

Acquisition of Validus Holdings, Ltd. by American International Group, Inc. Call

Company Participants

- Brian Duperreault, President, Chief Executive Officer & Director
- Elizabeth A. Werner, Vice President & Head of Investor Relations
- Peter Zaffino, Chief Executive Officer-General Insurance
- Siddhartha Sankaran, Executive Vice President & Chief Financial Officer

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse B. Greenspan, Analyst
- Jay Gelb, Analyst
- Jon Paul Newsome, Analyst
- Josh D. Shanker, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst
- Ryan J. Tunis, Analyst
- Thomas Gallagher, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to AIG's Validus Acquisition Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Liz Werner, Head of Investor Relations. Please go ahead.

Elizabeth A. Werner {BIO 1557593 <GO>}

Thank you, Allison. Before we get started this morning, I'd like to remind you that today's presentation may contain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Any forward-looking statements are not guarantees of future performance or events. Actual performance and events may differ possibly materially from such forward-looking statements.

Factors that could cause this include the factors described in our first, second, and third quarter Form 10-Q and our 2016 Form 10-K under Management's Discussion and Analysis

of Financial Conditions and Results of Operations, and under Risk Factors. AIG is not under any obligation and disclaims any obligation to update any forward-looking statement, whether as a results of new information, future events, or otherwise.

Today's presentation may contain non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures is included in the slide for today's presentation and in our financial supplement, both of which are available on our website. As is our customary procedure, this morning's Q&A session will have one Q&A and one follow-up per analyst, and we encourage you to get back in queue if you have additional questions.

This morning, you'll have the opportunity to hear from Brian Duperreault, our President and CEO; Peter Zaffino, our CEO of General Insurance; and Sid Sankaran, our CFO.

At this time, I'd like to turn the call over to Brian.

Brian Duperreault {BIO 1645891 <GO>}

Good morning, everyone, and thank you for joining us to discuss our announced strategic acquisition of Validus group, a company many of you are familiar with. This acquisition is a significant step forward in executing our strategy to pursue profitable growth. The \$5.6 billion acquisition is immediately accretive to EPS and ROE, in addition to being a great cultural fit.

Validus provides our General Insurance business unit with diversification across our products, distribution, and geography, and this diversification should lead to capital efficiencies. The transaction has little execution risk to us as it remains minimal integration given that it will operate as it does today within General Insurance. The combined companies position AIG with the capital, cash flow, and underwriting opportunities to deliver profitable growth. You'll hear more from Peter shortly about how the Validus operations complement AIG's General Insurance business.

Strategically, it provides a strong reinsurance underwriting operation, an immediate presence at Lloyd's, additive specialty lines expertise, and a skill set around third-party capital throughout AlphaCat, which introduces new possibilities to AIG as a risk originator. As part of AIG, Validus has greater opportunity to expand profitability.

In addition, Validus has successfully applied technology and data as a sustainable competitive advantage. Their ability to assess property risk through proprietary CAT modeling is just one example of how they've leveraged research and analytics to enhance underwriting profitability. This too fits nicely with our technology and data strategies.

Validus also brings to AIG additional talent with proven underwriting expertise. We know the Validus team well, and have tremendous respect for their accomplishments and their record of consistent underwriting results. The depth of their talent stands out among the Bermuda insurance companies. Importantly, this transaction makes both companies better.

I'll now turn it over to Peter Zaffino, who will speak about Validus' underwriting and other capabilities. Peter?

Peter Zaffino {BIO 15942020 <GO>}

Thank you, Brian, and good morning, everyone. My comments today will focus on the distinctive capabilities of Validus, the strategic fit between Validus and AIG, and the opportunities we see for driving profitable growth by capitalizing on the assets of our two firms.

