



Specialty Property and Casualty Insurance Fixed and Fixed-Indexed Annuities

Bank of America Merrill Lynch
2019 Insurance Conference

February 13, 2019

Forward Looking Statements

Certain statements made during this presentation, as well as included in this document, are not historical facts and may be considered “forward-looking statements” and are based on estimates, assumptions and projections which management believes are reasonable but by their nature subject to risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements.

The reasons which could cause actual results and/or financial condition to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified from time-to-time in AFG’s filings with the Securities and Exchange Commission, including the annual report on Form 10-K and the quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure which sets aside items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, discontinued operations, as well as other significant items that are not able to be estimated with reasonable precision, or that may not be indicative of ongoing operations. AFG believes that this non-GAAP measure is a useful tool for investors and analysts in analyzing ongoing operating trends of AFG.



A history dating back **145+** years

Specialists in providing insurance products that **help businesses** manage their **unique financial risks** and exposures and **individuals save** for their **financial futures.**

Approximately **55%** of Specialty P&C Group gross written premium produced by businesses with “top 10” market rankings

Top 10 Fixed Annuity provider

#1 in sales of FIAs through financial institutions



Great American Insurance Group **1** of only **5** companies rated **“A” (Excellent)** or better by A.M. Best for **100+ years**



We provide financial solutions that fulfill today's needs and tomorrow's dreams; a trusted partner in delivering long-term value to our customers, employees and investors.

Specialty P&C Insurance

Property & Transportation



- Inland and Ocean Marine
- Agricultural-Related
- Aviation
- Commercial Automobile (buses, trucks)

Specialty Casualty



- Executive and Professional Liability
- Umbrella and Excess Liability
- Excess and Surplus
- General Liability
- M&A Liability
- Targeted Programs
- Workers' Compensation

Specialty Financial



- Fidelity / Crime
- Surety
- Lease and Loan Services
- Financial Institution Services

Annuity



- Fixed & Fixed-Indexed, Variable Indexed Annuities
- Sold in retail, financial institutions, Registered Investment Advisor and education markets

\$48.5 Billion Investment Portfolio Managed In-House

Building Long-Term Value for AFG Shareholders



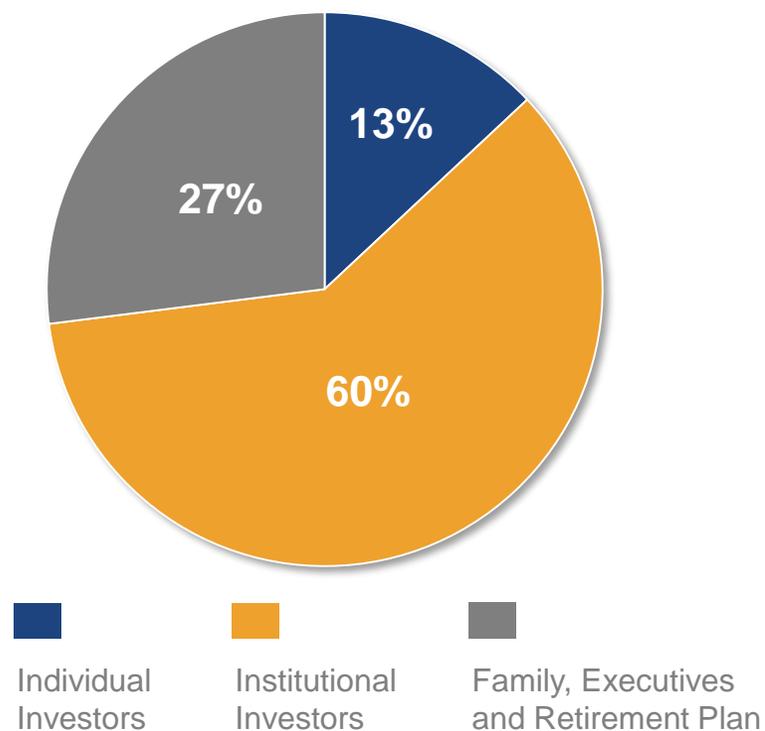
Culture • Entrepreneurial Business Model • Incentives

Our Corporate Values

		
Our Foundation	Our Priorities	Our Expectations
Specialization	Customer Focus	Integrity
Entrepreneurial Spirit	Clear & Open Communications	Self-Discipline
Accountability	Work / Family Balance	Respect for Others
<i>9,000 employees in 120 locations worldwide</i>		

Significant Insider Ownership

AFG Shareholder Base



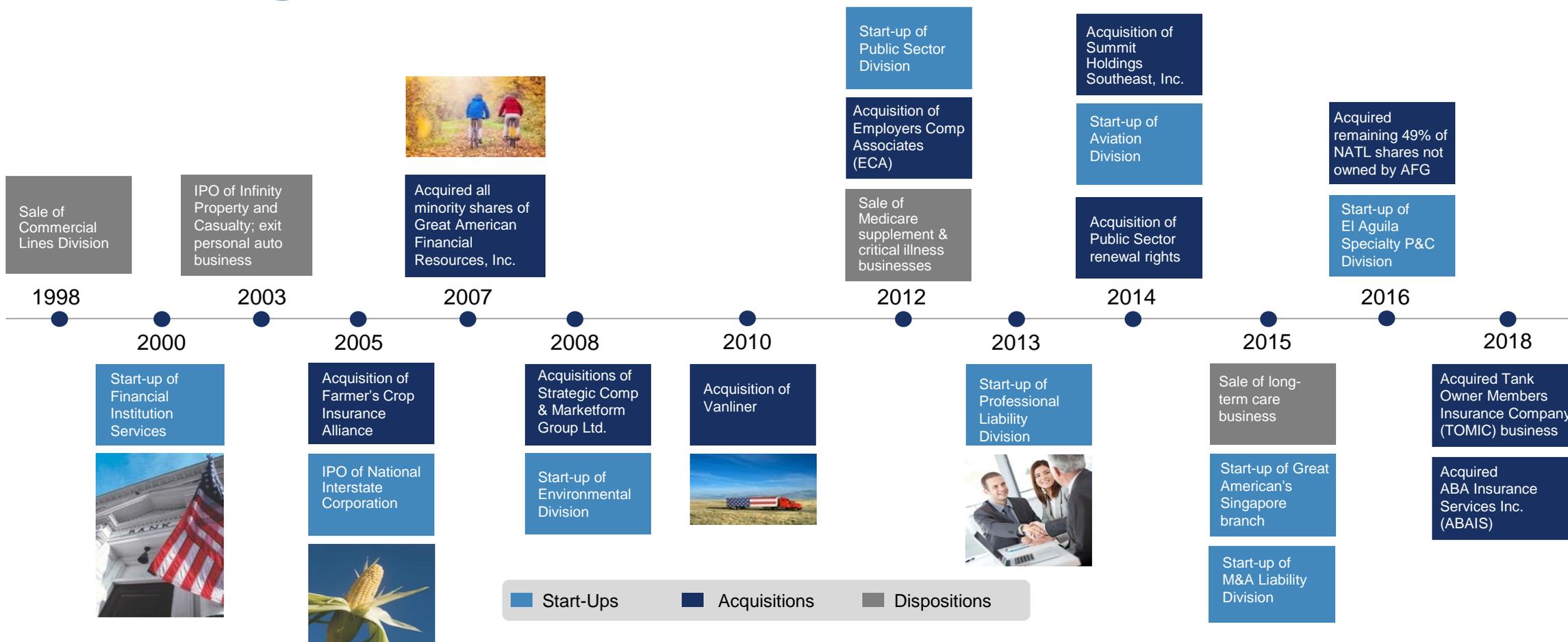
Significant ownership by management creates strong alignment of interests with shareholders over the long term

The Lindner Family formed AFG in 1959 and continue to be significant shareholders.

