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AFG - Q4 2016 American Financial Group Inc Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the American Financial Group Q4 2016 earnings conference call.

(Operator Instructions)

I would now like to introduce your host for this conference call, Ms. Diane Weidner, Assistant Vice President Investor Relations. You may begin.

Diane Weidner - *American Financial Group - Assistant VP of IR*

Good morning, and welcome to American Financial Group's fourth quarter 2016 earnings results conference call. I am joined this morning by Carl Lindner III and Craig Lindner, co-CEOs of American Financial Group; and Jeff Consolino, AFG's EVP and Chief Financial Officer.

Our press release, investor supplement and webcast presentation are posted on AFG's website. These materials will be referenced during portions of the call. Before I turn the discussion over to Carl, I would like to draw your attention to the notes on slide 2 of our webcast. Certain statements made during this call may be considered forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995.

These statements are not guarantees of future performance. Investors should consider the risks and uncertainties that could cause actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or responses to questions. A reconciliation of our net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

If you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. Thus, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl Lindner - *American Financial Group - Co-CEO*

Good morning. We released our 2016 fourth quarter and full-year results yesterday afternoon.

Please turn to slide 3 of the webcast slides for an overview. AFG's fourth-quarter and full-year results established new records for earnings. Strong operating profitability in both the property and casualty and annuity segments of our business, superior investment performance and effective capital management have enabled us to achieve five-year compounded growth and adjusted book value plus dividends of 10%.

Returning capital to our shareholders is an important component of our capital management strategy, and reflects our strong financial position and our confidence in AFG's financial future. We paid $187 million in dividends during the year, representing $100 million in regular common stock dividends, and an $87 million special dividend paid in December of 2016.

Our quarterly dividend was increased by 12% to an annual rate of $1.25 per share beginning in October of last year. We repurchased $133 million of AFG's common shares during 2016 at an average price per share of $69.47. And as we previously announced, we completed our merger with National Interstate in November, which put approximately $320 million in excess capital to work.

AFG's five-year total annualized shareholder return representing growth in share price plus dividends was approximately 23%, exceeding the total return performance of the S&P 500, S&P Property and Casualty Index, and the S&P Life and Health Index over the same time period.

Turning to slide 4, we are pleased to report fourth quarter core earnings per share of $1.98 per share, a new quarterly record for AFG. These results include strong profitability in our property and casualty operations and record earnings in our annuity segment. Fourth quarter annualized core operating return on equity was 15.7% for 2016 compared to 12.7% in 2015.

Net earnings per diluted share were $4.33 and include $2.35 per share in non-core tax benefits and realized gains on securities. Craig and I thank God, our talented management team and our great employees for helping to achieve these results.

We have established our 2017 core operating earnings guidance for AFG in the range of $6.20 to $6.70 per share. Craig and I will each discuss our guidance for each segment of our business later in the call. Our earnings guidance for 2017 assumes no change in the corporate tax rate of 35%. Granted, there is a lot of uncertainty around corporate tax reform; however, we agree that the current 35% corporate rate impedes the competitiveness of US companies and has created disincentives for insurers to locate their operations in the United States.

While we are certainly in favor of a lower corporate tax rate, we also support the general concept of border adjustments to help level the playing field. Who knows, perhaps some of the changes under consideration by the GOP and the Trump Administration will lead to a rebirth of the reinsurance industry in this country.

Before we take a closer look at AFG's results this quarter, I would like to take a moment to recognize our friend and colleague Don Larson who will retire in March after 43 years with the Company. Don held the position of President and Chief Operating Officer of Great American's property and casualty group for the past seven years. Though for the last 20 years as my partner he has played an important role in our property and casualty group's success and has helped us shape our culture.

We also extend our congratulations to Gary Gruber, a 40 year AFG vet, who succeeds Don in the role of President and COO.

Now please turn with me to slides 5 and 6 of the webcast, which include an overview of results in our specialty property and casualty operations. Beginning on slide 5, you will see that gross and net written premiums increased 6% and 3% respectively in the 2016 fourth quarter compared to the same quarter a year earlier. Fourth quarter underwriting profit was up 10% year over year. Higher underwriting profitability in our property and transportation and specialty financial groups was partially offset by lower underwriting profitability in our specialty casualty group.

A fourth quarter 2016 combined ratio of 90.4% improved 6/10 of a point from the 2015 fourth quarter and included 9/10 of a point of adverse prior year reserve development and 1.1 points in catastrophe losses. Overall, renewal pricing in our specialty property and casualty group was up approximately 1% during the fourth quarter, consistent with the previous quarter. Pricing was flat overall for the whole year of 2016.