Turning to slide 4, which provides a breakdown of Validus operations across reinsurance and specialty markets; let me walk you through these four business units and explain why we're excited to bring each of them into AIG. Validus Re is a leading global reinsurer with an extremely well-regarded underwriting franchise, focused on treaty reinsurance with \$1.1 billion in annual premiums. The business has performed very well since it was formed in 2005, following severe catastrophe losses caused by Hurricanes Katrina, Rita, and Wilma.

Property treaty is the largest component of the portfolio, but they have broadened their reinsurance capabilities over time and effectively managed their exposures. Together with AlphaCat, an insurance-linked securities asset manager with approximately \$3.4 billion in assets under management, Validus has a comprehensive reinsurance offering. We are confident that these businesses can leverage AIG's scale and expertise to accelerate their growth in the coming years.

Shifting to the specialty markets, let me start with Talbot which is the 11th largest Lloyd's syndicate with approximately \$920 million in annual premiums. We are pleased that AIG will re-enter Lloyd's, which broadens our global distribution network and provides new growth opportunities. Talbot Syndicate 1183 is highly regarded with a number of strong franchise in the Lloyd's market across marine property and political risk.

In addition to Talbot, Validus brings AIG two distinctive U.S. specialty businesses. Western World is a U.S. property and liability insurer focused on small commercial customers. It generates approximately \$400 million in annual premiums, operates in both excess and surplus lines and admitted markets and has a strong presence in the binding authority business where their proprietary rate, quote and bind system provides access to wholesale brokers and their distribution. Western World provides AIG access to small commercial clients that we typically do not serve through Lexington, our own E&S platform.

Crop Risk Services or CRS is a leading provider of crop insurance in the U.S., representing approximately \$550 million in annual premiums. CRS is a USDA-approved crop insurance company and provides an excellent entry point into crop insurance where we currently do not have a presence.

Cutting across the four segments of the portfolio, the Validus team will strengthen our core underwriting capabilities within AIG. They bring distinctive thought leadership in catastrophe modeling and research, expertise in physical and data sciences and

innovative approaches to underwriting analytics and risk management that we will be able to utilize at AIG.

Turning to slide 5; the acquisition of Validus is expected to increase General Insurance's net premiums written by approximately 11% in attractive lines that are strategically complementary and bring diversification to our existing portfolio. The reinsurance operations of Validus generate 53% of its gross written premiums and the insurance operations generate the remaining 47%. Following the acquisition, reinsurance is expected to be approximately 3% of AIG's General Insurance business on a pro forma basis.

The reinsurance premiums from Validus Re and AlphaCat will be a large contributor to General Insurance and will provide AIG with a new platform to participate in the reinsurance and alternative capital markets. The domestic U.S. businesses of Validus comprise Western World and CRS, each of which bring an additional element to balance our North American General Insurance offering, and I've already mentioned the benefits of reentering Lloyd's through Talbot.

In summary, this transaction brings AIG capabilities in markets in which we wish to grow and allow us to offer more comprehensive solution to our customers. In turn, AIG's global scale, balance sheet strength, and extensive client and broker relationships will provide Validus with new growth opportunities through the sourcing of new risks and by broadening the breadth of its product offerings.

As Brian mentioned, we do not anticipate a wholesale integration of the Validus operations into our own business. We want to ensure that the Validus team maintains their momentum and preserves the innovative culture that has served them so well over the years, but we will do everything possible to allow Validus to capitalize on the benefits of being part of AIG. At the same time, General Insurance will maintain our focus on improving our own strategic financial and operational performance.

Turning to slide 6; Validus has an industry-leading management team with a track record of strong performance and a culture of underwriting excellence. Looking at their results over the last 10 years, Validus has consistently been a top performer and delivered an average combined ratio of 84%. Until the CAT activity this past year, they have returned a positive underwriting profit every year since 2007.

Validus has also managed the reinsurance cycle well by managing their aggregates and exhibiting very good underwriting, as well as utilizing the capacity provided by AlphaCat and shifting the Validus Re business mix, as rates had softened in the property cap market. The majority of the leadership team has been in place since its inception. Brian and I know them well and have worked with them for many years. We're excited to welcome this group to AIG. I think the cultural fit is terrific.

