

# Specialty Property and Casualty Insurance Fixed and Fixed-Indexed Annuities

## KBW Insurance Conference

September 8, 2016

**AMERICAN  
FINANCIAL  
GROUP, INC.**

# 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.

# AFG: A Specialty Insurer

AFG's specialty insurance businesses operate under the Great American Insurance Group brand. For more than 140 years, we have provided insurance products that help businesses manage their unique financial risks and exposures and individuals save for their financial futures.

## Market Leadership

- Over 60% 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 fixed-indexed annuities through financial institutions

## Financial Strength

- Great American Insurance Group rated "A" (Excellent) or better by A.M. Best for over 100 years
- Ward's 50 List



# Insurance Businesses

## P&C

### 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 and Fixed-Indexed Annuities
- Sold in retail, financial institutions and educational markets

\$41 Billion Investment Portfolio Managed In-House

# Building Long-Term Value for AFG Shareholders

**Superior  
Underwriting  
Results**

**Superior  
Investment  
Talent**

**Intelligent  
Deployment  
of Capital**

**VALUE  
CREATION**

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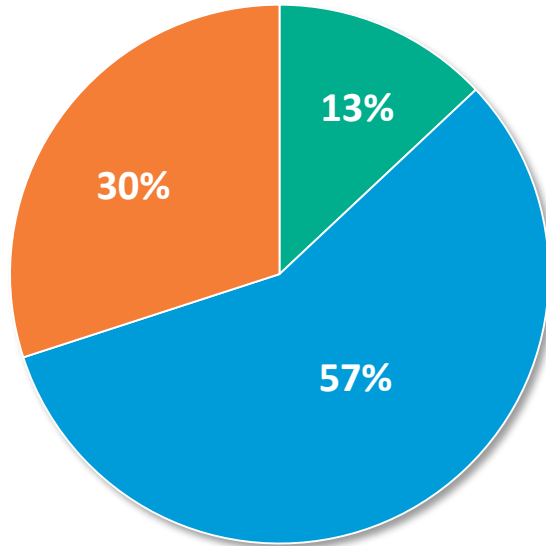
Culture • Entrepreneurial Business Model • Incentives

# Corporate Culture



# Significant Insider Ownership

AFG Shareholder Base  
June 30, 2016



Individual  
Investors



Institutional  
Investors



Family, Executives  
and Retirement Plan

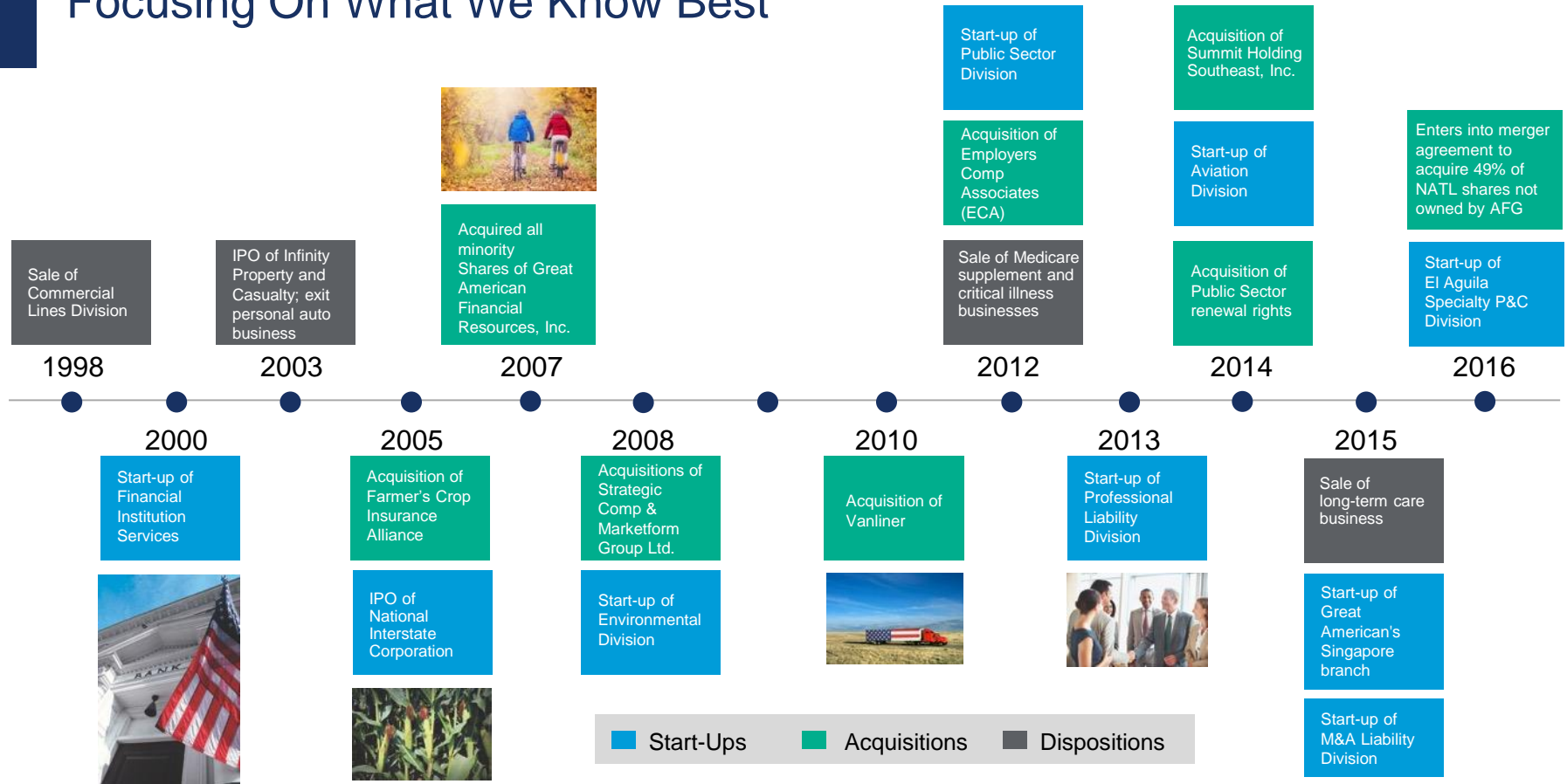
**Significant ownership by management creates strong alignment of interests with shareholders over the long term**

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

## Ownership Details

- Co-CEOs / family ~ 25%
- Executives and Retirement Plan ~ 5%

# Focusing On What We Know Best



# Intelligent Use of Excess Capital

## 2015 Capital Management

- Increased ordinary dividend by 12%
  - 10<sup>th</sup> consecutive annual dividend increase
  - five year CAGR in dividends ~ 12%
- \$126 million in share repurchases (\$64.52 per share average)