Ownership Details

- Co-CEOs / family = 23%
- Executives and Retirement Plan = 4%

Focusing on What We Know Best



Intelligent Use of Excess Capital

2018 Capital Management

- Returned \$403 million of capital to shareholders
- 14% increase in ordinary annual dividend
 - 13th consecutive annual dividend increase
 - five year CAGR in dividends ~12.5%
- Two special dividends in 2018
 - \$1.50 per share paid in May 2018
 - \$1.50 per share paid in November 2018
- \$6 million in share repurchases (\$93.38 per share average)
- Excess capital at 12/31/2018 – \$690 million
- 3.0 million shares remaining in repurchase authorization as of 12/31/2018

Capital Returned to Shareholders Five Years Ended 12/31/2018 (in millions)

Dividends Paid	\$ 1,352
Repurchases	<u>456</u>
Total	<u>\$ 1,808</u>



\$1.8 Billion Returned to Shareholders

Shareholder Return

As of December 31, 2018

	<u>5 Years</u>	<u>10 Years</u>
AFG	88%	436%
S&P 500 Property & Casualty Insurance Index	71%	247%
S&P 500 Life & Health Insurance Index	10%	137%
S&P Midcap Insurance	80%	260%
S&P 500	50%	243%

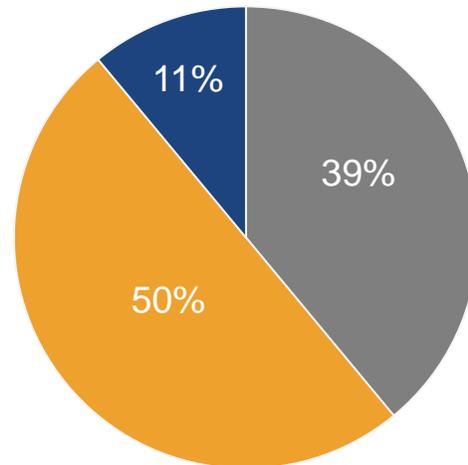
Cumulative price appreciation plus dividends.

Source: Bloomberg

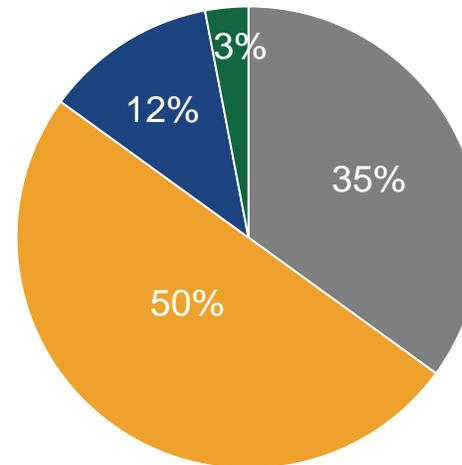
Specialty Property & Casualty Premium

Low correlation • Lower relative coastal exposure

**Gross Written Premiums
Full Year 2018
\$6.8 Billion**



**Net Written Premiums
Full Year 2018
\$5.0 Billion**

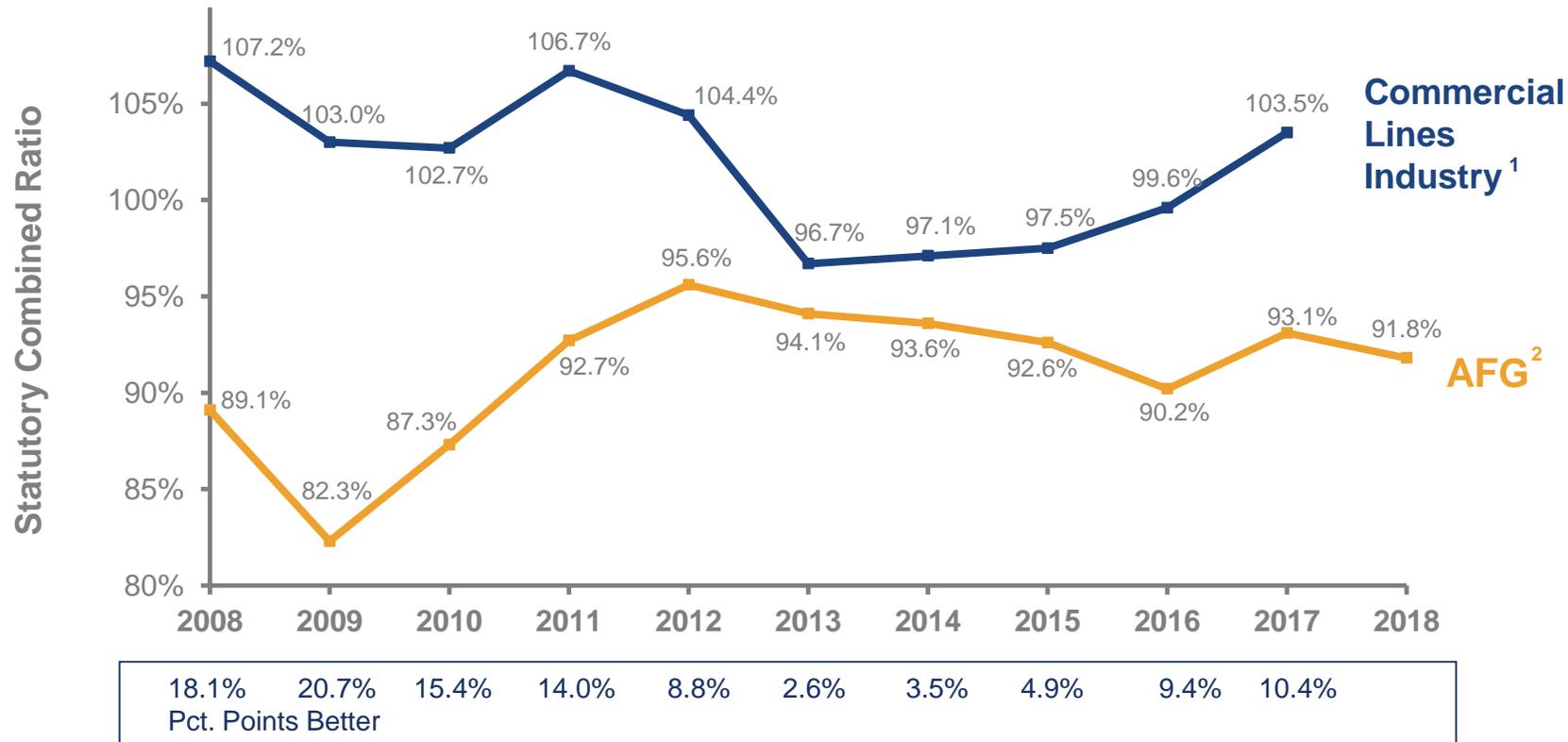


- Property & Transportation
- Specialty Casualty
- Specialty Financial
- Other¹

Approximately 55% of P&C Group GWP produced by businesses with “Top 10” market rankings including:
Crop • Equine • Executive Liability • Fidelity/Crime • Financial Institution Services • FL Workers Comp •
Non-Profit/Social Services • Passenger Transportation • Surety • Trade Credit • Trucking

