that of AIU Japan, which resulted in recognition of an additional two months of pre-tax earnings of approximately $15mm
- Peter will comment further on underwriting trends and the impact of reinsurance in his remarks

Life and Retirement Business

- Our Life and Retirement businesses delivered another solid quarter of results with an adjusted ROE of 14.3% for the quarter, benefiting from better than expected alternative investment returns and $54mm in nonrecurring payments on structured securities
- Kevin will speak to results and business trends further in his remarks

AOCI and DTA

- Book value per share ex AOCI and DTA was $56.10 at quarter end, up 2.5% for the quarter, or up 1.3% excluding the impact of changes in accounting principles
- We continue to provide you with book value per share excluding both AOCI and our tax attribute DTA to align with how we report adjusted ROE
- We continue to see the value of the tax attribute DTA as the present value of our future cash tax savings
- Book value per share ex AOCI was $67.48 at quarter end

Net Investment Income

- Additionally, net investment income from our Insurance operations including the legacy insurance portfolios, totaled $3.3B in the quarter or 9% lower than the $3.7B reported a year ago
- While alternative investment returns exceeded our 8% expectation, the total was largely in line with the annual run rate we provided last quarter

Life and Retirement Operation

- For our Life and Retirement operations, we invested new money at an average yield of about 4% in the quarter, which is roughly 70BPS lower than our portfolio yield, reflecting the duration of the portfolio
- For General Insurance, our new money yield was 3.4% in the quarter, which is coming in line with portfolio yields
- As we have stated, we view a steady rise in interest rates as an incremental positive for our businesses

Deferred Gain

- As Brian mentioned, there was net favorable reserve development of $110mm this quarter, including the $62mm benefit related to the amortization of the deferred gain on the ADC
- Across our portfolios, actual vs. expected claims trends came in better than expected this quarter
  - However, we have not made any material changes to loss picks and long-tail lines and chosen to remain cautious

ADC Subject Business

- With respect to our adverse development cover shown on page 43 of the financial supplement, cumulative payments on ADC subject business to the end of Q1 2018 were $15.8B.
- This was in line with our original payout and held ultimate loss projections at inception
- We continue to project that inception to-date payments will pierce the $25B attachment point around mid-year 2020, at which point claims will be paid 80% by Berkshire Hathaway and 20% by AIG
  - We anticipate normal quarter-to-quarter fluctuations in paid claims given the mix of business subject to the ADC
- Discrete items brought our adjusted effective tax rate to 20% for the quarter
- However, we continue to expect our full year adjusted effective tax rate to be between 21% and 22% before discrete items

Balance Sheet Item

Liquidity

- Our balance sheet and FCF remains strong
- As shown on slide 6, current liquidity at quarter end was $8.5B, reflecting debt issuances we completed in March
- We view the target level of liquidity at the holding company to be between $3B to $4B, representing our annual interest payments, dividend payments and holding company costs

Cash Proceeds

- Cash proceeds in the quarter included $2.5B from the March debt issuances I just referred to, which replaced the $1.1B of debt maturities in January and will be used to partially fund the Validus acquisition

Acquisition of Validus

- With respect to our acquisition of Validus, we remain on track for an expected closing in mid-2018
- Following the closing, we'll report Talbot, our Lloyd's business, in the General Insurance International Commercial segment and the remaining Validus operations in the General Insurance North America Commercial segment
- As part of aligning Validus to AIG business segments, we are also looking at the efficiency of the Validus legal entity and capital structure, once it is part of the larger AIG enterprise
  - We anticipate taking actions to better manage risk, capital, liquidity and leverage, after consulting with the appropriate regulators and receiving the necessary regulatory approvals

Dividend

- In Q1, we received $700mm of dividends from our insurance subsidiaries and tax sharing payments of $400mm including DSA Re
- Our base case for annual dividends and tax payments from our insurance subsidiaries remains $6B, although we see potential upside from non-recurring flows

Capital Ratio

- Our capital ratios at our P&C companies are at target levels
- Our capital ratios for our Life and Retirement companies are above target levels, following the reinsurance and legacy life reserves through the DSA Re transaction
- DSA Re is also above its target capital level
- Our strong balance sheet should continue to provide us ongoing financial flexibility

Share Repurchasing

- We repurchased $300mm of common shares and warrants during Q1, leaving approximately $2B remaining under our share repurchase authorization
- We continue to consider share repurchase as a tool in delivering long-term value to shareholders

Summary

To sum up, we had a solid quarter where we continued to execute on our strategy of delivering long-term profitable growth, reducing volatility and maintaining a strong balance sheet and cash flow profile