## 2016 Capital Management

- \$98 million in share repurchases, year-to-date through 6/30/2016 (\$67.90 per share average)
- Excess capital at 6/30/2016 – \$950 million
- 4.6 million shares remaining in repurchase authorization as of 8/02/16
- National Interstate transaction will deploy ~\$320 million of excess capital

## Capital Returned to Shareholders Five Years Ended 12/31/2015 (in millions)

Total Repurchases	\$ 1,116
Dividends Paid	<u>668</u>
Total	<u><u>\$ 1,785</u></u>



***\$1.8 Billion Returned to Shareholders***

# Compounded Shareholder Return

As of June 30, 2016

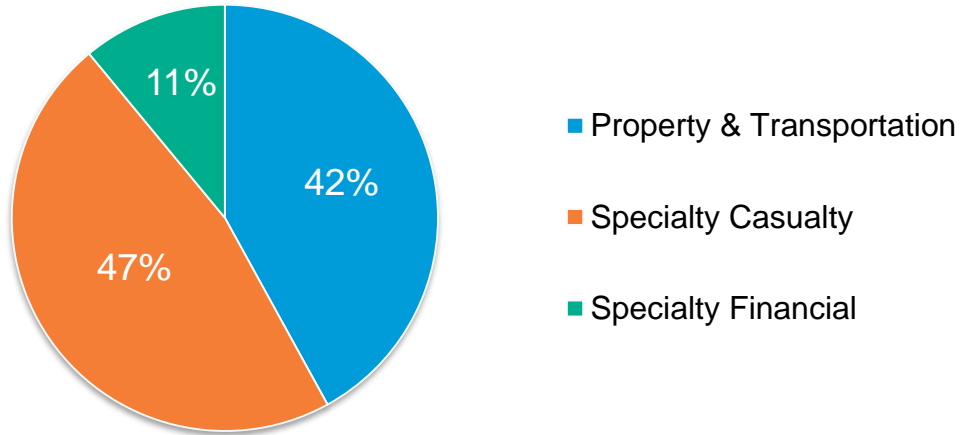
	<u>5 Years</u>	<u>10 Years</u>
<b>AFG</b>	<b>18.9%</b>	<b>12.5%</b>
S&P 500 Property & Casualty Insurance Index	18.4%	7.0%
S&P 500 Life & Health Insurance Index	6.1%	2.1%
S&P Midcap Insurance	17.3%	9.0%
S&P 500	12.1%	7.4%

Price appreciation plus dividends through 6/30/16.  
Source: Bloomberg

# Specialty Property & Casualty Premium

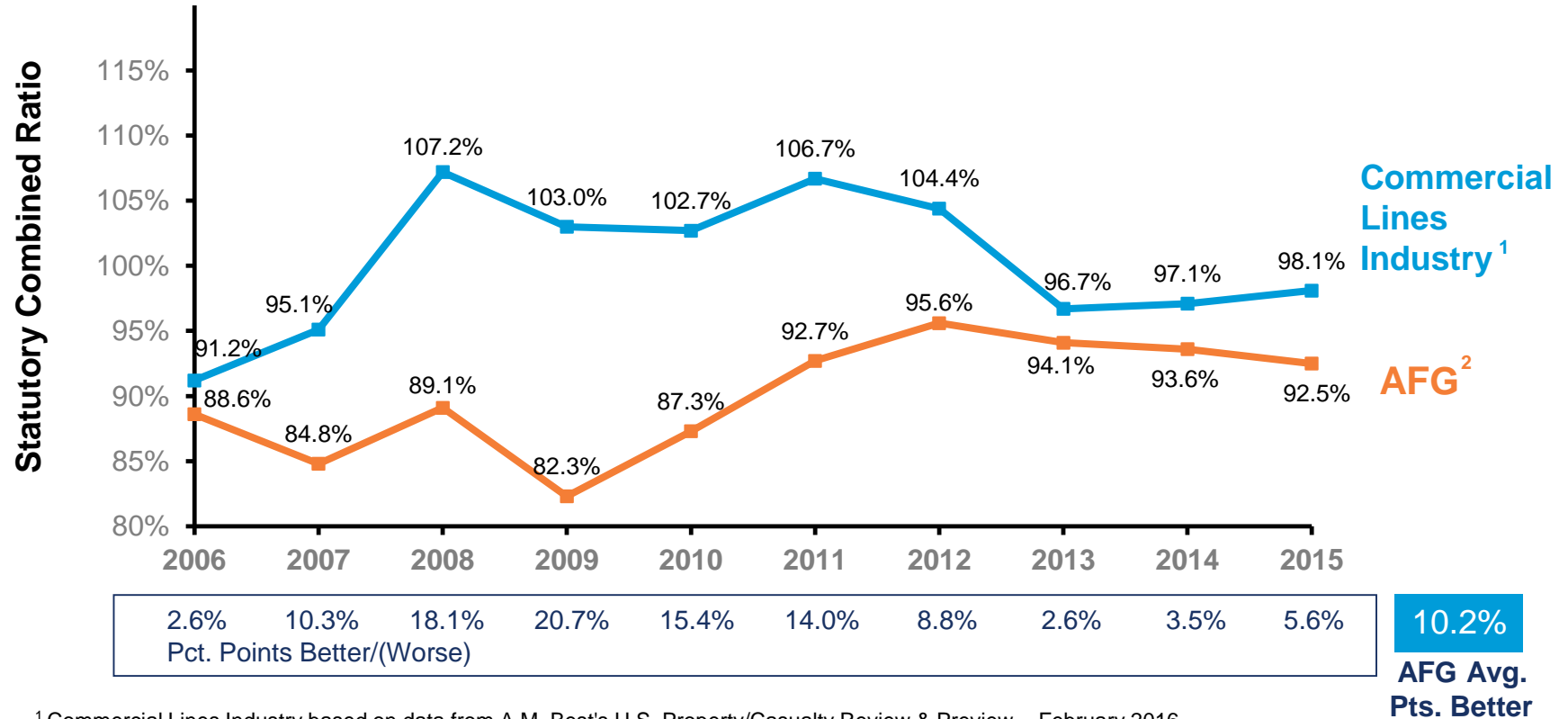
Low correlation • Low coastal exposure

**2015 Gross Written  
Premiums – \$5.8 Billion**



Over 60% of P&C Group GWP produced by businesses with “Top 10” market rankings including:  
Crop • Equine • Executive Liability • Fidelity/Crime • FL Workers Comp • Non-Profit/Social Services •  
Passenger Transportation • Surety • Trade Credit • Trucking

# Superior Underwriting Talent



<sup>1</sup> Commercial Lines Industry based on data from A.M. Best's U.S. Property/Casualty Review & Preview – February 2016.