Now I'd like to turn to slide 6 to review a few highlights from each of our specialty property and casualty groups. Our property and transportation group reported fourth quarter underwriting profitability of $75 million compared to $34 million in the prior-year period. Favorable growing conditions and relatively stable commodity pricing contributed to higher underwriting profitability in our crop insurance business, which was the driver of the improved results in this group. Catastrophe losses were $6 million in the fourth quarter of 2016, and $3 million in the comparable 2015 period.

Fourth quarter gross and net written premiums in this group were 12% and 4% higher respectively than the comparable prior year period. The increase was primarily due to higher crop insurance premiums in rainfall products, a large majority of which was ceded to the Federal Crop Insurance program. If you exclude crop, fourth quarter 2016 gross and net written premiums in this group were virtually unchanged from the prior-year period.

I'm especially pleased that our property and transportation group ended the year with strong underwriting results and returns on equity driven by excellent results in our crop and inland marine operations, as well as higher profitability in our transportation businesses.

Overall, renewal rates increased 2% in the fourth quarter of 2016, including a 4% increase in National Interstate's renewal rates. The average renewal rate increase for this group during the whole year of 2016 was approximately 3%.

Now the combined ratio in our specialty casualty group was 97.4% for the fourth quarter of last year compared to 90.2% in the prior-year period. Underwriting losses in one of our excess and surplus lines businesses primarily related to coverage written for New York contractors, and lower profitability in our targeted markets operations were the primary reasons for the lower underwriting profit year-over-year. In addition, catastrophe losses for this group were $4 million in the fourth quarter and $1 million in the comparable 2015 period.

I'm especially pleased with this strong profitability reported by our workers' compensation businesses for the fourth quarter and the full-year. Gross and net written premiums increased 3% and 1% respectively for the fourth quarter of 2016 when compared to the same prior-year period.

Higher premiums in our targeted markets and executive liability businesses were partially offset by lower premiums in our excess and surplus lines operations, primarily the result of tougher underwriting standards related to the New York contractors business, as well as lower premiums within our workers' compensation businesses. Net written premiums were also impacted by higher ceded premiums within Neon.

Renewal pricing for this group was flat during the fourth quarter and included a decrease of approximately 2% in our workers compensation businesses. Excluding comp, renewal pricing in this group was approximately up 1% for the quarter and also for the full year.

Underwriting profit in our specialty financial group was $20 million in the fourth quarter of 2016 compared to $15 million in the fourth quarter of 2015. All businesses in this group reported higher year-over-year underwriting profit in the fourth quarter and continued to achieve excellent underwriting margins during 2016. Catastrophe losses for this group were $2 million in the fourth quarter of 2016 and $5 million in the comparable prior-year period.

Gross and net written premiums both increased by 1% in the fourth quarter when compared to the same period in 2015. Renewal pricing in this group decreased about 1% on average for the fourth quarter and all of the year of 2016.

Now please turn to slide 7 for a summary view of our 2017 outlook for the specialty property and casualty operations. Despite competitive conditions we are optimistic as we start this year. We expect a combined ratio between 92% and 94%, and growth in net written premiums in the range of 2% to 6% for the property and casualty specialty group overall.

Taking a look at each subsegment, we estimate a combined ratio in the range of 91% to 95% in our property and transportation group, and expect net written premiums to be flat to up 3%. Our specialty casualty group is expected to produce a combined ratio in the range of 94% to 96%. Growth in net written premiums in this group is estimated to be in the range of 5% to 9%.

We estimate a combined ratio in our specialty financial group in the range of 84% to 88% with net written premiums are expected to be flat to up 4%. We expect overall property and casualty renewal pricing to be flat to up 1%. Additionally, we expect our property and casualty investment income to grow by 4%. Details for each of our specialty property and casualty groups can be found on the slide.

I will now turn the discussion over to Craig to review the results in our annuity segment and AFG's investment performance.

Craig Lindner - *American Financial Group - Co-CEO*

Thank you, Carl. AFG's annuity segment had another record year achieving pretax operating earnings of $368 million and annuity premiums of $4.4 billion. In addition, as a result of its strong statutory results, the annuity segment continues to generate significant amounts of excess capital. I'm very pleased with these results which illustrate our investment skills, discipline product pricing, and our focus on consumer friendly products.