Peter Zaffino

Q1 Highlights

Opening Remarks

- Today, I will provide an update on the progress of General Insurance's strategic initiatives, discuss our first quarter results, and outline our view on current market conditions
- Having recently returned from RIMS, where senior members of our underwriting and distribution teams held hundreds of meetings over a four-day period, I was very pleased with the meaningful support and interaction from our clients and broker partners who are taking note of General Insurance's new strategic direction and our high level of engagement to assist in solving risk issues

Initiatives

- Turning to our initiatives, I would like to underscore my comments on previous calls that we are progressing toward a profitable business with less volatility as Brian described earlier
- Our other main priorities include addressing underperforming segments, while growing profitable lines of business, reorganizing our end-to-end business units and attracting strong talent to transition our business to be more effective in the market

Reinsurance Strategy

- We are also continuing to reshape our reinsurance strategy to reduce net exposures in many areas of our business

- During last quarter's call, I mentioned that we reduced our net exposures in North America Property Cat, reduced our net limits on our property per risk in Marine and purchased an international cat treaty

New European Casualty

- We took actions to further reduce volatility over the past quarter as we secured a new European Casualty excess of loss program
- And we intend to expand it across the International business by the end of Q2
- We entered into a new workers' compensation catastrophe treaty that includes terrorism and expanded our aerospace program by increasing our aggregate limit and reducing our net retention
  - While our reinsurance strategy will impact net premium written levels in the short-term, going forward our results should be less volatile

General Insurance's Organizational Structure

- Turning to General Insurance's organizational structure, our leaders are making progress building their businesses and collaborating to instill a culture of accountability and excellence that empowers underwriters and delivers value to our clients and brokers
- Tom Bolt joined us in January as Chief Underwriting Officer
- And one of his first priorities has been to balance our gross and net per risk limits in select lines to further stabilize performance

Leadership Team

- Tom is working with our business leaders to align on risk appetite, improve our pricing capabilities and utilize data to make better informed decisions
- Chris Townsend joined General Insurance's leadership team in March as the CEO of International
- His early focus has been on finalizing the international structure, appointing leaders in our major geographies and better positioning AIG in the market by reviewing performance and risk appetite in certain countries
- Most recently, we appointed Anthony Vidovich as our new Chief Claims Officer, along with other appointments for North America Casualty and U.S. Field operations

Validus Transaction

- Further, a bit more on the Validus transaction, which Sid referred to in his remarks
- Our transition planning process is proceeding well with the milestones for our various work streams on target
- And we have retention agreements in place for the organization's top executives
  - We look forward to welcoming Validus and its talented group of colleagues to AIG.

General Insurance

- Turning to General Insurance's first quarter results on slide 8, we provided details on total premiums and profitability

- I will focus my comments on underlying business performance excluding the impact of Fuji lag that Sid mentioned

Net Premiums Written

- First quarter net premiums written declined 10% y-over-y excluding foreign exchange and the Fuji merger lag elimination, driven by our 2018 North America property catastrophe reinsurance program and strategic actions within U.S. Casualty and Property
- We continue to expect that 2018 net premiums written will be relatively flat to 2017

Profitability

- Moving to profitability, Q1 included $376mm in cat losses, largely driven by Personal Insurance which Sid discussed
- The adjusted accident year loss ratio of 63.1% was generally in line with last year and we were pleased to achieve improvements in our North America Commercial Long-Tail Lines and International Commercial businesses
- These improvements were largely offset by the impact of reinsurance on net earned premiums, higher severe losses, non-cat winter weather and business mix changes
  - While our new cat reinsurance programs impacted the accident year loss ratio, they've driven a decline of approximately 20% in the total AAL
- Our management of both growth and net exposures has improved the stability of our portfolio and reduced PMLs by approximately 40%

Expenses

- Shifting to expenses, overall expenses increased slightly excluding the Fuji catch-up, driven largely by higher acquisition expenses in Personal Insurance
- On the same basis, the expense ratio increased 1.9 points, reflecting the decline in net earned premiums resulting from our strategic actions

New Operating Model

- As I mentioned last quarter, we are executing on various actions to reduce expenses that do not impact core underwriting as part of our new operating model
- Slides 9 and 10 provide additional insight into North America and International first quarter results
- North America's adjusted accident year loss ratio included the commercial long-tail improvements I referenced earlier and benefits from our business mix strategy in Personal Insurance, but increased acquisition ratio was largely driven by business mix changes

International Performance

- In International, the commercial adjusted accident year loss ratio improved compared to full year 2017 results and Personal Insurance continuing to perform profitably with slight deterioration due to winter weather
- In Japan with the merger of AIU and Fuji Fire and Marine now complete, we're managing through the integration