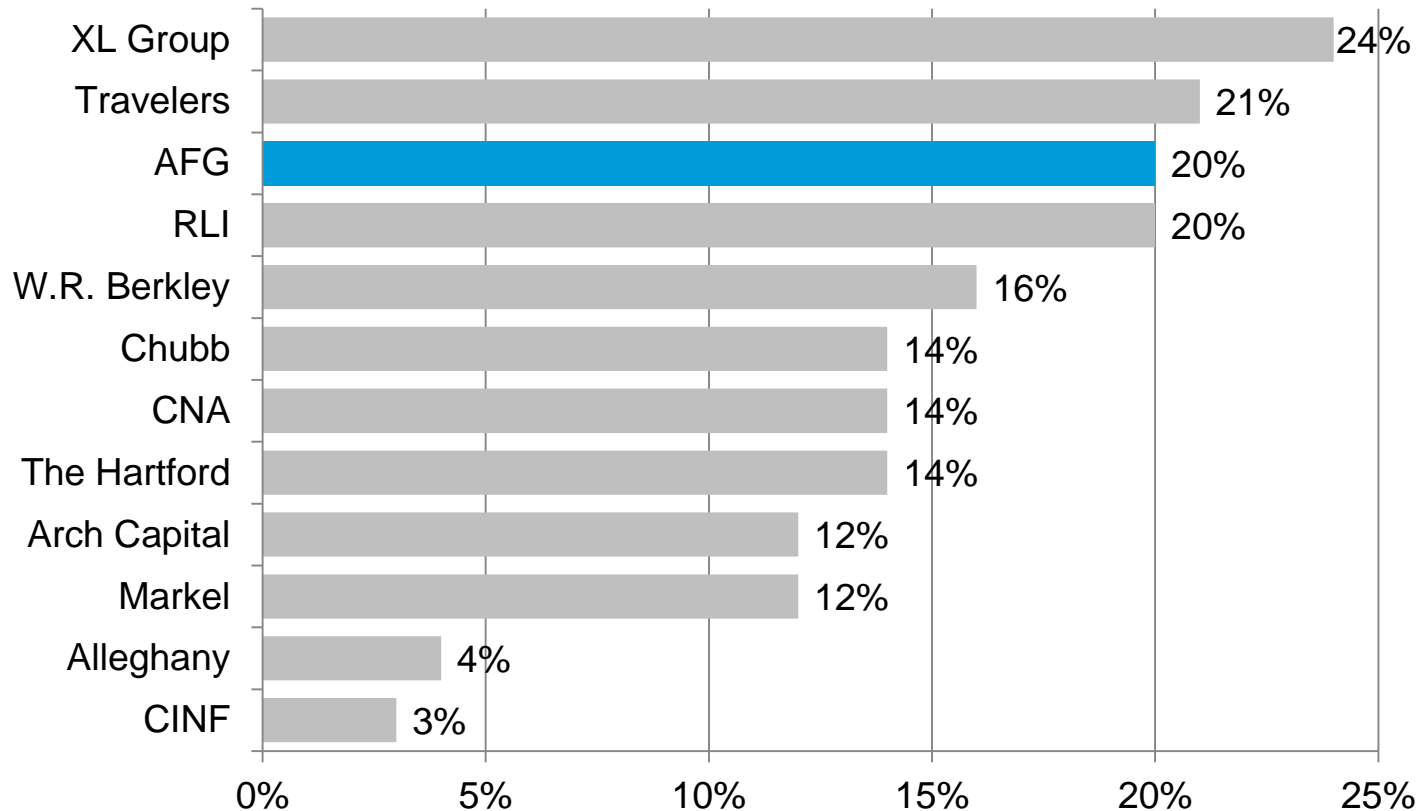
<sup>2</sup> American Financial Group Form 10K filings.



# 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 unit executives are held accountable for COR performance, not investment performance
- Attract, retain and reward key operating unit executives & officers

## Pre-Tax Property & Casualty Returns 2011 - 2015

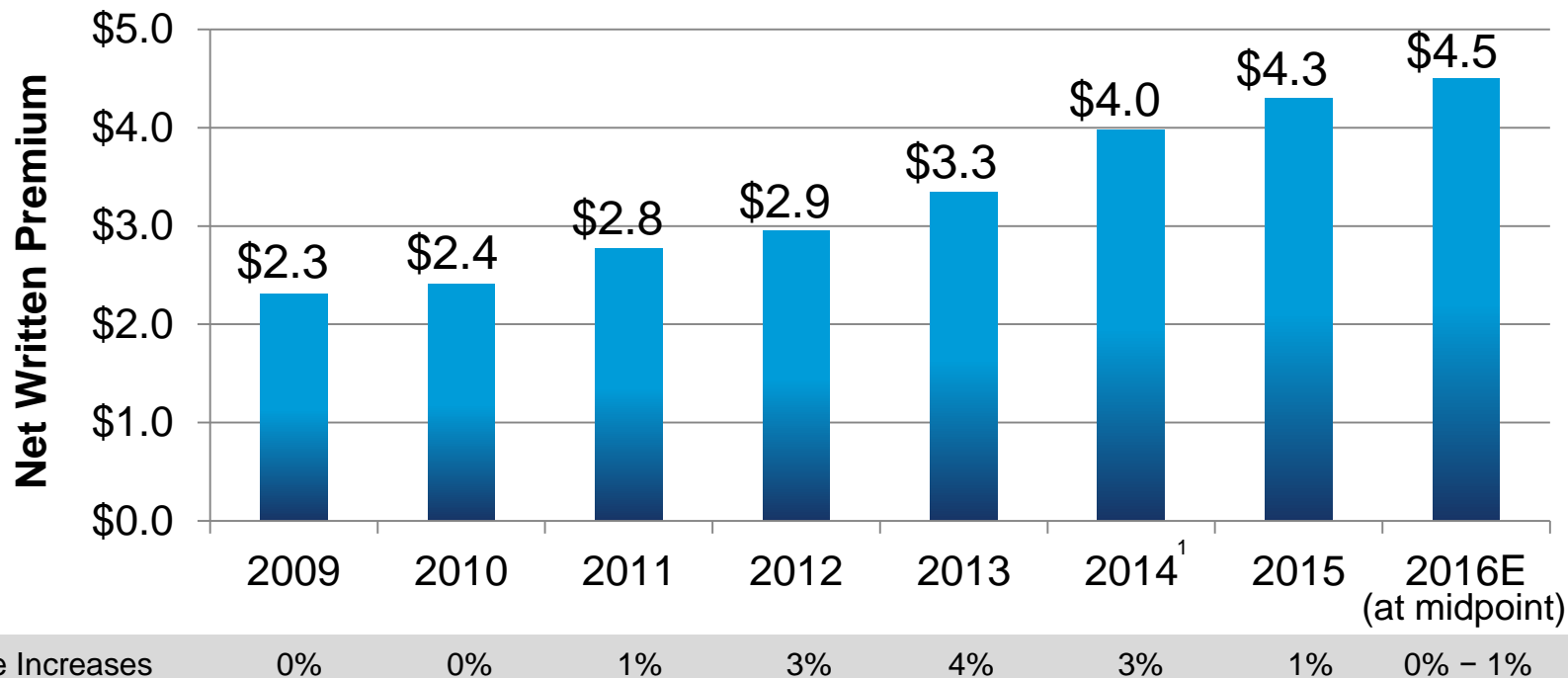


Source: Dowling & Partners

# Specialty Property & Casualty Premium Growth

Dollars in billions

## P&C Net Written Premium and Renewal Rates



<sup>1</sup> Includes Summit premiums for nine months.