I will start with a review of our annuity results for the fourth quarter beginning on slide 8. The annuity segment reported a record $132 million in pretax operating earnings in the 2016 fourth quarter, compared to $101 million in the fourth quarter of 2015, an increase of 31% year over year.

Under fair value accounting, variances from expectations of certain items such as projected interest rates, hedge costs and surrenders, as well as changes in the stock market, have an impact on the accounting for fixed indexed annuities. Although these accounting adjustments have been recognized through AFG's reported core earnings, many of these adjustments are not economic in nature, but rather impact the timing of reported results.

In the fourth quarter of 2016, a significant increase in interest rates, as well as an increase in the stock market, resulted in a large favorable impact on annuity earnings. This compares to a relatively small favorable impact on annuity earnings in the fourth quarter of 2015, primarily the result of the increase in the stock market.

Annuity earnings before the impact of fair value accounting were $103 million in the fourth quarter of 2016, compared to $96 million in the fourth quarter of 2015, an increase of 7%. We continue to achieve appropriate returns on new business and the interest spread on our in-force business continues to exceed our plan by several basis points.

As you will see on slide 9, AFG's fourth quarter 2016 earnings continued to benefit from favorable investment results including the continued significant positive impact of certain investments required to be marked to market through earnings. In addition, AFG's quarterly average annuity investments and reserves grew by approximately 11% and 12% respectively year over year. The benefit of this growth was partially offset by the runoff of higher yielding investments.

In the fourth quarters of 2016 and 2015, AFG conducted detailed reviews or an unlocking of the major actuarial assumptions underlying it's annuity operations. The review resulted in a positive unlocking of $1 million in the fourth quarter of 2016. In the fourth quarter of 2015, the positive unlocking amount was $10 million. These unlocking amounts were included in our earnings before fair value accounting for fixed indexed annuities.

AFG's annuity segment reported statutory premiums of $1.1 billion in the fourth quarter of 2016, virtually unchanged from the fourth quarter of 2015. Additional information can also be found at AFG's quarterly investor supplement posted on our website.

Please turn to slide 10 for a summary of the 2017 outlook on the annuity segment. We expect 2017 earnings before fair value accounting for fixed indexed annuities to be in the range of $375 million to $395 million. Our assumptions include modest increases in interest rates and the stock market and a more normalized run rate of investment income going forward as compared to the unusually high amount achieved in the second, third and fourth quarter of 2016.

We're assuming no impact from fair value accounting for FIAs, and therefore, we believe that the full year 2017 pretax annuity operating earnings will be in the range of $375 million to $395 million, an increase from the $368 million reported in 2016.

Large changes in interest rates and/or the stock market as compared to our expectations could lead to additional positive or negative impacts on the annuity segment's results. We expect that premiums for the full year of 2017 will be flat to down 10% from the $4.4 billion sold in 2016. The Company continues to implement product and process changes needed to comply with the Department of Labor fiduciary rule and is proceeding under the premise that the DOL rule becomes effective in April of 2017 in its current form. The 2017 premium projection I just mentioned reflects this premise as well.

There is considerable discussion surrounding the possibility of a delay or other action impacting the rule. In addition, there remains pending litigation seeking to invalidate the rule. However, until there is some definitive action impacting the rule, the Company intends to continue to pursue necessary changes. Assuming the rule is effective in April of 2017, AFG believes the biggest impact will be on insurance-only licensed agents whose sales represented less than 10% of our fourth quarter premiums.

While AFG management continues to believe the adjustments required of the Company and its distribution partners to comply with the rule will impact 2017 premiums, we do not believe the new rule will have a material impact on AFG's results of operations. We believe that our business model, which we adopted many years ago, positions us well in a changing regulatory environment.

Please turn to slide 12 for a few highlights regarding our $41 billion investment portfolio. AFG recorded fourth quarter 2016 net realized gains on securities of $32 million after tax and after deferred acquisition costs, compared to a net realized loss of $14 million in the comparable prior-year period. As of December of 2016, unrealized gains on fixed maturities were $306 million after tax and after DAC, and unrealized gains on equities were $98 million after tax.

As you will see on slide 13, our portfolio continues to be high-quality, with 89% of our fixed maturity portfolio rated investment grade and 97% with an NAIC designation of one or two, its highest two categories. We have provided additional detailed information on the various segments of our investment portfolio in the quarterly investor supplement on our website.

I will now turn the discussion over to Jeff who will wrap up our comments with an overview of our consolidated fourth quarter 2016 results, and share a few comments about capital and liquidity.