We expect the business unit leaders at Validus will remain in place following completion of the transaction. Kean Driscoll, CEO of Validus Re; Lixin Zeng, CEO of AlphaCat; Peter Bilsby, CEO of Talbot; Jonathan Ritz, President of Western World; and Brian Young,

President of CRS. I look forward to working closely with this leadership team in the months and years to come.

With that, I'll turn the call over to Sid.

Siddhartha Sankaran {BIO 17003278 <GO>}

Thank you, Peter, and good morning, everyone. Turning to slide 7; as Brian mentioned earlier, the total deal consideration is \$68 per share for each common share of Validus, or approximately \$5.6 billion in aggregate that AIG will pay for with cash on hand. We will also evaluate opportunistic financing alternatives closer to the closing date.

The deal value represents roughly 1.5 times Validus' cap book value at the end of 3Q 2017. The transaction will be immediately accretive to AIG's earnings per share and ROE, neutral to book value, and modestly dilutive to tangible book value. While there will be some expense synergies over time, this strategic transaction does not require integration savings to enhance AIG's top and bottom lines, and provides an attractive return on investment.

Validus' earnings will allow us to accelerate the usage of our existing net operating losses. At this time, we anticipate making a 953(d) election that will make Validus a U.S. taxpayer. Also, given the enhanced diversification and risk profile that Validus brings to us, we expect capital optimization benefits to emerge over time. Following the standard regulatory and shareholder approval process, we anticipate the transaction will close by the middle of 2018.

Moving to slide 8; we expect to maintain a strong balance sheet and liquidity profile following the transaction. The combined companies' leverage ratio will increase by roughly 50 basis points, given the relatively small amount of Validus debt outstanding. Total capital for the combined company will be greater than \$96 billion including over \$73 billion of common shareholders equity, pro forma at 3Q 2017.

I would also note that we remain confident in the comments we made regarding reserve adequacy at our 3Q earnings call, and look forward to providing you an update when we release earnings on February 8. In addition, we anticipate releasing our revised financial supplement this week, consistent with our new organizational structure.

With that, I would like to turn it back over to Brian for some closing remarks before we start the Q&A.

Brian Duperreault {BIO 1645891 <GO>}

Thank you, and I think you've seen from the comments that I've made and Peter and Sid that this is very exciting for us. It's a tremendous addition to our company; brings the skills we don't have and we just can't wait to get the Validus team in part of the family. And with that, I'd like to go to Q&A, operator. Can we take some questions?

Q&A

Operator

Certainly. We'll take our first question from the line of Ryan Tunis from Credit Suisse. Please go ahead.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Hey, Thanks. First of all, just for Brian, I guess if you could talk just a little bit more about, I guess, how this deal just came together. Why, I guess, you chose to go down the route of E&S reinsurance as opposed to admitted lines carrier and a P&C or even a life insurance?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, Ryan, well, I've been asked a lot of questions about what kind of acquisitions am I interested in, what would we do; and we have a lot of white spaces, a lot of businesses that we don't do and, therefore, concentrated in fewer than - too few, let's say, for my liking. So, we're not in the reinsurance business. I know that business well. I've been involved in running reinsurance companies or advising them for a long time, and I particularly like the reinsurance business as additive to what we do.