## Annuity Segment – Overview

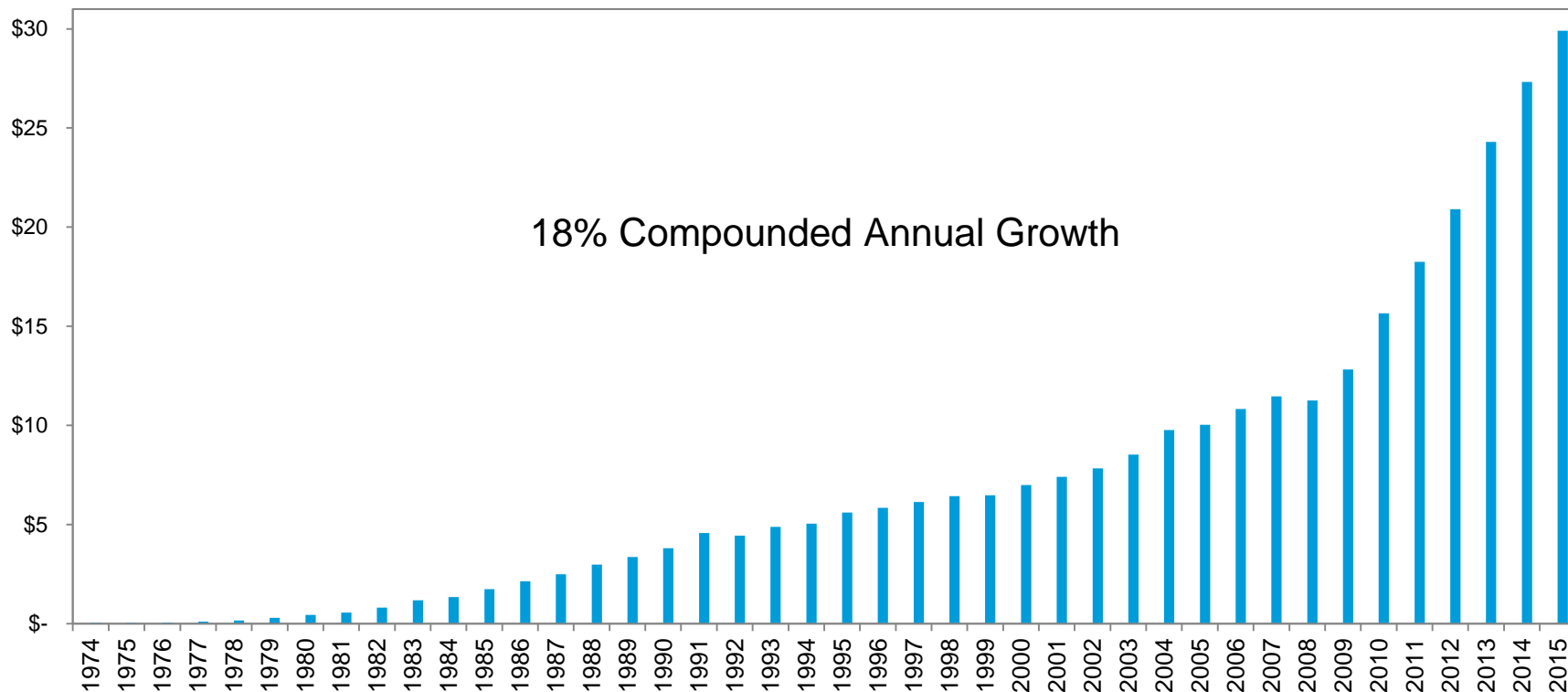
- Significant transformation since 2009
- Record earnings, premiums and assets in 2015
- Leader in its channels
- Consumer-centric business model has generated strong statutory earnings, resulting in excess capital and dividend paying capacity
- Emphasis on
  - appropriate pricing in challenging and changing environment (ROEs vs. premium growth)
  - expense discipline – invest wisely in people and infrastructure
  - growth in profitable premiums – a good use of AFG's excess capital

## Annuity Segment – Strengths in the Marketplace

- American Money Management Corporation skills
- Ratings and ALIRT score
- Focus on fixed and indexed annuities only
- Long history in the industry and long-term agent relationships
- Consistent crediting rate strategy
- Reputation for simple, consumer-centric products
- Low cost structure