¹ Includes an internal reinsurance facility

Superior Underwriting Talent



10.8%
Points
Better
Over 10
Years

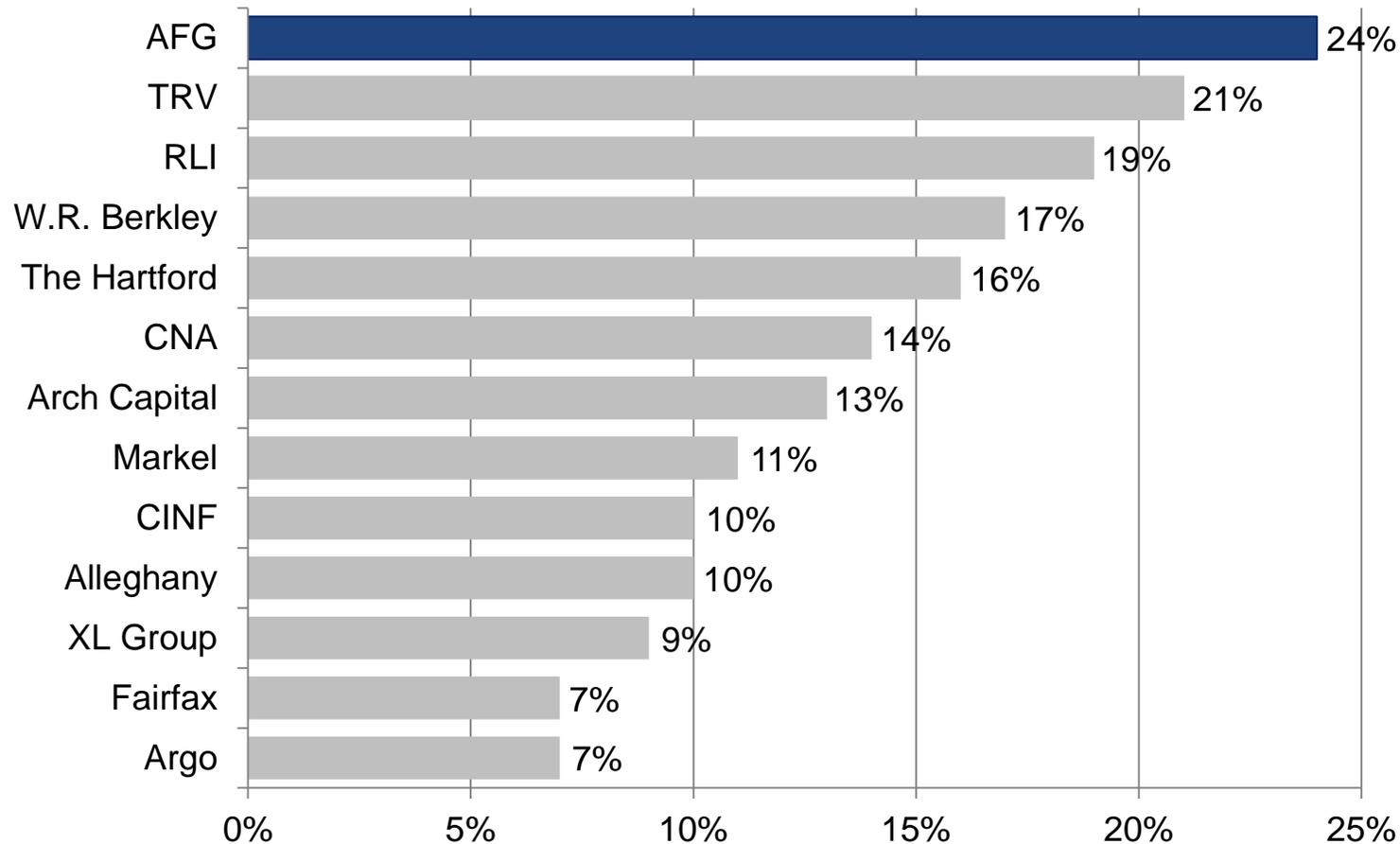
¹ Commercial Lines Industry based on data from A.M. Best's U.S. Property/Casualty Review & Preview – February 6, 2018.

² American Financial Group Form 10K filings.

Strong Alignment Creates Superior Underwriting Results

- Unique incentive programs for P&C Group based on underwriting profitability
- Annual awards
 - based on AY COR targets derived from ROE requirements
 - paid over 2-3 years
 - no rewards for volume unless COR targets are met
 - claw back feature
- Long Term Incentive Compensation (LTIC) Plan
 - five year measurement period based on AY COR targets derived from ROE requirements
 - paid out over the following 4-5 years
- Business executives are held accountable for COR performance, not investment performance
- Attract, retain and reward key operating executives & officers