I've been interested in getting the Lloyd's platform. We don't have one, and I think it is an important strategic asset to any general insurance company, so we were interested in that. And of course, there are other component parts to it. It does have E&S. True. It's got a crop business. We don't have crop. It's a terrific business. So, there are just a lot of pieces to this company that fit us perfectly like a glove. And that's why I chose it. It's a great company too, and probably the most important thing is the people in it are terrific underwriters and managers and executives. And so, they make us better.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Okay. And I think Peter said reinsurance is now 3% of your business, but it's half the premium on this deal. You seem to like it. Can we expect that 3% to grow over time? Do you think that reinsurance over the next few years will become a larger percentage of the overall premium mix in AIG in that 3% referenced?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, I think it's going to grow at its own pace. The rest of the General Insurance is going to grow. So, it's kind of hard to say which one's going to relatively win in this. What I do believe is this movement of originating and then placing risk continues to grow, and their AlphaCat capability is an important part of who they are. So, I think reinsurance will certainly continue to grow at its own pace, but I do think this AlphaCat capability has great growth potential.

Okay. Can we go to next question?

Operator

The next question comes from the line of Elyse Greenspan from Wells Fargo. Please go ahead.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi. Good morning. My first question, just given that you guys are announcing this deal of a certain size at the start of this year, Brian, do you see yourself as done with large deals for the rest of 2018, or can you just talk to us about how you think about the M&A potential and pipeline for AIG from here?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, this is the deal we're doing right now, let's put it that way, and we're very interested in making sure that it goes to completion. Deals, M&A, it's a funny animal. First of all, you have to have a certain perspective. In other words, there are things that you think belong in a company you should look for those. And then it becomes very much a product of right time, right place, right people, and so it's very hard to predict. So, we will continue to see what's out there, but this is the one we're doing right now and it's got all our attention.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you. And my second question, in the slide and, Sid, you remarked about accelerating the utilization of the DTA with this deal. Can you just talk more about that and how we should think about that? And, as we think about this enabling AIG to utilize you're DTA faster, is that something that we should take into account when considering the valuation that you're paying here?

A - Brian Duperreault {BIO 1645891 <GO>}

Go ahead, Sid.

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Great. Yeah. Well, as I said, Elyse, we anticipate making a 953(d) election that will make Validus as a U.S. taxpayer, so it'd be taxed at U.S. corporate tax rate. And hence, their earnings will be applied against our DTA and, in turn, tax sharing payment. And yes, as we think about doing transactions, we do look at them on a cash basis and we do evaluate the impact on book value inclusive of the present value of that DTA. We think that's a unique variable for us and an important driver of economics and cash flow.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Next question.

Operator

The next question comes from Josh Shanker from Deutsche Bank.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yeah. Good morning, everyone. I'm curious to know whether you have a view of the property CAT reinsurance market. We just had three tremendous U.S. storm losses in 2017 and, I mean, it depends on how (00:19:10) you think, but it looks like pricing hadn't gone up very much at 1/1 renewals, maybe you disagree with that. Do you expect in doing this deal that long-term property CAT pricing is currently depressed?

A - Brian Duperreault {BIO 1645891 <GO>}

Let me take that, and maybe Peter will have a follow-up, but I think, certainly, the property CAT pricing did go up, I mean, less than people speculate it. The real question is, is the pricing of property CAT today commensurate with the risk being taken, and I believe that the returns that they're getting are reasonable. The retro market went up more. I mean, when you look at how you put a portfolio of property CAT together, you've got to think of both elements as you protect yourself.

And I say, net-net, I think the property CAT business is reasonably priced. And I think my experience over - gee, I don't know how long I've been looking at this stuff - 20 years - by and large, the property CAT market has held itself at a reasonable to very good levels in terms of returns on equity or returns on risks. So, I don't see - that's a very disciplined group. I don't see that changing.

Peter, would you add anything?

A - Peter Zaffino {BIO 15942020 <GO>}

No. I agree, Brian. The only thing I would add is that their product line mix has decreased property CAT since 2010 to 2017. So, the mix of their overall portfolio is more balanced. And then, what we mentioned in the prepared remarks is that, depending on what the trends are in the industry, we have both opportunities to pursue through Validus Re or AlphaCat. So, there's opportunities for growth, I think we're going to be well-positioned and capitalize on that.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And, okay, and you don't think there's any - what did you say?