# Growth in Annuity Segment Assets (GAAP)

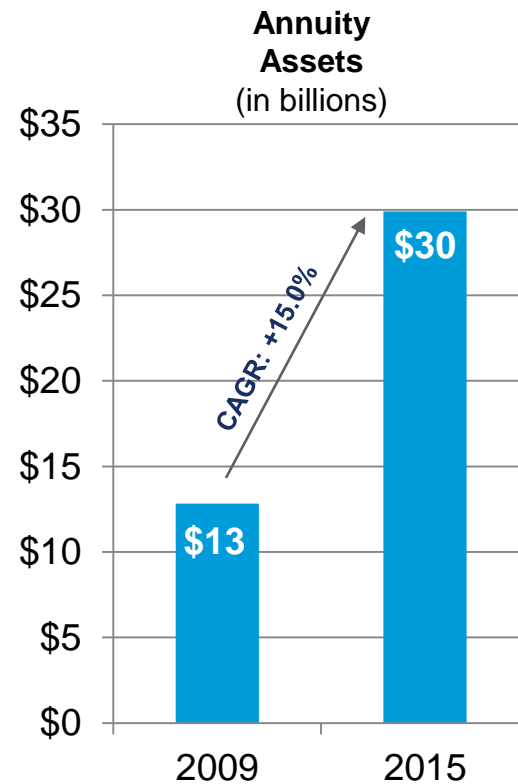
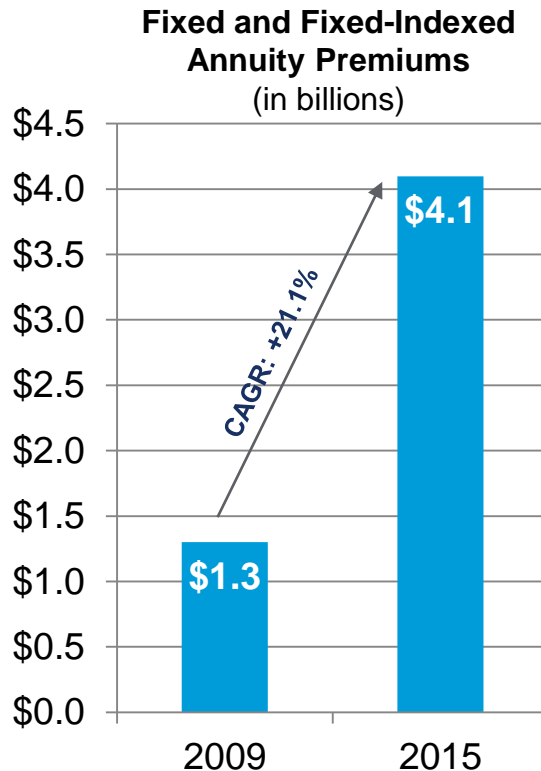
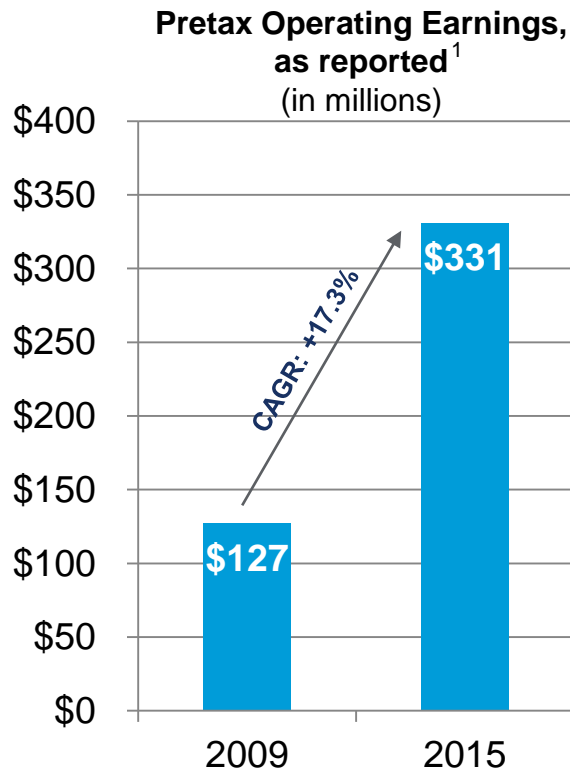
Dollars in billions



## Annuity Segment – Significant Transformation Since 2009

- Focus on core competency of fixed and fixed-indexed annuities and away from lines of business without critical mass or competitive advantage
- Nearly tripled earnings and premiums; more than doubled assets
- Reduced unit costs significantly
- Significantly improved ROEs
- Ratings
  - no downgrades during recession
  - upgrades by S&P and Moody's since recession

# Annuity Segment – Significant Transformation Since 2009



<sup>1</sup> After the impact of fair value accounting for FIAs.

# Diversified Specialty Niche Insurance Businesses - Annuity



	Market Rank	Market Focus	Distribution
Fixed-Indexed	#3 Overall #1 In Financial Institutions	<ul style="list-style-type: none"><li>• Retail</li><li>• Financial Institutions</li><li>• Education (K-12)</li></ul>	<ul style="list-style-type: none"><li>• 60 NMOs directing nearly 1,400 actively producing agents</li><li>• Financial Institutions - Direct</li><li>• Financial Institutions - Indirect</li></ul>
Fixed	#6 Overall #4 In Financial Institutions		
Variable	Never a Significant Issuer of Variable Annuities; Accommodation Product Only		

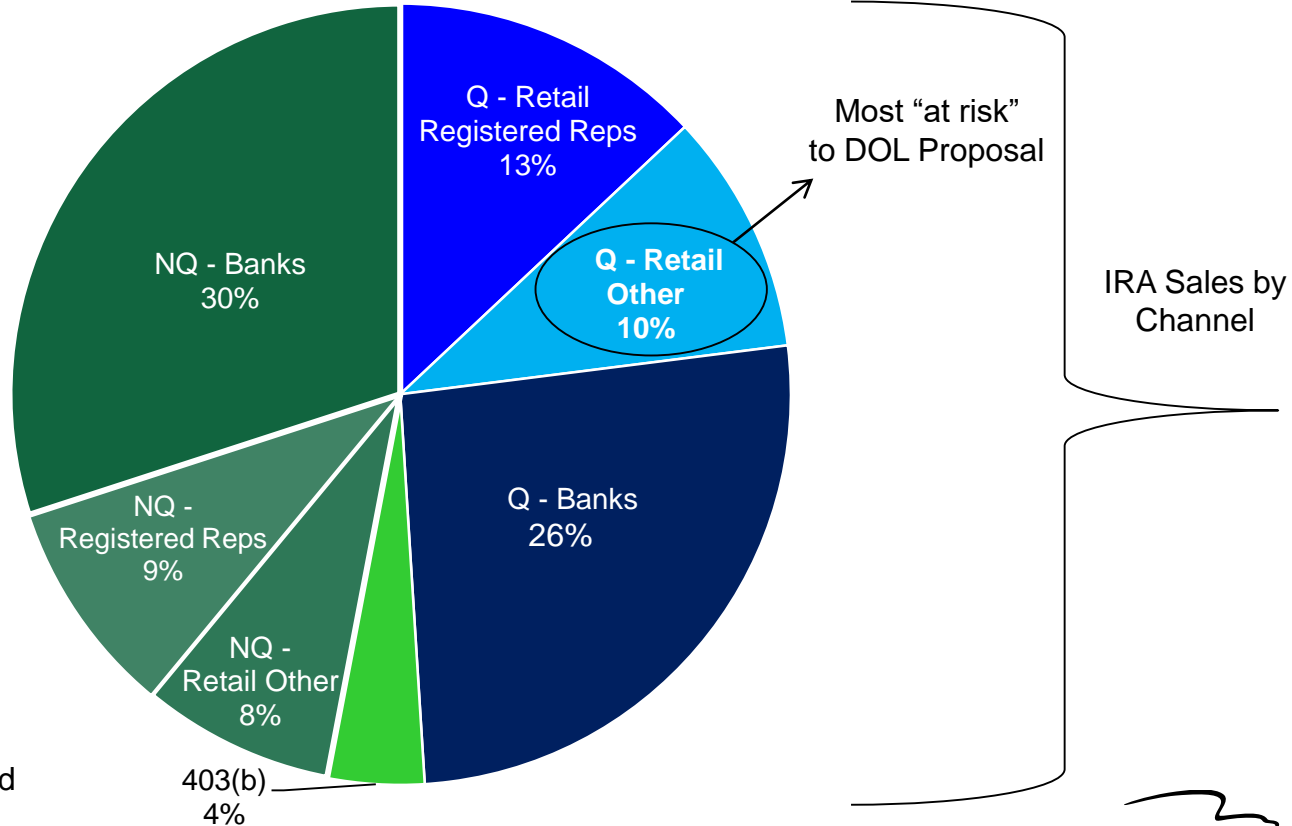
- Focus on fixed and fixed-indexed annuities makes use of core competency in fixed income investing
- Simple, easy to understand products
- Lower up-front commissions and bonuses, shorter surrender charge periods