Pretax Property & Casualty Returns 2008 - 2017

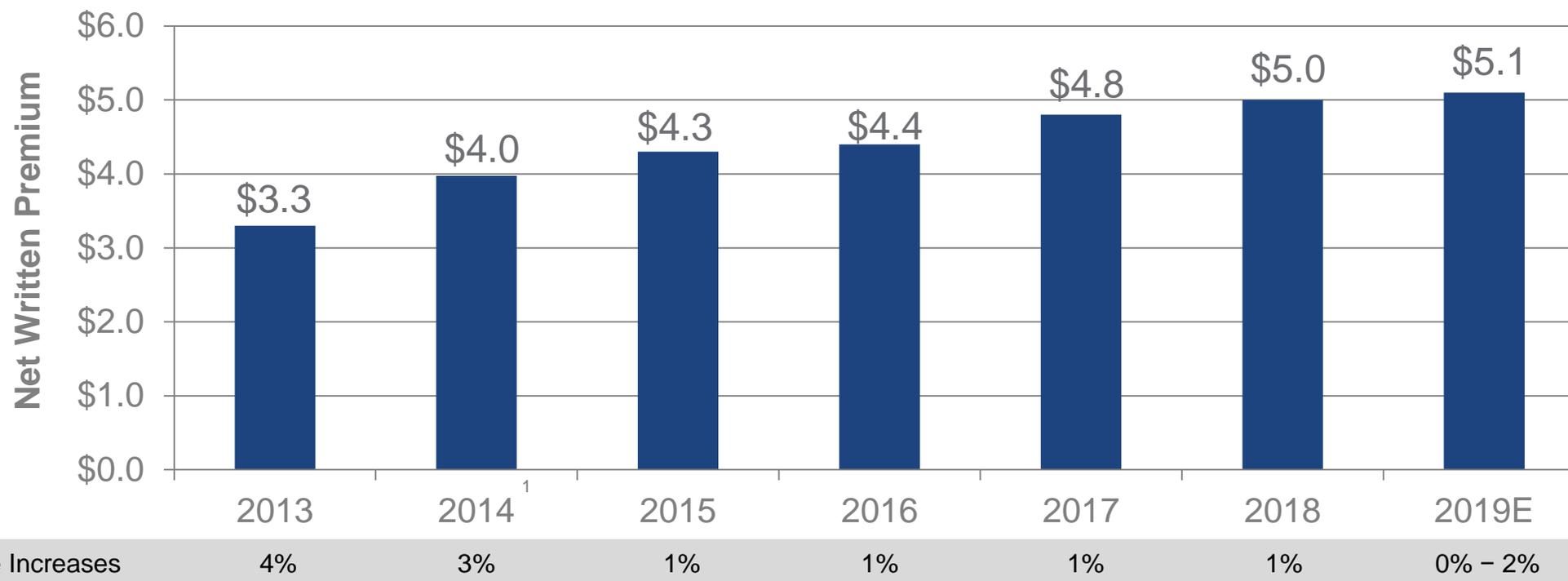


Source: Dowling & Partners

Specialty Property & Casualty Premium Growth

Dollars in billions

P&C Net Written Premium and Renewal Rates



¹ Includes Summit premiums for nine months.

Annuity Segment Overview



Channel	Market Rank	Distribution	Product Focus	2017 Premiums
Financial Institutions	#1 FIAs #5 in Total Fixed and FIAs	~35 Financial Institutions; ~ 4,000 agents – Direct through Financial Institutions – Independent Agents and Brokers	<ul style="list-style-type: none"> • Fixed Annuities • Fixed-Indexed Annuities 	\$2.3B
Retail (Independent Producers)	#7 FIAs #7 in Total Fixed and FIAs	Over 6,000 Retail Agents – Independent Marketing Organizations (IMOs) – Independent Broker Dealers – Registered Investment Advisors		\$3.1B
All Channels	# 4 FIAs Top Ten Total Fixed and FIAs			\$5.4B

- Focus on fixed and fixed-indexed annuities makes use of core competency in fixed income investing
- Simple, easy to understand products
- Lower up-front commissions and bonuses, shorter surrender charge periods
- Not a significant issuer of variable annuities.

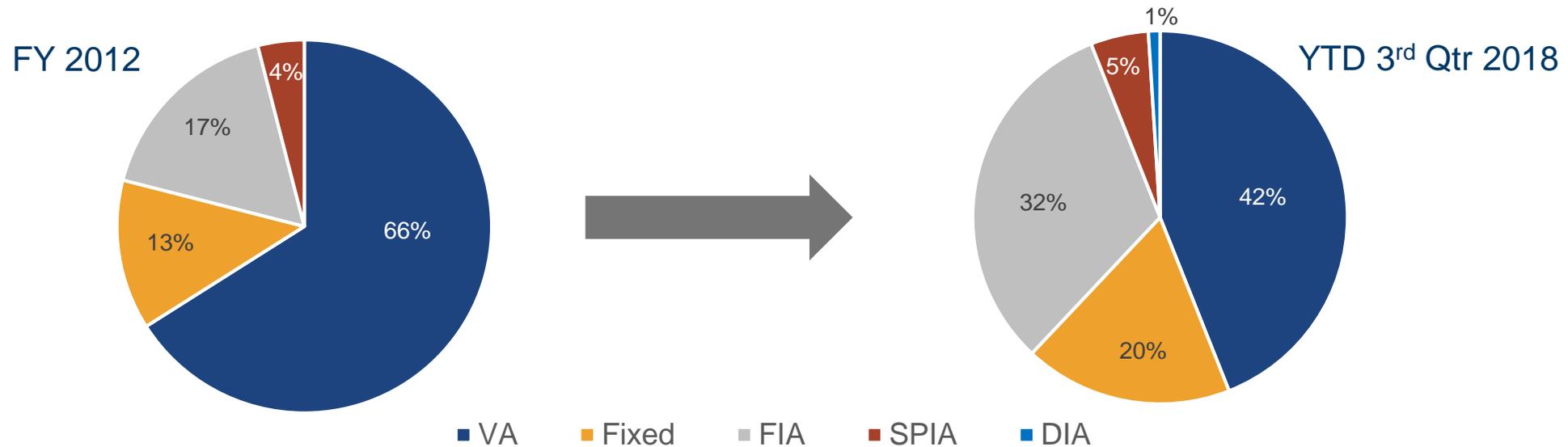
An Industry Leader

- Focus on fixed and fixed-indexed annuities
- Strong financial strength ratings and ALIRT score
- Long history in the industry and long-term agent relationships
- Consistent crediting rate strategy
- Reputation for simple, consumer-centric products
- Low cost structure

Market results through 9/30/18 as reported by LIMRA for deferred annuities.

Annuity Industry: Market Share by Product Line

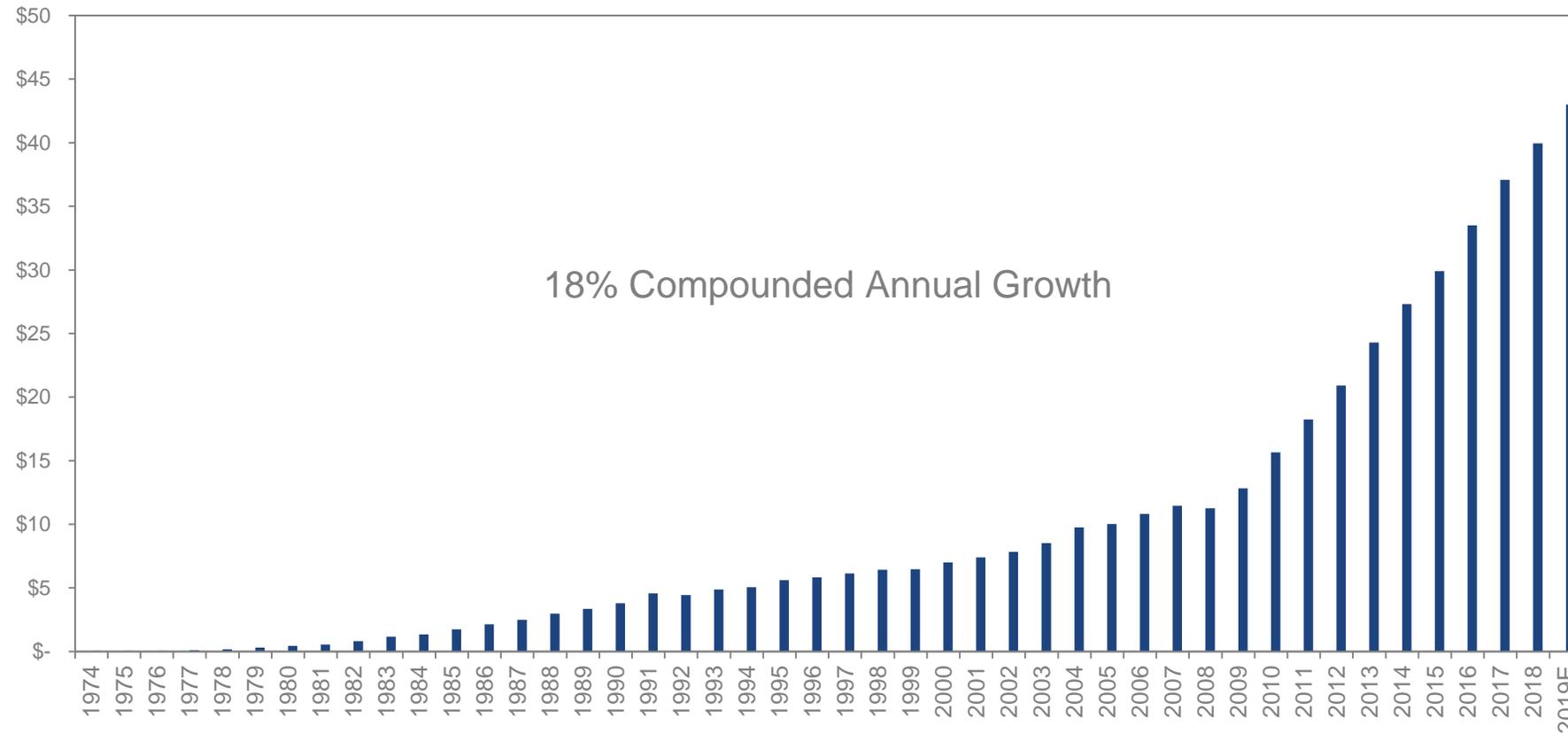
Shift from Variable Annuities to Traditional Fixed and Fixed-Indexed Annuities
Fixed-indexed annuity market share increased by more than 85%