Jeff Consolino - *American Financial Group - EVP, CFO*

Thank you, Craig. Slide 14 recaps AFG's fourth quarter consolidated results by segment. Core net operating earnings per share in the quarter were $1.98. The $1.98 is based on core net operating earnings in the quarter of $176 million. You'll be able to see a more detailed view of the components on page 4 of our quarterly investor supplement.

The reconciliation of AFG's core net operating earnings to net earnings is detailed on slide 15. Net earnings attributable to shareholders were $385 million or $4.33 per share in the quarter. Net earnings for the quarter include several non-core items, including $32 million or $0.36 per share for after-tax realized gains on securities, and $66 million or $0.74 per share for the previously disclosed tax benefit related to the National Interstate merger.

We also recorded $111 million, or $1.25 per share, related to a tax benefit associated with the restructuring of our investment in Neon, our Lloyd's syndicate. The restructuring allows us to recapture a portion of our investment covering previous losses reported by the business.

As indicated on slide 16, AFG's adjusted book value per share was $53.11 as of December 31, 2016. Adjusted tangible book value per share was $50.43. Our capital adequacy, financial condition and liquidity remains strong. We maintain sufficient capital in our insurance businesses to meet our commitments to the rating agencies. Our excess capital stood at approximately $950 million at December 31, 2016.

We returned $123 million to our shareholders through dividends and share repurchases during the quarter. Approximately 4.1 million shares remain under our repurchase authorization as of February 1, 2017. As a reminder, we plan to hold approximately $200 million to $300 million as dry powder to maintain flexibility for opportunities that may arise. We plan to continue returning excess capital to our shareholders through the course of 2017 and review all opportunities for deployment of capital on a regular basis.

Turning to slide 17, you will find a single page summary of our 2017 core earnings guidance. As a reminder, AFG's expected 2017 core operating results exclude non-core items such as realized investment gains and losses and other significant items. It may not be indicative of ongoing operations.

Now we would like to open the line for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Amit Kumar, Macquarie.

Amit Kumar - *Macquarie Research Equities - Analyst*

Just a few questions to start off with and then I will requeue. Maybe I'll start with the Great American piece, the annuity piece. Can you remind us what percent of your equity indexed annuities is under surrender protection?

Craig Lindner - *American Financial Group - Co-CEO*

Let me get that information here, Amit. So here is how we look at surrender protection. Basically, the surrender protection we have is -- I think you really do need to look at more than just the numbers that -- of the percentage of the business that has surrender charges on it.

Here's how we look at that. First of all, we think that our business model with lower upfront commissions and lower bonuses has allowed us to maintain crediting rates for a much longer period of time, and the fact that our existing crediting rates are higher than many of our peers and we think that that bodes well in a rising interest rate environment and will help the persistency.

We have about 22% of the total annuities that have a GMIR of 3% or higher, which we think gives really good surrender protection in a rising interest rate environment given that the current GMIRs on new products is 1% on most products. We have 6% of the annuities that have MVAs. We have 18% that were sold with riders, so in the event that they would surrender early, we would keep all of the rider fees and they would get no benefits.

We have 51% that is inside of a surrender charge period. And so that leaves about 3% of the business that is outside of the surrender charge period and without any other protections, so we actually feel pretty good. We think that we are very well positioned for -- our preference would be a modest rise in rates, kind of a gradual increase in rates, but we think we're actually very well positioned.

To give you an exact answer to your question -- your original question, it's about 86% of the business today that has surrender charge protection, but in addition to that, we have protections with the other things that I just mentioned.

Amit Kumar - *Macquarie Research Equities - Analyst*

That's fair. The other question, just staying on this topic, what's the average commission that you pay per channel? And how should we think about the commission levels going forward?

Craig Lindner - *American Financial Group - Co-CEO*

Commission levels going forward really are going to be a function of whether the Department of Labor rule is implemented. If it is implemented, clearly they are coming down and you're going to see more fee-based products.

Let me see if I can get my hands on our exact commissions in different segments. We are clearly on the low side. Our model many years ago was changed to a consumer centric model, consumer friendly model, with smaller commissions, lower upfront bonuses, which allows us to give more value to the customer.

Let me give you -- in bank FIAs the average commission is 4% to 6%, bank fixed 3.5% to 5%, retail fixed indexed annuities 4.5% to 7.5%, retail fixed 3% to 7%, overall indexed annuities 4% to 7.5%, and then overall fixed and fixed indexed annuities 3% to 7.5%. But as I said, we are on the low side compared to the industry.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. The final question -- I will requeue after this. How should we think about the returns on this business in terms of whether the changes happen or not going forward?