# Department of Labor Proposal

- In April 2016 the Department of Labor (DOL) issued the final version of its fiduciary rule that will impose additional requirements on the sale of certain annuities, including FIAs, to individual retirement accounts (IRAs).
- It is expected that all carriers will experience some impact when the rule takes effect in 2017, including temporary sales disruption during a transition period.
- Based on our analysis of the rule and discussions with our distribution partners:
  - We are planning for certain changes to our business model, including new products and compensation arrangements.
  - We believe these changes should allow most of our current distribution partners to continue to sell our traditional fixed and FIA annuities.
  - Many large National Marketing Organizations (NMOs) have filed to be classified as “Financial Institutions.”
- About half of our sales are qualified and subject to the new rules.
  - We believe the biggest impact will be to non-registered reps in our Retail Channel (approximately 10% of our sales in Q2 2016).
  - We continue to believe that our business model makes us less vulnerable to the rule than many of our competitors.
- Based on our analysis, we do not believe the implementation of the final DOL rule will have a material impact on the Company’s results of operations.

# Annuity Sales by Type

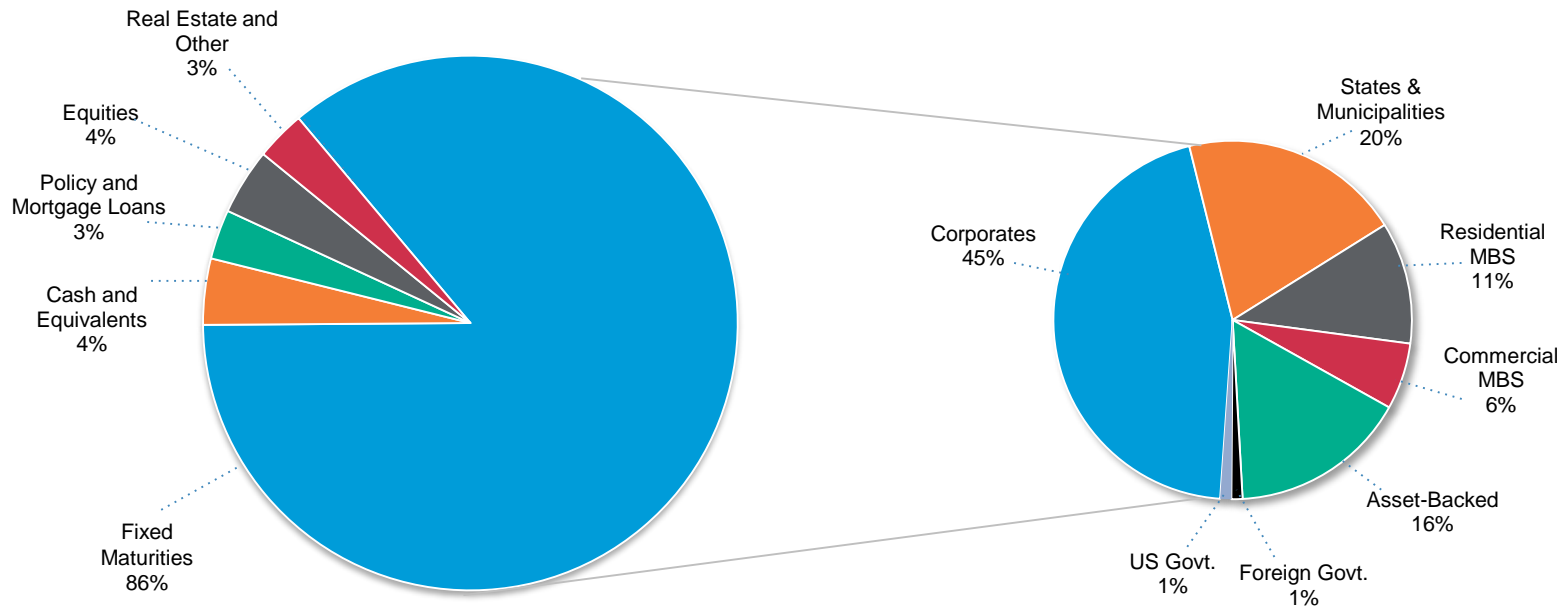
For three months ended June 30, 2016



# AFG Investment Portfolio

As of June 30, 2016

## Fixed Maturities Portfolio – 89% investment grade; 97% NAIC 1 & 2



**Carrying Value – \$40.6 Billion**

# Investment Portfolio Information and Outperformance

	Property & Casualty	Annuity & Runoff
Approximate Average Duration – Fixed Maturities as of June 30, 2016	3.5 years	5.5 years
Annualized yield on available for sale fixed maturities		
Quarter ended 6/30/16:		
• Net of investment expenses <sup>(a)</sup>	3.80%	4.77%
• Tax equivalent, net of investment expenses <sup>(b)</sup>	4.33%	4.77%

- (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 Eight Years Ended 12/31/15<sup>1</sup>

**AFG** **6.6%**

Benchmark:  
Blended Insurance Industry<sup>2</sup> 5.4%

Outperformance 1.2%

≈ \$2.0 Billion Total Return  
Outperformance

<sup>1</sup> 2008-2015 time period captures the beginning of the global financial crisis.

<sup>2</sup> 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.

# Appendix



# Financial Highlights

Dollars in millions, except per share amounts

	Three Months Ended June 30,	
	<u>2016</u>	<u>2015</u>
• Results of Operations:		
– Core net operating earnings	\$ 113	\$ 115
– Core net operating earnings per share	\$ 1.28	\$ 1.28
– Average number of diluted shares	88.4	89.5
	June 30,	Dec. 31,
• Book Value per Share:	<u>2016</u>	<u>2015</u>
– Excluding unrealized gains (losses) on fixed maturities	\$ 50.22	\$ 49.33
– Tangible, unrealized gains (losses) on fixed maturities	\$ 47.41	\$ 46.49
• 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 \$950 million at June 30, 2016, including parent cash of approximately \$200 million.		