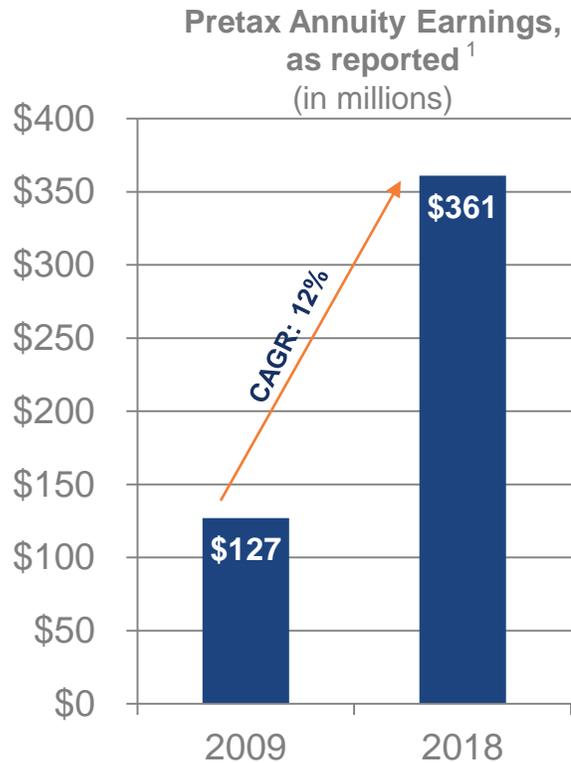
Market share for Bank, Independent B-D, Independent Agent, Full-Service BD, and Career Agent Channels only; Source: LIMRA

Growth in Annuity Segment Assets (GAAP)

Dollars in billions



Growth in Annuity Earnings, Premiums and Assets



Annuity Transformation

- Focus on core competency of fixed and fixed-indexed annuities; focus where we have critical mass and competitive advantage
- Significantly improved ROEs
 - appropriate pricing
 - expense discipline
- Ratings
 - no downgrades during recession
 - upgrades by S&P and Moody's since recession

¹ After the impact of fair value accounting for FIAs and unlocking.

Protection From Changes in Interest Rates

As of December 31, 2018

Protection From Rising Interest Rates

- 87% of inforce annuities have some surrender penalty
 - 57% of annuity reserves have a surrender charge of 5% or higher
 - including 8% of these annuity reserves are two-tier in nature, with an average surrender charge of 14%
- Other product features that should encourage persistency or discourage lapses
 - 18% with 3%+ GMIR
 - 24% with an MVA or Longevity Rider
 - over 45% of new sales electing some form of trail or multi-year commission when available
- Asset duration shorter than liability duration by 0.53 (4.91 vs. 5.44)
- Unrealized gain in bond portfolio of \$0.1 billion (100% of book value)

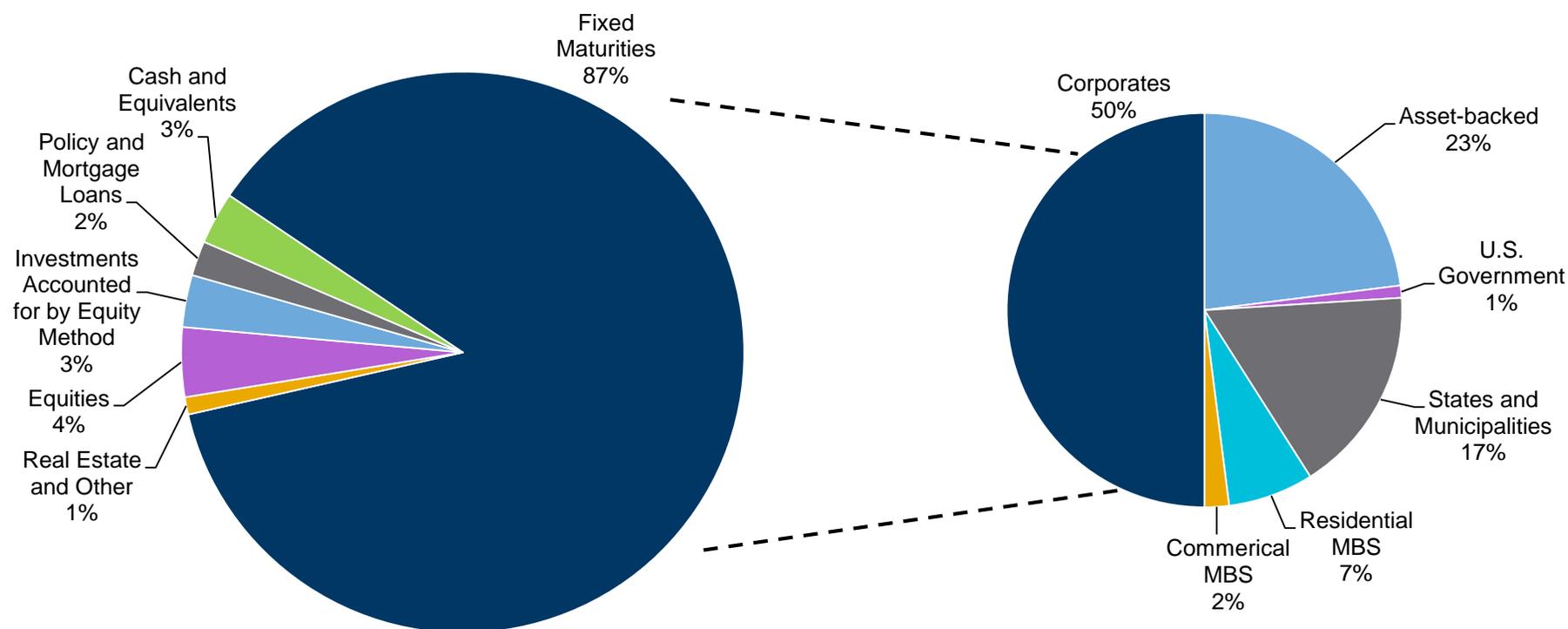
Protection From Falling Interest Rate Environment