Craig Lindner - *American Financial Group - Co-CEO*

We are not going to change our return expectations. We price our product to earn between 12% and 13%. It's different on the different products. The products that we deem to be riskier should be priced at a higher rate of return. The products that we deem to be the least risky, we can be on the low side of that. On average we price to get a 12% to 13% after tax return. I will tell you over the last three or four years with the outperformance on the investment side, we have done better than that.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. I will stop here and requeue. Thanks for the answers.

Operator

Paul Newsome, Sandler O'Neill.

Paul Newsome - *Sandler O'Neill Asset Management - Analyst*

Good morning and congratulations on the quarter. I was wondering if you can give us a little bit more detail about the Neon transaction. It just seemed like it was quite a large gain this quarter. And I'm just a little bit surprised by -- could you kind of walk us through exactly why that would've happened just to give us a little bit better understanding? Obviously it's a good thing, but any comments would be helpful I think.

Jeff Consolino - *American Financial Group - EVP, CFO*

This is Jeff Consolino and thank you for the well wishes on the quarter. I touched on it in my comments, but what we have done is a restructuring of the entities which own Neon. And so the restructuring relates to the liquidation for US tax purposes of the parent of our Neon operations.

And in a liquidation, you calculate your gain or loss in a liquidation by comparing the value of the assets and liabilities received upon liquidation to our investment. In our case, the liquidation reflects the significant investment we've made in Neon and in Neon's operations to fund previous losses in the business. So upon liquidation we are entitled to recognize a portion of those losses and recognize the benefit that's included within our financial results.

Paul Newsome - *Sandler O'Neill Asset Management - Analyst*

That's what I was looking for. Thank you very much.

Operator

Jay Cohen, Bank of America.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Thank you. A couple of questions. First, in the specialty casualty business, the New York contractor book. This is an issue that we've been hearing about for years, I think, that it's been under some pressure. I was a little surprised to see it come up and bite you a little bit this quarter. What changed there that caused the losses?

Jeff Consolino - *American Financial Group - EVP, CFO*

Jay, this is Jeff again. The New York contractors business has been a very tough market for a number of years, there is no question about that. As a result, it's known as a tough class to write and has migrated from standard carriers in the excess and surplus lines market where our excess and surplus lines business has chosen to enter the business and write it at much improved rates and more restrictive terms when available.

The result that we are recognizing in the quarter includes some reserve additions to that. I would say that it's our belief that the New York contractor business is not performing as well as we had hoped when our excess and surplus lines business entered that market. So this reflects us backing off of the loss picks that we had previously had to a more conservative level that is reflecting the experience we see coming through.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Got it. And then secondly, again in that segment, your guidance for premium growth is a little surprising on the high side given what we saw in 2016 and noting the market conditions. So what is driving that 5% to 9% premium growth that you're expecting?

Jeff Consolino - *American Financial Group - EVP, CFO*

As you know, Jay, there are a lot of diverse operations within our specialty casualty subsegment. I would point towards a couple of specific factors. The first is that Neon is in that subsegment. And we've talked about in past quarters, with the new management team, they have gone ahead and taken a hard look at all aspects of their business. They've exited certain lines and chosen to get into different lines to rebalance the portfolio.

So in 2016, Neon's results were typified by a significant decrease in premium. As you look forward to 2017, Neon will grow back to the level they were at, largely in 2015, which will be therefore some amount of growth 2017 versus 2016, but effectively flat to 2015.

The second is that our workers' compensation business, which has had rate pressure in many jurisdictions, there has been a rate increase approved in Florida for our Summit operation where half of their business is in Florida. So with that 14% rate increase we would expect to see growth in the workers' compensation business broadly.

Finally, our targeted markets business within specialty casualty, we're seeing some good opportunities on one-off for case-by-case basis to grow, and so that's incorporated in our plan for 2017. So those are really the areas I would point to that cause us to have the premium guidance where we have it for specialty casualty.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Got it. Very helpful. Thanks, Jeff

Operator

(Operator Instructions)

Abe Schloss, Maxim Group.

Abe Schloss - *Maxim Group - Analyst*

Carl, Craig, having been a shareholder for over 50 years the story only gets better. Congratulations on record earnings. Your dad must be smiling ear to ear. He could not be more proud. Congratulations.

Craig Lindner - *American Financial Group - Co-CEO*

Thank you, Abe.

Carl Lindner - *American Financial Group - Co-CEO*

Thank you we appreciate it.