- We have experienced some reduction in new business following the merger which we had anticipated, but we expect to see improvement as we progress through the year
- As Brian mentioned, we believe that our accident year combined ratio will improve under 100% on an exit run rate basis by the end of the year as our underwriting actions and efforts to manage expenses earn into our financial results

Market Conditions

- Regarding market conditions, we continue to see the strongest signs of improvement in U.S. Property
- Largely in line with my commentary in Q4, rates improved in the high single-digits on average across the portfolio with the most significant increases being driven by E&S property

U.S. Casualty

- In U.S. Casualty, overall rate increases were similar to last quarter remaining in the low to mid-single-digits but with wide variations depending on line of business, attachment point and experience
- We review loss cost trends and other variables regularly and adjust underwriting and pricing decisions accordingly

General Insurance's Core Performance

- To recap the quarter, key initiatives are underway to improve General Insurance's core performance
- We expect momentum will continue to build as the year progresses
- While it takes some time for our underwriting actions to earn into the income statement, a combination of both loss ratio improvement and expense management will contribute to our 2018 exit run rate
- We've implemented the right structure, are assembling a strong and experienced leadership team and are executing against a set of clear priorities to deliver value to our clients and brokers and enhance the strength of this terrific organization

Kevin T. Hogan

Q1 Highlights

Adjusted Pre-Tax Income and ROE

- As you can see on slide 12, Life and Retirement produced solid results for the quarter generating $892mm in adjusted pre-tax income and producing a strong 14.3% adjusted ROE
- As Sid mentioned, our results benefited from $54mm transaction in non-recurring payments on structured securities, primarily in Group Retirement and Individual Retirement which is reflected in other yield enhancements
- Asset growth over the last 12 months driven by strong equity markets has partially mitigated the impact of the low rate environment in our results

Market Volatility

- Finally, with the significant market volatility experienced during the quarter, I'm pleased to report that our hedging program for living benefit guarantees performed as expected, resulting in a modest hedging gain supported by our unique de risking product features

Product Portfolio and Channel Strategy

- The breadth of our product portfolio and channel strategy remains our greatest strength, especially as industry sales continued to be challenged in the individual annuity market
- In response to these conditions, we are emphasizing growth in Life Insurance and Index Annuities maintaining steady periodic deposits for Group Retirement and executing opportunistic transactions in Institutional Markets

U.S. Court of Appeals

- In terms of environment, regulatory uncertainties have continued to significantly affect many distributors negatively impacting sales, particularly of variable annuities
- In March, the U.S. Court of Appeals for the Fifth Circuit ruled that the DOL overreached its authority in promulgating its fiduciary rule and the Department announced that it was suspending enforcements of the rule

DOL Fiduciary Rule

- The recently filed motions to intervene were denied
- If no further action is taken, the Fifth Circuit's ruling has the effect of invalidating the DOL Fiduciary Rule in its entirety
- However, the SEC lawmakers and state insurance regulators are separately engaged in reevaluating what is an appropriate standard of care for the sale of investment products and services with the SEC releasing a proposed package of new rule making in April
  - We believe that the publication of the SEC's proposal will help accelerate necessary dialogue across impacted stakeholders
- In the face of this ongoing uncertainty, our strategy is to continue to support our distribution partners as their needs evolve with innovative solutions across our broad product portfolio

Individual Retirement

- Now, I will briefly discuss results for each of our businesses
- Turning to Individual Retirement on slide 13, fixed annuity and variable annuity sales declined in the quarter as we chose not to deploy capital at returns below our hurdle rates
- We delivered strong Index Annuity growth for the quarter
  - However, overall Individual Retirement net flows remained negative and were worse than the prior year
- Individual Retirement's assets under administration were at historical highs at quarter end driven by equity market performance and positive Index Annuity net flows which result in increased fee income

Net Investments

- We also continued our practice of active spread management, but as expected we saw continued compression reflecting current reinvestment conditions
- The y-over-y comparison of base net investment spread for Fixed Annuities also reflects higher unexpected accretion income for Q1 2017

Group Retirement

- Turning to Group Retirement on page 14, our periodic deposits remained steady, while our group plan acquisitions declined primarily due to the timing of funding new large plans
- Our momentum on the new group acquisition front is strong with good growth and confirmed new plans we expect to be funded this year
- Our net flows remained negative and were worse than the prior year, with surrenders impacted by the loss of a few large plans