A - Brian Duperreault {BIO 1645891 <GO>}

I just wanted to get a follow-up.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yeah. Yeah. And in terms of risk, you guys are obviously a very large insurer, does that put at a disadvantage of people not wanting to reinsure through you because you're a competitor of theirs?

A - Brian Duperreault {BIO 1645891 <GO>}

No. No. If that was the case, it's ended a long time ago. I think we're in an industry where we will compete one day and partner the next, reinsure each other. It's the nature of the

industry and who we are, and I think it probably enhances Validus' position in the marketplace, not decreases it.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Well, good luck.

A - Brian Duperreault {BIO 1645891 <GO>}

Next question.

Operator

The next question comes from Jay Gelb from Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks very much. I was hoping you could provide a bit more insight in terms of how the deal came about. Was Validus essentially put up for sale, or did AIG approach it?

A - Brian Duperreault {BIO 1645891 <GO>}

I think you're going to see - you read all about it, don't you, in the filings that come out afterward. I'll just simply say that I initiated it.

Q - Jay Gelb {BIO 21247396 <GO>}

All right. I appreciate that. Thanks. And then two other quick ones. There was a comment in the prepared remarks about the confidence in AIG's reserve adequacy. So, does that mean we should not expect a fourth quarter charge?

A - Brian Duperreault {BIO 1645891 <GO>}

I'll refer you to what I said at the third quarter call. So, those comments hold until we do our fourth quarter, let's put it that way.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. And then last one, the - what's AIG's all-in effective tax rate?

A - Elizabeth A. Werner {BIO 1557593 <GO>}

Hey, Jay, I'm sorry.

Q - Jay Gelb {BIO 21247396 <GO>}

Yes?

A - Elizabeth A. Werner {BIO 1557593 <GO>}

FINAL

Bloomberg Transcript

Jay, I'm sorry. We're going to move on to the next question. We only have time for two. Okay? But if you get back in the queue, we can hopefully help you out.

Operator

Our next question comes from Kai Pan from Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. First question is, before this Validus acquisition, there are some news about your interest in talk with Voya, I just - and also a couple Australian property like (00:23:15) assets. I'm just wondering, are there other opportunities that you might be interested that could add capability or growth to AIG?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, I'm not going to comment on any speculation. The earlier question, I did say, there are still things that I would like to add to the company to balance it out that would be great, strategic fits. And over time, I hope that I can do that. So, yeah, there are other things that we'd be interested over time. Do you have a follow-up?

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Yes, I do. Maybe for Sid, is that, can you talk a little bit about your capital position in term of both cash as well as potential, sort of, debt capacity that you could do - sort of, like, what capacity do you have without raising capital if there's another deal coming?

A - Brian Duperreault {BIO 1645891 <GO>}

Go ahead, Sid.

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Well, I think, first of all, as Brian said, we're focused on this deal. But we believe post the transaction, the balance sheet remains very strong. We have a good leverage profile, we have good free cash flow profile, and capital ratios are at target levels. So, we'll evaluate each of those variables down the line if there's something else to discuss, but I think we feel very good about how the balance sheet is positioned today and the future.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Next question.

Operator

Next question comes from Amit Kumar from Buckingham Research Group.

FINAL

Bloomberg Transcript

FINAL

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Just two quick questions. Number one, I guess longer term now that Validus Re has a bigger balance sheet, if you were to look into the future, why shouldn't we assume it becoming a bigger platform and competing with Swiss Res and Munich Res?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, that's quite aspirational. I think Validus has shown a tremendous ability to compete with them now. I think they're second to none in the marketplace. Certainly, with this combination, they are clearly in a different space. And to the extent that we can use that intelligently, we will. They've got the people who can do it, so that's something, yeah, we like to see happening, but without forcing it let's put it that way. What else would you like to know?