- Ability to lower crediting rates by 119 bps on \$28 billion of reserves (excludes immediate annuities and FIAs with riders)
- Produces extra \$331 million of pretax income
- Low upfront costs to recover (lower commissions than competitors, low or no bonuses)

AFG Investment Portfolio

As of December 31, 2018

Fixed Maturities Portfolio – 91% investment grade; 98% NAIC 1 & 2



Carrying Value – \$48.5 Billion

Investment Portfolio Information and Outperformance

	Property & Casualty	Annuity
Approximate Average Duration – Fixed Maturities as of December 31, 2018	3.5 years	4.5 years
Annualized yield on available for sale fixed maturities		
Quarter ended 12/31/18:		
• Net of investment expenses ^(a)	3.81%	4.55%
• Tax equivalent, net of investment expenses ^(b)	3.99%	4.55%

^(a) Annualized yield is calculated by dividing investment income for the quarter by the average cost over the quarter. Average cost is the average of the beginning and ending quarter asset balances.

^(b) Adjusts the yield on tax-exempt bonds to the fully taxable equivalent yield.

Fixed Income Annualized Total Return 10 Years Ended 12/31/17¹

AFG	6.4%
Benchmark: Blended Insurance Industry ²	<u>5.5%</u>
Outperformance	<u><u>0.9%</u></u>

≈ \$2 Billion Total Return Outperformance

¹ 2008-2017 time period captures the beginning of the global financial crisis.

² Source: SNL. Blended Insurance Industry returns reflect actual Life & Annuity and Property & Casualty industry returns weighted by AFG's Annuity and P&C Groups' relative assets.

2019 Outlook – AFG

AFG Core Earnings Guidance \$8.35 – \$8.85 per share

	<u>NWP Growth</u>	<u>Combined Ratio</u>
Specialty P&C Group Overall	0% – 3%	92% – 94%
<u>Business Groups:</u>		
Property & Transportation	3% – 7%	92% – 96%
Specialty Casualty	(2%) – 2%	91% – 95%
Specialty Financial	3% – 7%	86% – 90%

P&C investment income 0% to 4% higher than 2018

P&C average renewal rates flat to up 2%

Annuity Segment:

- Pretax Annuity earnings (before fair value accounting for FIAs and unlocking) \$435 million to \$465 million
- Pretax Annuity earnings, as reported, \$365 million to \$425 million
- Annuity premiums down slightly from the \$5.4 billion reported in 2018

APPENDIX

Financial Highlights

Dollars in millions, except per share amounts

	Twelve Months Ended December 31,	
	<u>2018</u>	<u>2017</u>
• Results of Operations:		
– Core net operating earnings	\$ 761	\$ 588
– Core net operating earnings per share	\$ 8.40	\$ 6.55
– Average number of diluted shares	90.6	89.8
	Dec. 31,	Dec. 31,
	<u>2018</u>	<u>2017</u>
• Book Value per Share:		
– Excluding unrealized gains (losses) related to fixed maturities	\$ 54.86	\$ 53.51
– Tangible, excluding unrealized gains (losses) related to fixed maturities	\$ 51.93	\$ 50.95
• Capital Adequacy, Financial Condition and Liquidity:		
– Maintained capital at levels that support operations; in excess of amounts required for rating levels		
– Excess capital of approximately \$690 million at December 31, 2018, including parent cash of approximately \$160 million		

Specialty Property & Casualty Businesses

Dollars in millions

	Net Written Premiums			
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u> ¹
Specialty Property & Transportation	\$ 1,672	\$ 1,765	\$ 1,754	3% – 7%
Specialty Casualty	\$ 2,036	\$ 2,280	\$ 2,509	(2%) – 2%
Specialty Financial	\$ 572	\$ 596	\$ 602	3% – 7%
Other Specialty	<u>\$ 106</u>	<u>\$ 110</u>	<u>\$ 158</u>	n/a
Total Specialty	<u>\$ 4,386</u>	<u>\$ 4,751</u>	<u>\$ 5,023</u>	0% – 3%

¹ 2019E based on guidance issued January 31, 2019.

Specialty Property & Casualty Businesses

	GAAP Combined Ratio			
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u> ¹
Specialty Property & Transportation	90.0%	91.0%	93.1%	92% – 96%
Specialty Casualty	96.1%	95.2%	94.2%	91% – 95%
Specialty Financial	84.9%	89.4%	88.9%	86% – 90%
Other Specialty	91.4%	102.7%	103.7%	n/a
Total Specialty	92.3%	93.1%	93.4%	92% – 94%

¹ 2019E based on guidance issued January 31, 2019.

Annuity Segment

Dollars in millions, unless otherwise noted

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>
Annuity Premiums	\$ 4,435	\$ 4,341	\$ 5,407	down slightly
Average Fixed Annuity Investments	\$ 28,223	\$ 31,250	\$ 34,471	+ 8% to 10%
Average Fixed Annuity Reserves	\$ 28,146	\$ 31,526	\$ 34,706	+ 8% to 10%
<hr/>				
Pretax Annuity Earnings (before fair value accounting for FIAs and unlocking)	\$ 394	\$ 416	\$ 425	\$435 to \$465 million
Pretax Annuity Earnings, as Reported ¹	\$ 368	\$ 380	\$ 361	\$365 to \$425 million
Net Spread Earned (before fair value accounting for FIAs and unlocking)	1.39%	1.34%	1.26%	1.15% to 1.25%
Net Spread Earned ¹	1.29%	1.23%	1.07%	0.95% to 1.15%

¹ After the impact of fair value accounting for FIAs and unlocking.

Annuity Segment – 2019 Guidance and “Rules of Thumb”

Dollars in millions

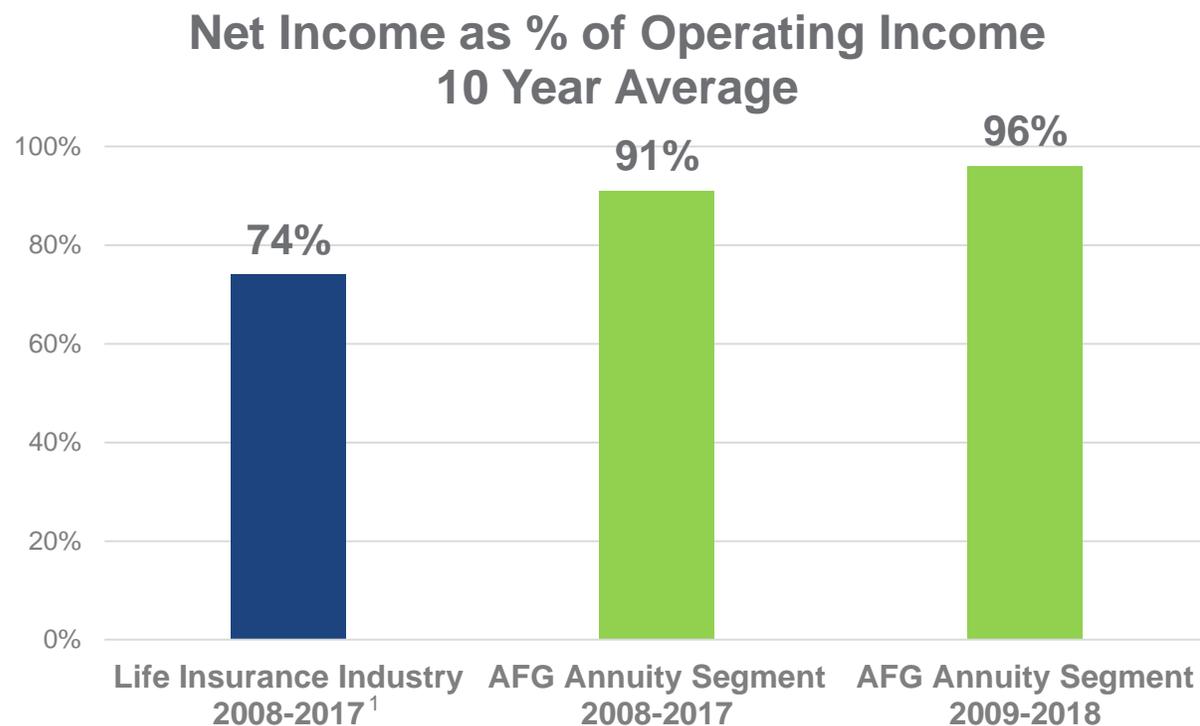
		Midpoint of Guidance ^{1, 3}	Annuity Earnings Sensitivities (Based on Guidance)		
			Incremental +/- 1% change in S&P 500 ^{1, 3}	Incremental +/- 10 bps change Corporate A2 Rates ³	Incremental +/- 1% yield on Certain Investments ^{1, 2}
Pretax Annuity Earnings (before fair value accounting for FIAs) ¹	\$ 435 to \$ 465	\$ 450	~+/- \$1mm to \$2mm		~+/- \$10mm
Implied Fair Value Accounting Impact ³	<u>(70)</u> to <u>(40)</u>	<u>(55)</u>	~+/- \$2mm	~+/- \$7mm	
Pretax Annuity Earnings, as reported	<u>\$ 365</u> to <u>\$ 425</u>	<u>\$ 395</u>			

¹ 2019 Guidance assumptions related to Pretax Annuity Earnings (Before Impact of Fair Value Accounting for FIAs):
- 2019 Guidance assumes 7% increase in stock market (see additional information on page 13 of AFG’s Investor Supplement)
- 2019 Guidance assumes 8% to 9% yield on partnerships, private equities and marked-to-market investments (see additional information on page 26 of AFG’s Investor Supplement)

² Certain investments include partnerships, private equities, marked-to-market investments

³ Guidance assumptions related to the impact of Fair Value Accounting for FIAs:
- 2019 Guidance assumes 7% increase in stock market
- 2019 Guidance assumes 15 to 25 bps increase in 5/15 Year Corporate A2 Rates
- see additional information on page 14 of AFG’s Investor Supplement

Annuity Segment – Net Earnings vs. After-tax Operating Earnings



AFG's Annuity Segment Net Earnings have nearly equaled Annuity Operating Earnings from 2009 through 2018.

These results are in contrast to the industry, where Net Earnings have been significantly lower than Operating Earnings.

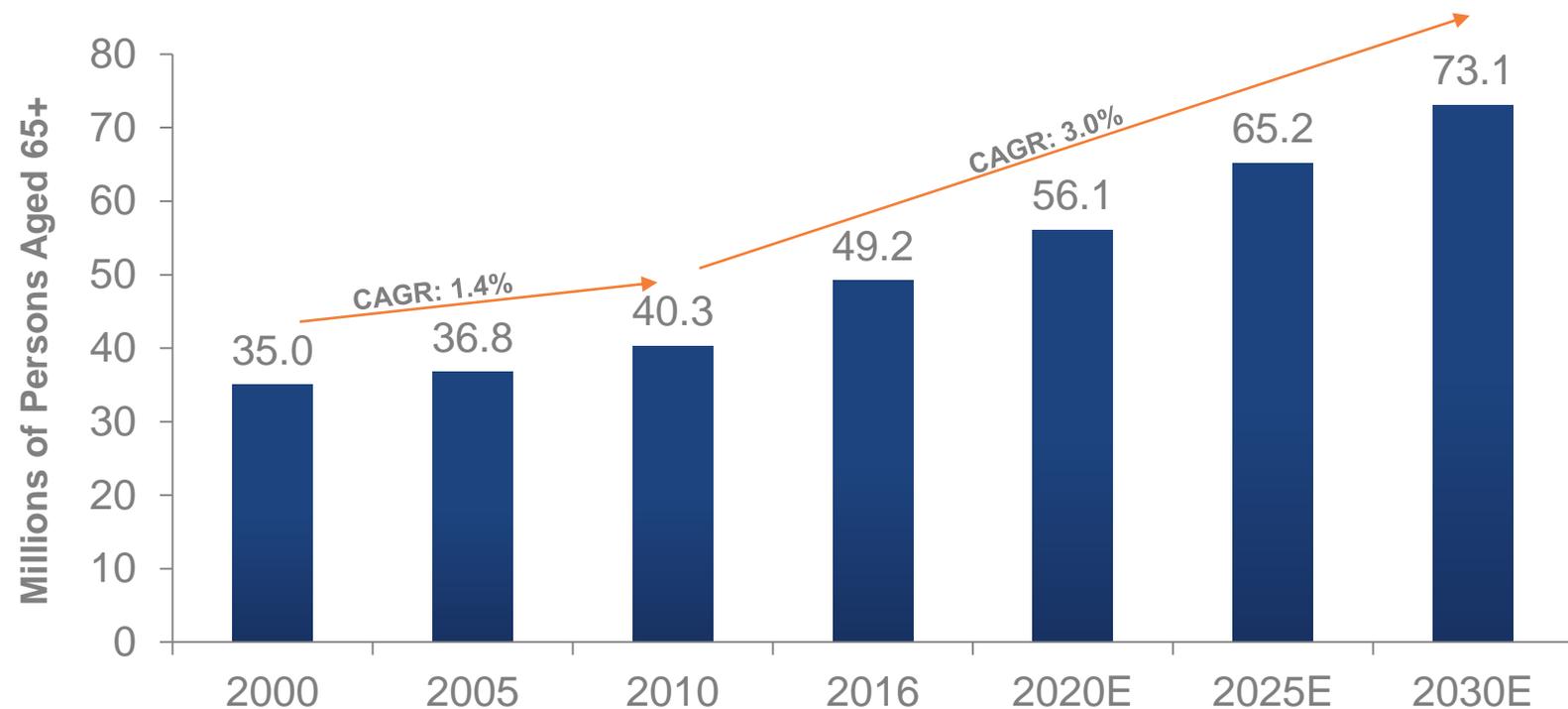
¹ JP Morgan "Life Insurance Earnings Quality" – May 2018.

Snapshot of Current AFG Annuity Segment Sales

- Target market = middle and mass affluent baby boomers (not high wealth clients)
- Average single premium policy size ~\$100,000
- Approximately 85% of 2018 sales were FIA
- About 50% of 2018 sales were qualified / IRA
- Only 6% of sales have living benefit riders
- Almost 50% of sales have some form of "non-heaped" commissions
- Each product is priced to its own risk-adjusted return target, 12% in aggregate

U.S. Growth in Persons Aged 65+

Population in millions



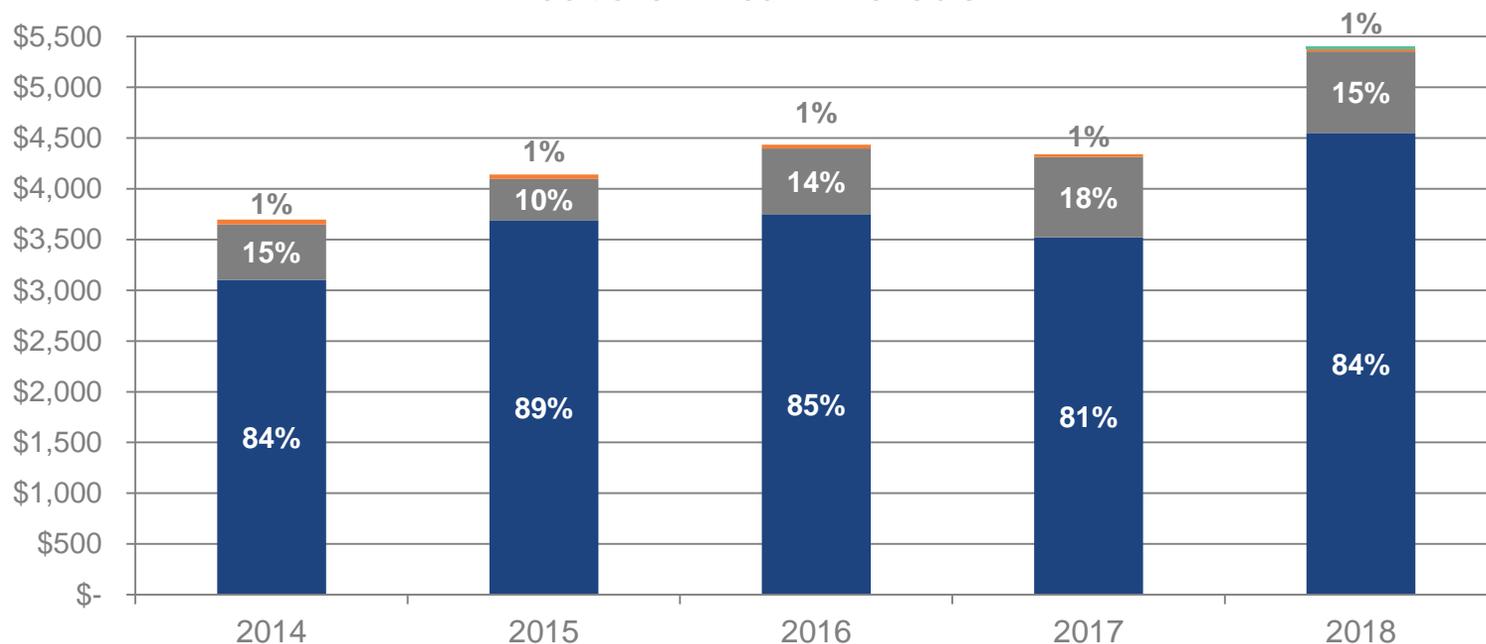
Source: U.S. Census Bureau, Population Division.

Annuity Product Snapshot

Dollars in millions

Premiums by Product Line

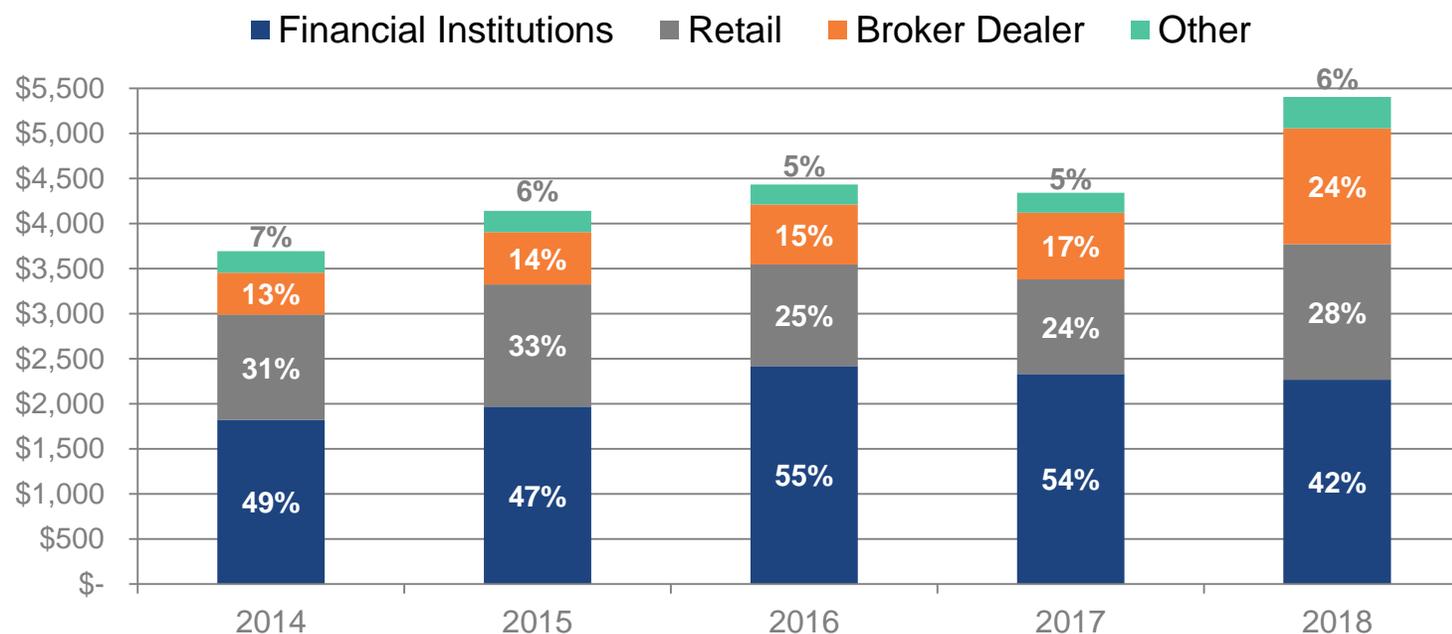
■ FIA ■ Traditional Fixed ■ Variable ■ VIA



Annuity Product Snapshot (continued)

Dollars in millions

Premiums by Distribution Channel



Annuity Product Snapshot (continued)

Dollars in millions

Premiums by Tax Qualification Type