Headwind

- As we move forward, we expect to see certain natural attrition among larger groups due to planned sponsors reducing the number of providers in their plans and M&A activity in the health care market
- Despite these headwinds, we believe that the investments we continue to make in our digital capabilities and operating platform combined with our VALIC Financial Advisors position us well as an industry leader in the not-for-profit defined contribution market

Assets

- Similar to Individual Retirement, Group Retirement assets under administration were at historical highs at quarter end, but despite disciplined rate management experienced expected base yields and spread compression
- While we have seen recent increases in risk free rates, as Sid mentioned, new money rates continue to be below portfolio yields and spreads continue to be at historically tight levels
- Looking forward across Individual and Group Retirement absent significant changes in the overall rate environment, our current expectation is that our base net spreads will decline by approximately 0 to 2BPS per quarter

Life Insurance

- Let’s now move to Life Insurance on slide 15
- Our Life Insurance business continued to make progress
- In the U.S., our new modern administrative platform, distribution simplification efforts and narrowed product focus continue to support strong top line growth

Premiums and Deposits

- Our premiums and deposits increased and we had strong growth in both term and universal life insurance sales
- While competition is robust, we are confident in our opportunities to grow and deploy capital writing new business at attractive returns

- Lastly, our overall mortality experience was within pricing expectations and consistent with prior year

Institutional Markets

- Turning to slide 16, in Institutional Markets, we continued to execute our opportunistic strategy
- During Q1, we executed a large Federal Home Loan Bank Funding Agreement
- Although we did not participate in any notable pension risk transfer transactions in the quarter, we continue to believe there is significant long-term opportunity in this market
- Overall, our Institutional Markets business is well positioned to capitalize on available growth, while remaining focused on achieving targeted economic returns

Closing Remarks

To close, our results reflect our strong diversification of products and channels and our disciplined focus on writing profitable business, which we believe positions us well

QUESTION AND ANSWER SECTION

<Q - Elyse B. Greenspan>: My first question, I appreciate the guidance given for the below 100% combined ratio by the end of the year. Can you just give some color as we think about the seasonality in the book? And how you see from getting from Q1 combined ratio to sub 100% in Q4? How do you envision the second and Q3 progressing along?

<A - Brian Duperreault>: Well, Elyse, thanks. Look, it's difficult to say that it's going to be in a straight line, but when I'm referring to that I'm also including an AAL charge here. So if you take the volatility of catastrophes out, I think we should be making steady progress. But I can't tell you that it's going to be divided by three or four and you get the answer for the reduction.

And then remember, it's not just loss ratio. We've got a deal with our expense levels which clearly are too high. We know that. And that's an effort around the operating model in General Insurance which has to be both effective and efficient and both of those we're working on very diligently. But, just remember, it's got the AAL in it, so that's where the seasonality. I'm taking cat out and putting a charge-in. I hope that helps.

<Q - Elyse B. Greenspan>: Okay, that helps. And then, in terms of North America Commercial, when we think about getting to that sub 100% combined ratio including the AAL by the end of the year, what kind of margin are you thinking that you will get to within North America Commercial? And I understand there's lots of moving parts in the quarter, but that underlying loss ratio in North America was higher than the full year level which was kind of what you pointed to as a starting point there. So can we get an updated kind of starting point for how you see that Commercial Lines underlying loss ratio progressing this year? And can you quantify the level of non cat weather losses that might have impacted that number this quarter?

<A - Brian Duperreault>: Sure. Once you do that, and we'll talk about the non-cat after you finish.

<A - Peter Zaffino>: Yes, okay. So as you said, Elyse, there's quite a bit going on in the quarter. When you take the impact of reinsurance, certainly that reduces our overall property earned premium in the quarter. So we're moving with positive rate but also remediating property and then having the headwind of the reinsurance. We're also rebalancing our Casualty book and getting out of more of the sort of lead excess casualty, getting after – making sure we're not doing lead on primary IPO and professional liabilities, so those things that we're doing to reposition the book. But, the consequences of that in terms of what happens a little bit with the loss ratio was that property reduced more, reposition the Casualty book. Casualty is not growing, but as a percentage of grow, it grew a little bit in the quarter, and so therefore that's what really had a little bit of a difference in the overall loss ratio.

But our focus is, every day, what are we doing to stand up the businesses, laser focus on the accident year loss ratios within North America and doing everything we can to remediate that over the CY.

<A - Brian Duperreault>: Winter storm losses. So that's Sid.

<A - Siddhartha Sankaran>: Yes. Elyse, I'd point you to my comments in my script. It's about 1 point on the full year General Insurance ratio. That's a mix of both Commercial and Personal Insurance. We haven't broken it out further beyond that.

<Q - Elyse B. Greenspan>: Okay. Thank you. And then so, can I just clarify one thing? When you assume a sub 100%, that with the AAL by the end of the year, does that assume that you're running at a sub 100% in North America Commercial?

<A - Brian Duperreault>: I think that may not have it, because the International runs at a better result. We're not going to have them stand still. We're expecting them to improve too. So I would say that the exit rate in North America probably will be above 100%. I'm not – it's the combined that I'm really talking about. And we need to get to an underwriting profit in this place, and we're going to do it.

<Q - Kai Pan>: First question on expense ratio. Deteriorated about 2 points y-over-y, a part of the – majority of that coming from the acquisition expense ratio. So could you talk a little bit more about how do you improve from here? Because is part of the reinsurance program is going to be more efficient because – and also on the G&A expense side?

<A - Brian Duperreault>: Peter?

<A - Peter Zaffino>: Sure. Kai, I think you have to start in North America and the Personal Insurance. And so we decided to strategically reposition the portfolio. And we had two significant wins in the travel in the end of last year that is starting to earn into 2018.

And what's going to happen is we're going to see the acquisition expenses increase as a result of that change of mix of business. We also divested a business in 2017 as well.

What you can't really see is that will improve the loss ratio in North America Personal Insurance. It's not obvious this quarter, because of what Sid pointed out on the non-cat winter storm. And there was a little bit more frequency in large losses within those winter storms. And so that masked the improvement we'll see in the loss ratio.

So you should expect that the acquisition expenses that have increased will maintain, but will improve the loss ratio in North America as you look out to the next three quarters for the full year.

<Q - Kai Pan>: Okay, great. My follow-up question on buybacks. Brian, you mentioned before you would prefer profitable growth vs. share buybacks. And this quarter you guys bought back $300mm at the $55.41 each. So could you talk about what's your framework in deciding like when or how much to buy back?

<A - Brian Duperreault>: That's an interesting question, Kai. Yes. So, yes, I did buy back stock and we did. I said to you I would prefer to use our capital – and we're generating great capital here – to reinvest in the company. And that is add to capabilities and put in new capabilities, diversify. And I'll continue to look for that.

But it is a capital management tool, and we'll continue to use it. And we'll evaluate the circumstances as they arise to decide whether or not this is the time to buy back stock. But it is a tool and we do use it and I have used it before, may use it again. Thanks, Kai.

<Q - Jay A. Cohen>: A question for Kevin. With the changes in the Fiduciary Rule, do you see this having an impact on sales in the near term for Annuities?

<A - Kevin T. Hogan>: Yes. Thanks, Jay. I think that if the changes that the Fifth Circuit have come up with hold up, the big positive is the elimination of the overhang of litigation as a resolution mechanism for this best interest contract, which I think will be a generally positive thing.

But there's still a lot of moving parts. You have the SEC, which has weighed in with its proposal. We have certain of the states that are pursuing best interest standards, et cetera. And so we're focused on independent distribution. We're working closely with our distribution partners and working with them in terms of how they respond.

The reality is there's still uncertainty as to what the future environment is going to be. And I believe that as long as that uncertainty is there, there's going to be some overhang.

That being said, conditions are certainly improving with interest rates coming up a little bit. Products are becoming a little bit more attractive to investors and also some of the recent volatility in the equity markets has reminded people of the value of certain characteristics of our products and income benefits.

So we do see conditions improving. Index sales are doing very well. VA sales have essentially stabilized. And as you know, we're very responsive in fixed annuity to current conditions.

So I believe we're as well positioned or better positioned than anyone to respond where investor appetites go. But I don't think there's going to be an immediate change in the environment simply because of the Fifth Circuit ruling.

<Q - Jay A. Cohen>: Great. Well, moving in the right direction is good. Thanks, Kevin.

<Q - Erik Bass>: I have one big picture question, and then I think Ryan Tunis has a specific question on P&C.

Well, I guess one thing I hear from investors is confusion a little bit about the intermediate term financial targets for the company, and what AIG's profitability and returns can look like two years down the road when the actions you're taking now are really all reflected in results.

So I don't know if you have plans for an Investor Day to discuss this in detail. But just any perspective on the level of ROE you think AIG can deliver over time and the key levers to getting there would be helpful.

<A - Brian Duperreault>: Well, thanks, Erik. I don't have plans for an Investor Day. I'll certainly think about that.

But to talk about this, let's take the combined ratio going under 100%. I think you can do the arithmetic and figure out what additional profits we would be making with that improvement. If you take that number alone and put it against what our capital is, the ROEs we would be generating would be high single-digit for sure. And I've given you that as, call it, an intermediate target.

And I also expressed that we want to be top quartile in terms of combined ratios and that includes expenses. Expense levels are too high. We want to be top quartile in our expense levels. We should be the most efficient. We're big enough to be taking advantage of our scale. So we should be much, much better in terms of our expense levels. We're going to get there, all right. But you can work out the arithmetic on the ROEs.

Book value growth is the other number. So I mentioned three things, right? Combined ratio is under 100%, ROEs and growth in book value. And I think if you just do the intermediate, you're going to get a pretty good idea of what that would imply and then if you get past that to top quartile, I think these are pretty good numbers as targets. I mean if we achieve them, they're world-class. But, in the meantime, just getting to a combined ratio of 100% is going to produce a pretty good ROE. I hope that helps Erik.

<Q - Erik Bass>: It does. Thanks. And just one clarification. I mean how do you define top quartile ROE and kind of what's the peer set? Is it kind of a blend of P&C and life companies?

<A - Brian Duperreault>: No, well, I'm talking about – well on ROE, yes, I think it would have to be. I mean we are a composite company and so we have to consider ourselves in that way. It would have to be yes.

<Q - Ryan J. Tunis>: And I was just curious, on the exit run rate, are you more confident from an accident year standpoint or a CY standpoint? That was my first one. And then just trying to understand, thinking about this whole exit run rate concept, I guess why that really represents progress in 2018, because I guess it looks like last year you did like a 102.4 accident year combined ratio and on the new AAL that seems like that would be closer to a 101. And now it feels like there's some reserve releases coming through. So it kind of feels like we're already at 100. So are we right to kind of think that the exit run rate guidance means they were kind of trading sideways through 2018 and then 2019 is the year where we really see meaningful improvement? Thanks.

<A - Brian Duperreault>: That's a good question. Well remember, there's two things. There's the expenses too which we've got to get down, so there's going to be meaningful improvement in the expense levels. I think there was a question about what the exit 2017 accident year was. I think it's a little higher than that. So we're looking at an improvement, in the accident year a meaningful improvement and the accident year ratio is not going sideways and an expense level improvement, that's what we're talking about. Okay. Next question?

<Q - Jay Gelb>: Given the challenges we saw in Unum share price performance yesterday, does AIG have any legacy long-term care exposure?

<A - Siddhartha Sankaran>: We have a very – hey, Jay, it's Sid. We have a very small portfolio in the Legacy. It's about $400mm. The sensitivity analysis that we've run is that if everybody lived to the end of the mortality table, our reserves would double. So you have $100mm in actives and then $300mm in the remainder. So it's a relatively small portfolio and we don't have those issues in long-term care.

<A - Brian Duperreault>: And we believe what we're carrying is correct.

<A - Siddhartha Sankaran>: Absolutely.

<Q - Jay Gelb>: Good to know. Thank you. And then switching gears on the adverse development cover with Berkshire, you mentioned that it could pierce the $25B level where Berkshire would start paying around mid-2020 which is consistent with our view. How long do you think it could take for Berkshire to exhaust its $25B cover beyond 2020?

<A - Brian Duperreault>: Sid, you want to try that one?

<A - Siddhartha Sankaran>: Well, I mean we can't comment on Berkshire's projections. I think what we can tell you is and I made a comment about quarter-to-quarter they're going to be variance in paid claims because of the mix of business. So remember based on our projections you have some business that's shorter term in that ADC and some that's longer term. So some of the stuff like excess casualty and workers' comp, there'll be paid claims out 20, 30 years. So that's important for people to keep in mind as they look at what happens in the quarterly paid claims. That's why we assess this on how are we looking vs. what we thought inception to date and we feel very good about that metric.

<Q - Jay Gelb>: All right. I appreciate that. Thanks. And then a final one. Just want to circle back on the ROE. Is there any reason over time why AIG should not be able to deliver the 10% or better return on equity whether you're looking at that on book value ex AOCI, ex DTA or some other baseline?

<A - Brian Duperreault>: Well, look, we have a very good ROE in Life, we believe that's maintainable. The General Insurance requires us to start making underwriting profit. Once we get into that area, we will start to generate numbers in that range. So what holds us back? Make an underwriting profit. There's no earthly reason why we can't make an underwriting profit and we will and so we'll get to those ROEs.

<Q - Joshua D. Shanker>: In some ways I congratulate you on lowering your catastrophe exposure on an AAL basis, but AIG has a huge balance sheet and huge reserve position. Shouldn't AIG be willing to tolerate normal level catastrophes, the move from expecting $1B per year to $700mm per year, what's the reason behind that and why did that create shareholder value?

<A - Brian Duperreault>: That's a great question. Well, first of all, our catastrophe cover last year did not respond to the worst catastrophe event. Now, we have a good balance sheet, we withstood that. I don't think that's a good use of capital. And so we made the decision to use reinsurance to balance that portfolio so we take the extremes out. I think that's a good trade. I'd make that trade every day. Now, we do have a good balance sheet, there's no question about it. But I'm also in a business of protecting that, so that we can grow this book, use the capital for profitable growth and so that's why it's very good for the shareholder.

<Q - Joshua D. Shanker>: And if you change up your reinsurance at 1/1 this year that means the cover is going to be earned through over time I guess? Does that mean we should see further reduction in the AAL over time as the net premiums written from 2017 go off and are greater with the net premiums written in 2018?

<A - Brian Duperreault>: Peter, take that please?

<A - Peter Zaffino>: Sure. No, it should be fairly steady throughout the remaining part of the CY. That will depend largely on, not from an AAL basis, but how the portfolio shifts. But based on what we see today where we're growing that, we expect that the earned portion of the property cat will be quarter-to-quarter, but offsetting that will be – we had a large session in our excess of loss casualty placement and that we discontinued last year. And so we'll be getting more earned premium back on the Casualty, so it'll largely offset it in terms of the overall financial results within North America for Commercial.

<Q - Thomas Gallagher>: Peter, from your comments it sounded like Casualty was favorable. So just curious if you could comment on what really pressured results in North American Commercial and would you say the actions you've taken so far are enough? Or do we need to see more remediation efforts here in terms of – in response to the results you saw in the quarter?

<A - Peter Zaffino>: Let me take that Brian?

<A - Brian Duperreault>: Well, Peter I think – yes, go ahead.

<A - Peter Zaffino>: Okay. So, let me just talk about Casualty for a second and just give you some insight overall for the company. If you look at International when we saw the accident year loss ratio improve, that was from some of the reinsurance actions we took at 1/1 because last year it was a little choppy in terms of the results, but we had some losses that pierced some higher levels that we hadn't seen in the past. So we put in excess of loss treaty together for our International Casualty and that's where you're seeing the improvement in the accident year loss ratios in 2018 and expect that to continue in the rest of the CY.

In terms of North America, we're not done. I mean I think we've made some very good improvements in how we're looking at gross lines, net lines, looking at businesses where we think we have a real leadership position and can really differentiate ourselves in the marketplace, that's just begun. So I expect us to be improving every quarter throughout this year and next year as we reposition the portfolio looking at excess casualty, looking at financial lines.

One of the businesses that Brian's mentioned in the past that we stood up first was [ph] Agram (49:40), which is our large account business that has really accelerated. We're seeing a lot more submission activity and expect to see opportunities for profitable growth there and so this will be – we've made progress. We're going to make more progress and this is going to be an iterative process throughout the CY.

<A - Brian Duperreault>: Yes. If I could just add a little color. So if you look at our PEs, whatever, you're going to see a fairly high loss ratios in Casualty. We've had high loss ratios in Casualty. We have stability in the reserves. In fact we've seen some redundancies coming out of that. I think that's good, but the Casualty remains too high. There's no question about it.

A lot of it is excess and you don't fix excess by price. It's a high severity low frequency book. Now price matters don't get me wrong, but selection, attachment, terms and conditions, you fix the excess book by not having losses. You don't price it up. You cut the losses out and so much of our work is around that and so whether it's the risk management book or it's the excess casualty or even in the D&O. We're taking a lot of time and effort to fix that book, but we're not, as Peter said, we're not done with Casualty, but we're on our way.

<Q - Thomas Gallagher>: And just, Brian, in response to that, just as a follow-up, related to that process, is that a – a lot of it gets done by the end of 2018? Or you think this is like, takes a couple of years? In terms of the action, not the result?

<A - Brian Duperreault>: Yes, exactly. That's the nuance of this thing. I think the actions we're taking now become effective, okay? Now, when it's excess of loss, one should be a little bit more cautious, because the best book in the world and the worst book in the world look exactly the same when they start out, because the losses take a little while to get reported. And so we know we're doing the right thing, but we'll take a little time to verify it.

<Q - Jon Paul Newsome>: Maybe a little bit more on just the general competitive situation in the Property Casualty business. A lot of what I get in terms of pushback from investors is that, regardless of the actions, the market with less price increases than we expected simply will not let AIG implement what they want in the fashion that they want. What's your response to that kind of thought that maybe the – just the environment has changed? And that's just not going to help you where you need to go?