# Specialty Property & Casualty Businesses

Dollars in millions

	<b>Net Written Premiums</b>			
	<u>2014</u>	<u>2015</u>	<u>6/30/16 YTD</u>	<u>2016E</u>
Specialty Property & Transportation	\$ 1,566	\$ 1,636	\$ 693	1% – 5%
Specialty Casualty	\$ 1,864 <sup>1</sup>	\$ 2,052	\$ 1,022	0% – 4%
Specialty Financial	\$ 488	\$ 540	\$ 269	5% – 9%
Other Specialty	<u>\$ 102</u>	<u>\$ 99</u>	<u>\$ 51</u>	n/a
<b>Total Specialty</b>	<b><u>\$ 4,020</u></b> <sup>1</sup>	<b><u>\$ 4,327</u></b>	<b><u>\$ 2,035</u></b>	<b>1% – 5%</b>

<sup>1</sup> Includes nine months of Summit premiums.

# Specialty Property & Casualty Businesses

	GAAP Combined Ratio			
	<u>2014</u>	<u>2015</u>	<u>6/30/16 YTD</u>	<u>2016E</u>
Specialty Property & Transportation	98.7%	96.9%	93.4%	93% – 96%
Specialty Casualty	92.3% <sup>1</sup>	92.7%	94.8%	93% – 95%
Specialty Financial	86.5%	83.1%	83.5%	83% – 86%
Other Specialty	83.4%	85.5%	89.4%	n/a
<b>Total Specialty</b>	<b>93.9%<sup>1</sup></b>	<b>93.1%</b>	<b>92.7%</b>	<b>92% – 94%</b>

<sup>1</sup> 2014 includes nine months of Summit results.

# Annuity Segment

Dollars in millions, unless otherwise noted

	<u>2014</u>	<u>2015</u>	<u>6/30/16 YTD</u>	<u>2016E</u>
Annuity Premiums	\$ 3,696	\$ 4,140	\$ 2,383	\$4.0 to \$4.2 billion
Average Fixed Annuity Investments	\$ 22,391	\$ 25,174	\$ 27,575	+12% to +13%
Average Fixed Annuity Reserves	\$ 22,119	\$ 24,898	\$ 27,398	+12% to +13%
Core Pretax Operating Earnings (before impact of fair value accounting)	\$ 362 <sup>2</sup>	\$ 354	\$ 186	\$370 - \$385
Core Pretax Operating Earnings, As Reported <sup>1</sup>	\$ 328 <sup>2, 3</sup>	\$ 331 <sup>5</sup>	\$ 129 <sup>6</sup>	\$305 - \$340
Net Spread Earned <sup>4</sup> (before impact of fair value accounting)	1.56%	1.35%	1.33%	1.30% - 1.35%
Net Spread Earned <sup>1</sup>	1.41%	1.26%	0.91%	1.05% - 1.20%

<sup>1</sup> After the impact of fair value accounting related to FIAs.

<sup>2</sup> Amounts shown include exceptionally strong investment results and a favorable impact from lower than expected surrenders.

<sup>3</sup> The decrease in interest rates in 2014 had an unfavorable impact on earnings due to fair value accounting for FIAs.

<sup>4</sup> Calculated as Net Spread Earned excluding the impact of fair value accounting for FIAs, offset by the estimated related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs.

<sup>5</sup> The decrease in the stock market and interest rates had an unfavorable impact on earnings due to fair value accounting for FIAs.

<sup>6</sup> The decrease in interest rates had an unfavorable impact on earnings due to fair value accounting for FIAs.

# 2016 Outlook – AFG

## AFG Core Earnings Guidance \$5.35 – \$5.75 per share

	<u>NWP Growth</u>	<u>Combined Ratio</u>
<b>Specialty P&amp;C Group Overall</b>	1% – 5%	92% – 94%
<b><u>Business Groups:</u></b>		
Property & Transportation	1% – 5%	93% – 96%
Specialty Casualty	0% – 4%	93% – 95%
Specialty Financial	5% – 9%	83% – 86%

P&C average renewal rates flat to up 1%

P&C investment income approximately 6% higher than 2015

### **Annuity Segment:**

- Full year core pretax operating earnings before impact of fair value accounting for FIAs, \$370 million to \$385 million
- Full year core pretax operating earnings, as reported, \$305 million to \$340 million
- Full year annuity premiums \$4.0 billion to \$4.2 billion

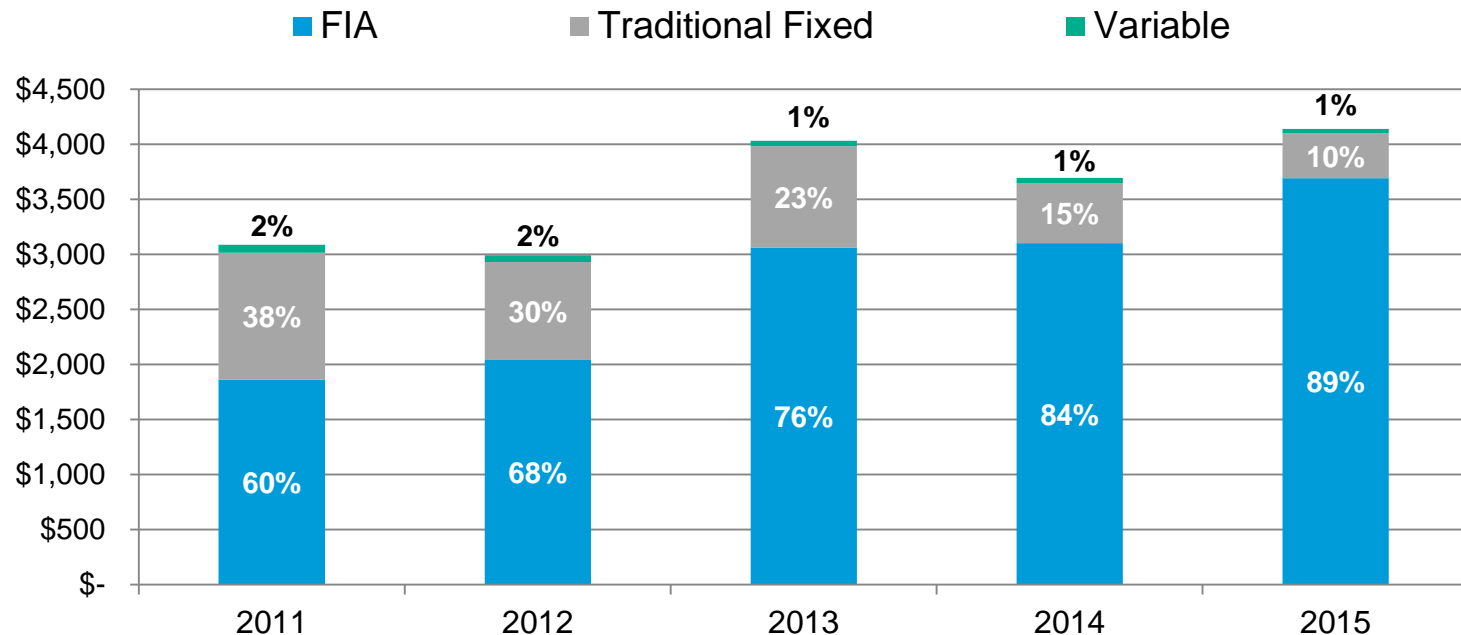
## Snapshot of Current AFG Annuity Segment Sales

- Target market = middle and mass affluent baby boomers (not high wealth clients)
- Average single premium policy size ~\$100,000
- Nearly 90% of 2015 sales are FIA
- About 50% of 2015 sales are qualified / IRA
- Almost 25% of new FIA premiums have riders
- More than 30% of sales have some form of "non-heaped" commissions
- Each product is priced to its own risk-adjusted return target. Our target return is approximately 11% - 13%.