Q - Amit Kumar {BIO 15025799 <GO>}

Yeah. One quick follow-up, and this was asked in a different way. If you go back and look at Sampo when they acquired Endurance, and then Endurance went on to acquire Montpelier Re, I guess, when you look at your balance sheet and you look at the marketplace and if I look at your pricing commentary, why or why not look at - why wouldn't you look at some tuck-in acquisitions down the road amongst the smaller Bermuda space?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, that's an interesting question. I have in the past put two CAT companies together, two reinsurance companies together; it's not like I haven't done it. But we're concentrating on this one, and then we'll look to see what things remain for us to do in terms of filling in other areas that we need to fill in. So, I think I won't say any more than that.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Thanks.

A - Brian Duperreault {BIO 1645891 <GO>}

Next question.

Operator

Next question comes from Paul Newsome from Sandler O'Neill.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Good morning. I want to ask you about sort of overall CAT risk and whether or not adding Validus changes how you need to think or want to think about CAT risk for the overall portfolio. Certainly, this last year seemed like there was a lot of CAT risk at AIG and this

might be adding it or is it really adding it and if you could just sort of address whether or not...

A - Brian Duperreault {BIO 1645891 <GO>}

Sure.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Just sort of accretive to CAT risk or is it something that's a little bit more complicated?

A - Brian Duperreault {BIO 1645891 <GO>}

It's far more complicated. It's so complicated, actually. I'm going to ask Peter. Peter is our reinsurance expert. Peter, can you take this one?

A - Peter Zaffino {BIO 15942020 <GO>}

Sure. Certainly participating in the property CAT market is going to add more CAT risk to our overall portfolio. Having said that, Validus has been a terrific company in managing their own aggregates through reinsurance and retro. They've done it in a very creative way. So, we're going to understand the different return periods and how it will overlap with our own portfolio. And then on our own earnings call, we'll take you through our philosophy in terms of how we're buying reinsurance for property CAT going forward with AIG. So, we'll be taking less risk than we have in the past. And so, the combination of both organizations should not add significant exposure on a net basis to our portfolio.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Yeah. My second question, maybe you could address sort of a concern that maybe that buying something that's in General Insurance could be a distraction to the - what's probably the most important thing which is fixing the Commercial business.

A - Brian Duperreault {BIO 1645891 <GO>}

Yeah. Let me start and, Peter, I'd like you to supplement. So, I did not want to do a deal that would take us away from the major task at hand, which is fixing the core. This one doesn't. For the most part, there's no overlap. Reinsurance, Lloyd's, they continue to stand alone. We don't do the crop business. So, there is some perhaps in the Western World component, but as Peter outlined earlier, there are some things that they do that we don't. So, it's very, very small, this overlap. Peter?

A - Peter Zaffino {BIO 15942020 <GO>}

Yes, Brian. I mean just to elaborate on what you said, if you look at the one that you outlined in Western World that could have an overlap, if you look at their binding authority business, which I outlined in my opening remarks, that is the largest and most successful part of their business and the average account size is around 2,000 premiums.

So, when you look at Lexington that plays way up market, we won't have much overlap if at all when you look at that in the crop business in the United States. And then, Talbot

FINAL

Bloomberg Transcript

brings us opportunities to see even broader business than perhaps we would've seen on our own by having a syndicate within Lloyd's. So, I think they actually present us with opportunities for profitable growth and very limited overlap, so therefore, very little distraction in the United States.

A - Brian Duperreault {BIO 1645891 <GO>}

Good. Next question, please.

Operator

Next question comes from Brian Meredith from UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks. Hey, Brian, Peter, Sid; a couple questions here. First one, can you talk a little bit what you think the IRR in this transaction is going to look like here going forward? I mean, if I look at your stock right now trading at, call it, 11 times with theoretically depressed earnings, it would just seem like the returns on repurchasing your shares would be better than buying a single-digit on return equity company right now with a pretty significant premium to book value.