<A - Brian Duperreault>: Let me start and then maybe Peter can correct me if I get it wrong. But anyway, so, look, and I think generally speaking, there's probably more tailwind than headwind. Now, it may not be as strong as one would like in certain lines of business, but it's actually more positive than I think I'm hearing there.

Now, I do think the industry needs to continue to improve and the rates are required, but it's not like we're going against the movement. So it helps. I think in Property, we are getting rate increases.

The fixing of this portfolio, whether it's Property or Casualty, short or long, right, has a lot more to do with who we write and how we write it and less to do with the price, believe it or not. In other words, I believe that we can have a profitable book in any weather condition, let's say, but it takes some discipline.

I talked about the Casualty just a second ago. You don't fix this excess book with price. You fix it because you write the right accounts and you write them the right way, so that it truly is an occasional event. That's an act that we're prepared to cover.

So I think we have the ability to look at our book and fix our book, and we're fixing our book. But I don't think that the conditions in the marketplace are holding us back. Peter, you want to add to that?

<A - Peter Zaffino>: The only thing I would add, Brian, is that we are not competing in the commoditized market, where I think that's where those comments resonate.

We are in a segmented market where leadership matters. AIG has the expertise and leadership. And when we go to our new organizational structure, we're going to really be focused on how we face off with clients and distribution and play to our strengths. So I think that they look to us to lead. They look for us to help with risk. And they look for us to structure deals. And I think that's what differentiates our ability to get rate.

<A - Brian Duperreault>: Okay, Paul?

<Q - Jon Paul Newsome>: Yes, that's great. My second question has nothing to do with P&C. There seemed to be an enormous number of people looking to buy blocks of annuities. And it seemed to be growing every month. What's the situation in terms of what you'd be interested in in terms of divesting? At least in the [ph] life sides (55:06) or blocks at this point, given all the changes that have been made in the last year or two?

<A - Brian Duperreault>: Kev?

<A - Kevin T. Hogan>: Yes. So, look, we worked hard on the portfolio the last couple of years and believe we have a market leading position with our distribution organization, our leading product positions in all three of the retail annuity spaces in Group Retirement and a very strong position in Institutional Markets. So we have no intention other than being disciplined in deploying capital into growth opportunities, which as I mentioned earlier, conditions are improving in the markets.

<A - Siddhartha Sankaran>: And, Paul, it's Sid here. We've been pretty clear and consistent that the remaining portfolio that we're evaluating is Legacy and that's DSA Re. And we're going to continue to evaluate and we're pleased with the progress that we've made in standing up that entity.

<Q - Yaron Kinar>: So one question regarding the combined ratio target for – exit target for 2018. Is that predicated on growth in net premiums earned, or at the very least, stability there?

<A - Brian Duperreault>: Well, we said we think – we believe that our premium levels will stabilize this year over last, okay. Now we're down about 10%, something like that in Q1. So we would expect an improvement in that. So there'll be some lift, some of it's because we're recapturing some of the Casualty business, some of it is natural growth. So we'll see some improvement. And that's embedded in what we're talking about.

But there isn't some massive increase in production that's going to get us to where we want to go. We're going to get it by evaluating our portfolio and doing the proper underwriting on it.

<Q - Yaron Kinar>: Got it. And then maybe shifting gears a second to the Life and Retirement business. So I think I heard a comment about the ROE, the strong ROEs that that business is producing being sustainable. I'm just thinking about the very strong equity markets that we've seen the last few years. And they clearly were a positive for an AUM oriented fee business. If those equity markets maybe stabilize or go back to their more normalized appreciation rate, do you think that that ROE still is a reasonable run rate?

<A - Kevin T. Hogan>: Yes, Yaron. Thanks. First thing I'd point out is, is that we did have this quarter the $54mm in the non-recurring payments on structured securities as we pointed out. We would not necessarily expect that to continue, but otherwise the excess market performance and the fee income is a modest part of what's been contributing to that ROE. I think what's more important is the overall blend of where equity markets are, where interest rates are, where our investors believe they're going to go and what alternatives it is that they have.

And as I pointed out, we are in a somewhat unique position. We can deploy capital into Index Annuities right now because we have the distribution mechanism to do it. If the conditions for Fixed Annuities improve, we'll be able to deploy more capital into that than we are right now and we also have the Group Retirement business. Let's not forget about the strong growth in the Life Insurance business which is attractive new business conditions. And we've proven that with the discipline and the selection in the pension risk transfer and the Institutional Markets business we're able to find transactions that meet our economic expectations as well as STAT and GAAP requirements.