# Annuity Product Snapshot

Dollars in millions

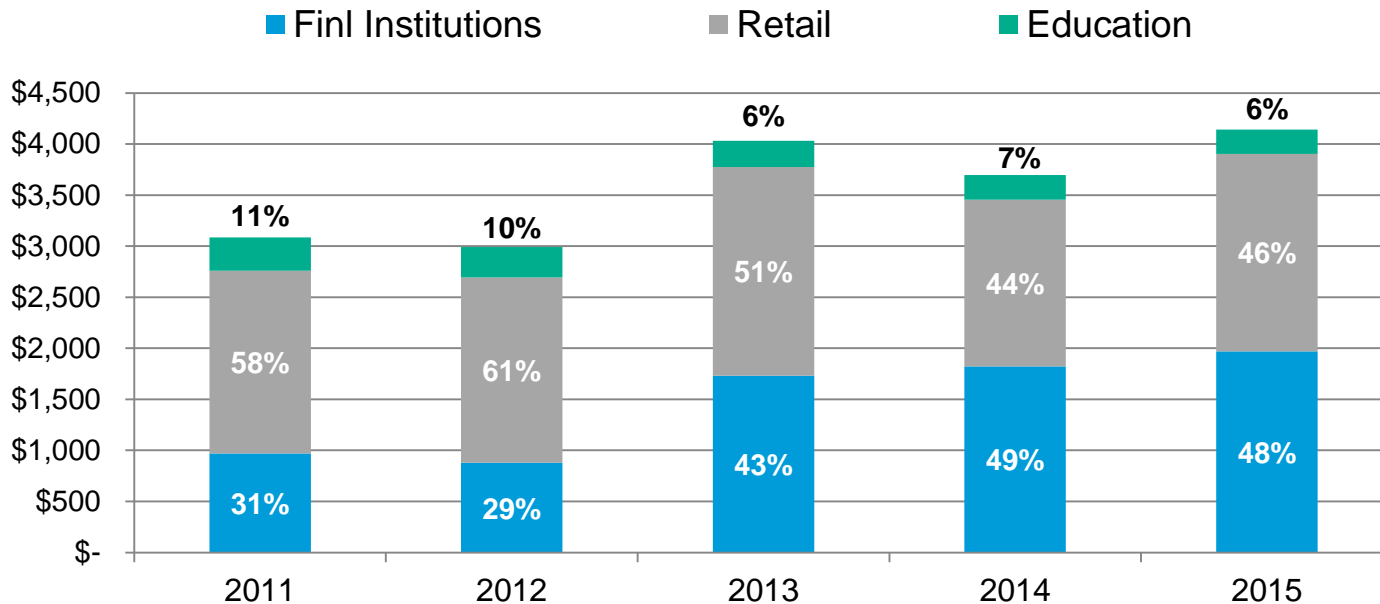
## Premiums by Product Line



# Annuity Product Snapshot (continued)

Dollars in millions

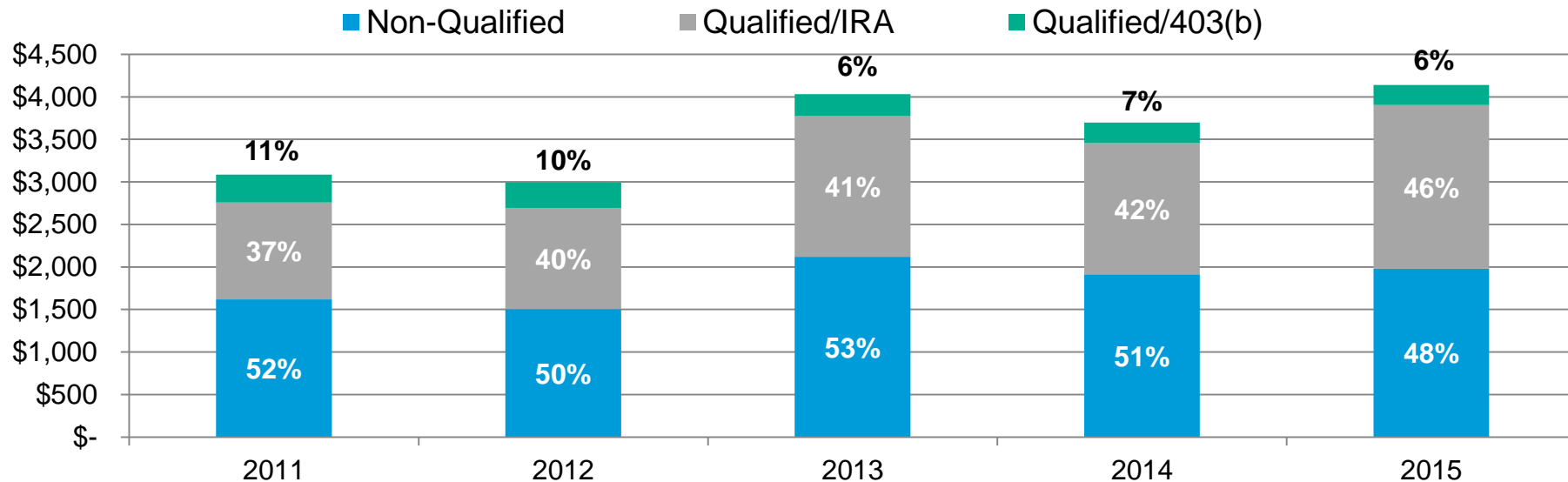
## Premiums by Distribution Channel



# Annuity Product Snapshot (continued)

Dollars in millions

## Premiums by Tax Qualification Type



# Fixed Maturity Investments in Energy & Commodity-Related Industries Below Investment Grade (NAIC 3 – 6)

Dollars in millions

	<b>June 30, 2016</b>		
	<b>Energy</b>	<b>Commodity- Related Industries<sup>1</sup></b>	<b>Total</b>
Market Value	\$ 210	\$ 100	\$ 310
Book Value	<u>219</u>	<u>103</u>	<u>322</u>
Unrealized Gain / (Loss)	<u>(\$ 9)</u>	<u>(\$ 3)</u>	<u>(\$ 12)</u>

<sup>1</sup> Commodity-related industries include metals, mining, steel, paper and forestry.