Operator

Jay Cohen, Bank of America.

Jay Cohen - *BofA Merrill Lynch - Analyst*

With no one left in the queue, I might as well get back in. Let's see -- excess capital. You obviously had used some with the National Interstate acquisition, but it seemed to come right back to the levels where it was. Was this simply a case of just the earnings in the quarter or was there another change that drove that recapture, if you will, or increase in the excess capital?

Jeff Consolino - *American Financial Group - EVP, CFO*

Sure, Jay. This is Jeff again. We started the quarter with nearly $1.1 billion of excess capital which we disclosed on our third quarter earnings conference call. And we end the year at $950 million, so that's moved by about $130 million. We do have $385 million of earnings, less $122 million in capital management in the quarter.

So when you take that and you net the $320 million from the National Interstate investment and the merger, if all is equal you would have expected us to have our capital reduced by, call it, $60 million. Then with the growth of the business and the difference between that and the reduction of $128 million is really related to retention of capital as our businesses grow.

So that's perhaps a more detailed answer than you cared for. I think you had it exactly right, which is with the strong level of earnings in the quarter, that excess capital came right back, notwithstanding the significant investment we made in National Interstate during the quarter.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Yes. I guess what I was missing was the difference between net income and operating income as well, which obviously added to the capital.

Jeff Consolino - *American Financial Group - EVP, CFO*

That's right.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Also, just last point, wish my best to Don. I've known this Company a very, very long time and I associate him with the Company. It's been a phenomenal run and I'm sure he will enjoy his retirement.

Carl Lindner - *American Financial Group - Co-CEO*

Thanks, Jay.

Operator

Amit Kumar, Macquarie.

Amit Kumar - *Macquarie Research Equities - Analyst*

Thanks. Just one follow-up. Just going back to the discussion on agriculture, on the crop insurance book. Did I miss this -- did you talk about what the year ended in terms of what was the combined ratio and how are we thinking about conditions for 2017?

Carl Lindner - *American Financial Group - Co-CEO*

No. We really don't report our crop business as a separate type of a number. I can tell you that 2016 was an outstanding crop year. Significantly better than the last five-year average for us. It's pretty early to really make too much commentary on 2017.

Right now we expect premiums to be flat to down maybe 2%. That's all driven by where commodity prices as they are Spring -- setting prices that are determined and that. But where commodity rates are, or commodity prices are today, and when we look at the base rates, what's happening there, and we won't know what the volatility factor is until March 1, we are guessing premiums to be kind of flat to down for this year.

But obviously too early to comment about prospects for 2017. I think in our guidance we'd be looking at a normal run rate for our crop business from a profit standpoint.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. And I guess the only other question I had, and I apologize if this has been asked before, I know you made some comments initially about the taxation situation. I think you said that the guidance does not obvious include any impact, but let's say if the tax rate was going to go down, do you get the sense that any benefit would net down to earnings? Or do you get the sense based on where we are in the market conditions, competition will pick up and hence any benefit would be competed away?

Carl Lindner - *American Financial Group - Co-CEO*

I like the position we are in. Most of the time we're a full taxpayer. I think, yes, we are in a position to keep the biggest part of any change in tax rates.

From a practical standpoint, we are already competing against a lot of competitors that are already tax-advantaged. So they're already pricing their products assuming their lower tax rates, so I like our position. If anything, we should be able to keep a big part of any corporate tax change and maybe, I would think if it benefits anybody, it is going to benefit folks like us that would have more flexibility on price.

Let's also see where these proposals on the border adjustments go and the impacts potentially on our competitors that are, right now, more tax-advantaged than us. I think, also, from a political standpoint, my brother Craig pointed out, even if corporate tax rates come down, there's no political certainty long-term that they would stay down at the same level. So I'm not sure it would be very smart for the industry to give that away. That can always go the other way.

Amit Kumar - *Macquarie Research Equities - Analyst*

That's a fair point. Okay, that I think covered my questions. That's all I have for now. Thank you so much for the answers and good luck for the future.

Carl Lindner - *American Financial Group - Co-CEO*

Thank you.

Operator

And I'm not showing any further questions at this time. I would like to turn the call back over to our host.

Diane Weidner - *American Financial Group - Assistant VP of IR*

Great. Thank you. Thank you, Kevin, and thank you all for joining us this morning as we've discussed our year-end results. We look forward to sharing more results with you when we share our first quarter results in 2017. This concludes our call for today.

Operator

Ladies and gentlemen, this concludes today's presentation. You may now disconnect and have a wonderful day.