A - Brian Duperreault {BIO 1645891 <GO>}

Well, let me say that I believe that acquiring companies that are well-managed and strategic with a long-term track record, a very profitable underwriting and growth is what I'm going to pursue. And to me, long term, it is much more strategic than stock acquisition. But, anyway, Sid, can you talk about the IRR?

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Yeah. I mean I alluded to this earlier. I mean I think, first, we start with strategic benefits, but then if you really look at this deal on a cash basis, we're not going to give you a number, but you got to look at the earnings, the capital, and the tax benefits, which we'll keep you updated over time, and we think this is an attractive ROI.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. And then lastly, Brian, you do have a lot of experience at the property CAT reinsurance business. I'm just curious, what do you think of that business today in a kind of long-term kind of return prospects of it, vis-à-vis kind of when you originally made your first acquisition of property CAT?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, in the day, when we made - when I first got into it, there wasn't alternate capital like there is today and that's changed the landscape. So, reinsurance isn't going away; property CAT reinsurance, absolutely, is necessary for all of us in the business. The question is, how do you shape your offering to match the kind of capital that's out there, and what kind of returns that capital is looking for?

So, in Validus, we have a company that does that extraordinarily well. They take risk on their own balance sheet, they use AlphaCat, they'll use retro, and I think the skill set doesn't go away. How you apply it, you've got to be creative in taking the kind of capital and matching it against cost of capital, and they do a great job. So, to me, this is a statement about our belief in the future of this particular component of the insurance world.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Good. Next question?

Operator

The next question comes from Meyer Shields from KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah. Thanks. Just to clarify, so Validus will become a U.S. taxpayer under the deal. Is that increased tax rate the source of the faster utilization of the deferred tax asset, or is there a benefit besides that?

A - Brian Duperreault {BIO 1645891 <GO>}

Hey, Sid, could you do that?

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Yeah. So, yes, it will become a U.S. taxpayer. So, think of it, after-tax rate will be subject to 20% U.S. tax, effectively. And then, as you know, on those profits that are applied against the net operating loss DTA, we don't pay cash tax, right, so we send a cash tax payment - tax sharing payment up to the holding company from the entity. So, you got to look at the cash implications here when you think about tax for us.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fair enough. And then in terms of capital which I think both you and Brian mentioned before, what's the time line for lower capital requirements, as you add in the Validus as sort of better core profitability compared to where AIG has been? How long does that take to translate into lower capital requirements?

A - Brian Duperreault {BIO 1645891 <GO>}

How long is a piece of string, I guess. I don't know. We'll begin the process. It will play out over a period of time, but we immediately start to - when we acquire it of course, we got to wait 'til the deal finally closes. But those capital redeployments and efficiencies we'll be working on immediately after the close. Sid, can you add anything?

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Yeah. No. I thought that was well said, Brian. I mean, as you expect, we would - we'll update you over time.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Next question.

Operator

The next question comes from Tom Gallagher from Evercore.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Good morning. Sid, just a few quick questions. Can you comment at all on the range of EPS accretion. I know, you said it's going to be immediately accretive. Can you give a range? And also does this change - accelerating the DTA utilization, does that change the, I think it was \$7 billion DTA impairment guidance you had given previously?

A - Brian Duperreault {BIO 1645891 <GO>}

Go ahead, Sid.

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Yeah. I mean, these will be pretty easy answers, Tom. On the first one, no, unfortunately I can't give you guidance. We don't provide that. On the second one, this transaction in and of itself doesn't impact the re-measurement of the DTA. And when we file the 10-K and earnings at year-end, we'll be able to give you a final estimate around that re-measurement of the DTA that we had provided earlier.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Thanks and just a follow-up, the \$5.6 billion of cash, is that all on balance sheet cash or does that include some of what you expect to generate during 2018?

A - Brian Duperreault {BIO 1645891 <GO>}

Sid?

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Yes. We don't map the funds directly, but, yeah, of course, right now, we have sufficient cash on hand to execute the transaction as of today. And then of course, we generate incremental free cash flow over the course of the year. So, we'll obviously re-evaluate our

FINAL

Bloomberg Transcript

cash flow projections and be opportunistic in the market around funding alternatives as time evolves.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Thanks.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Next question.

Operator

We have a follow-up question from Elyse Greenspan from Wells Fargo.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi. Thanks. Good morning. Two quick follow-ups. One, just in terms of the Lloyd's business that you're acquiring. Can you just talk to the pricing and market outlook there and the growth potential that platform brings to AIG, a little bit more color please?

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Peter, please do that.

A - Peter Zaffino {BIO 15942020 <GO>}

Sure. Thanks, Elyse. Certainly, it really does depend on line of business and it depends on where you play. When we look at our classes of business within Talbot, it is significant. There's really only one which is the energy onshore to a property that's above 10%. And so, it's a very diversified portfolio. And so, I think overall rates, when I look at the overall Lloyd's, I mean, have been moving in a direction of positive. But again, it's just - it's a really tough question to answer because it depends on the demographics and breakdown of the overall portfolio.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Great. And then my second question, in terms of Validus, their book of business and we know that retro rates are, as you said Brian, going up higher than traditional reinsurance rates. How do you think about the reinsurance purchases you might make on Validus' book over the coming year? Would you buy less or more just given the bigger balance sheet that the combined company will have?

A - Brian Duperreault {BIO 1645891 <GO>}

Validus is really, really good at looking at its overall structure and applying retro appropriately. I think they're going to teach us something. We're not necessarily going to teach them something about that. Yes, we do have a larger balance sheet, true, and you're really talking more about the CAT business, and as Peter said earlier, they have a broader base of reinsurance than just the CAT. So could, we take more cat? Yeah, we could. Maybe we'll use the retro market and it's not as much. And it really all depends on

FINAL

Bloomberg Transcript

the circumstances. And that's where the Validus team is remarkable to making those decisions as they come up and you have to do it as they come up, as you're constantly looking at a dynamic CAT portfolio.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Thank you very much.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Next question.

Operator

Follow-up question from Jay Gelb from Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. Could you give us some perspective on what AIG's overall effective tax rate would be following tax reform in 2018 and beyond?

A - Brian Duperreault {BIO 1645891 <GO>}

Sid?

A - Siddhartha Sankaran {BIO 17003278 <GO>}

Yeah, Jay, we'll provide that along with the full summary on tax in the fourth quarter earnings call.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. And then, just my other follow-up is on AlphaCat. How much larger do you think that could be under AIG's ownership?

A - Brian Duperreault {BIO 1645891 <GO>}

Interesting question. They've got 3-plus billion dollars under management now. We see others who have larger portfolios. I think, can we attract assets and feed those assets with appropriate risk? I think we can. I think there's a real prospect for a tremendous upside there, but I don't want to speculate about how big it might be. But I'm very positive about this one.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay.

FINAL

Bloomberg Transcript

A - Elizabeth A. Werner {BIO 1557593 <GO>}

Allison, we're going to take our last question now.

Operator

The last question is a follow-up from Meyer Shields from KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah. Thanks. Peter, you mentioned that there's not much integration necessary, but I'm wondering whether there's an opportunity to take some of Validus' management maybe shore-up elements of Legacy AIG that needs a little support. Is that a reasonable way to think about this deal?

A - Brian Duperreault {BIO 1645891 <GO>}

Well, that's an interesting point. I said they're creative, they make us better, and to the extent that they can handle more, they're going to get more. So, absolutely. Absolutely. Other questions, Meyer?

Q - Meyer Shields {BIO 4281064 <GO>}

No. That's all. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay, good. All right. Well, I guess, that wraps it up. I want to thank you for taking the time in this early Monday morning, to listen to this story. I think you'll see that this is a tremendous addition to our company and we at AIG are very, very excited. And I think I can speak for the Validus team, who feels the same. So, thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript