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AFG.N - Q3 2026 American Financial Group, Inc. Earnings Call

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Diane Weidner *American Financial Group, Inc. - Vice President of Investor & Media Relations*

Carl Lindner *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Craig Lindner *American Financial Group, Inc. - Co-Chief Executive Officer*

Brian Hertzman *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

CONFERENCE CALL PARTICIPANTS

Hristian Getsov *Wells Fargo Securities - Analyst*

Andrew Andersen *Jefferies LLC - Analyst*

Michael Zaremski *Bank of Montreal - Analyst*

Paul Newsome *Piper Sandler - Analyst*

Mitchell Rubin *Raymond James - Analyst*

Meyer Shields *Keefe Bruyette & Woods Inc - Analyst*

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to American Financial Group 2026 third quarter results conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker for today, Diane Weidner, Vice President of Investor Relations. Please go ahead.

Diane Weidner - *American Financial Group, Inc. - Vice President of Investor & Media Relations*

Good morning, and welcome to American Financial Group's third quarter 2026 earnings results conference call. We released our results yesterday afternoon. Our press release, investor supplement, and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call. Joining me this morning are Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group, and Brian Hertzman, AFG's CFO. Before I turn the discussion over to Carl, I would like to draw your attention to the notes on slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause our 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 in responses to questions. A reconciliation of net earnings to core net operating earnings is included in our earnings release. And finally, if you're reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy, and as a result, 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 to discuss our results.

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Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Good morning. I'll begin by sharing a few highlights of AFG's 2026 third quarter results, after which Craig and I will walk through more details. We'll then open it up for Q&A, where Craig, Brian, and I will respond to your questions.

We are pleased to report excellent quarterly core net operating earnings, our highest ever for a third quarter. Strong underwriting margins, healthy premium growth, and higher quarterly property and casualty net investment income contributed to a new third quarter record for pretax property and casualty operating income.

Our compelling and diversified mix of specialty insurance businesses, our entrepreneurial culture, disciplined operating philosophy, and our astute team of in-house investment professionals continue to position us to create value for our shareholders through a variety of insurance market conditions. Craig and I thank God, our talented management team and our great employees for helping us to achieve these results.

I'll turn the discussion over to Craig to walk us through some of the details.

Craig Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer*

Thank you, Carl. Please turn to slides 3 and 4 for a summary of earnings information for the quarter. Here you'll see that AFG reported core net operating earnings of $3.97 per share in the 2026 third quarter, a 48% increase from the prior year period. This level of performance resulted in an impressive annualized core operating return on equity of 26%.

I'll start with an overview of AFG's investment performance and financial position and share a few comments about AFG's capital and liquidity. The details surrounding our $17.4 billion investment portfolio are presented on slides 5 and 6.

Net investment income in our property and casualty insurance operations for the three months ended September 30, 2026, increased 41% year-over-year and established a new third quarter record for AFG. The increase was primarily attributable to income from the sale of the Charleston Harbor Resort & Marina. Property and casualty net investment income excluding the income from the sale of Charleston Harbor Resort & Marina increased 10% when compared to the 2025 quarter.

Consistent with what we previously communicated, the August 2026 sale of Charleston Harbor Resort & Marina generated $126 million in pretax net investment income. Since the P&C companies and AFG parent each owned half of the property, the earnings were split evenly between the operating results of the P&C insurance segments and holding company investment income. The sale contributed $1.21 per share of core net operating earnings for the three months ended September 30, 2026. Third quarter core net operating income represented a record even when excluding the income from the sale of Charleston Harbor Resort & Marina. As you'll see on Slide 6, approximately two-thirds of our portfolio is invested in fixed maturities. In response to the higher interest rate environment experienced during the third quarter, we invested a significant amount of cash in fixed maturity investments totaling approximately $1.5 billion. For context, the $1.5 billion invested in the most recent quarter is equal to the amount invested during the entire first half of the year. These purchases, combined with interest rate swaps executed during the third quarter, increased the duration of our P&C fixed maturity portfolio, including cash and cash equivalents, to 3.6 years at September 30, 2026, from 3.1 years at June 30, 2026.

In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 6%. The annualized return on alternative investments was approximately 6.7% for the 2026 third quarter compared to 6.2% for the prior year quarter. Longer-term, we continue to remain optimistic regarding the prospects of attractive returns from our overall alternative investment portfolio, with an expectation of annual returns averaging 10% or better.

Please turn to slide 7, where you'll find a summary of AFG's financial position at September 30, 2026. During the third quarter, we returned nearly $100 million to our shareholders, including $26 million in share repurchases and the payment of our regular quarterly dividend. In

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October, we increased AFG's regular quarterly dividend by 10.2% over the previously declared rate of $0.97 per share and paid on October 23, 2026.

In conjunction with our earnings release, we declared a special cash dividend of $3.50 per share, payable on November 25, 2026, to shareholders of record on November 16, 2026. The aggregate amount of the special dividend will be approximately $290 million. With this special dividend, the company has declared $59.00 per share, or nearly $5 billion, in special dividends since the beginning of 2021.

Carl and I consider these special dividends to be an important component of total shareholder return. We expect our operations to continue to generate significant excess capital throughout the remainder of 2026 and into 2027, which provides ample opportunity for acquisitions, special dividends or share repurchases over the next year. We evaluate the best alternatives for capital deployment on a regular basis.

We continue to view total value creation, as measured by growth in book value per share plus dividends, as an important measure of performance over the long term. For the nine months ended September 30, 2026, AFG's growth in book value per share excluding AOCI plus dividends was 13.8%.

I'll now turn the call over to Carl to discuss the results of our P&C operations.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Thank you, Craig. If you'd turn to slides 8 and 9 of the webcast, which include an overview of our third quarter results. Our Specialty Property and Casualty businesses performed very well in the third quarter, establishing a new record for third quarter pretax property and casualty operating income. We continued to execute on opportunities to grow while achieving favorable renewal rate increases. Underwriting discipline and an opportunistic business model have been essential to helping us outperform peers over the long run and ensure that we're meeting or exceeding overall targeted returns. Third quarter of 2026 gross and net written premiums were 8% and 9% higher, respectively, than the comparable period in 2025, as you'll see on Slide 8.

Average renewal rates across our Property and Casualty Group, excluding workers' comp, were up approximately 6% for the quarter. That was about a point higher than the previous quarter. Average renewal rates, including workers' comp, were up approximately 5% overall, also about a point higher than the previous quarter. We have reported overall renewal rate increases for 41 consecutive quarters and we believe we're achieving overall renewal rate increases that enable us to meet or exceed our targeted returns.

Our Specialty Property and Casualty insurance businesses produced a 93.8% combined ratio in the third quarter of 2026, eight-tenths of a point higher than the 93.0% reported in the third quarter of 2025. Third quarter 2026 results benefited from 1.5 points of favorable prior year reserve development, compared to 1.2 points in the third quarter of 2025. Catastrophe losses added 1.0 point in the third quarter of 2026, compared to 1.2 points in the third quarter of 2025.

Now, if you turn to slide 9, we'll review a few highlights from each of our specialty property and casualty business groups. Details are included in our earnings release, so I'll focus on summary results here. The businesses in the Property and Transportation Group achieved a 93.4% calendar year combined ratio overall in the third quarter of 2026, an improvement of seven-tenths of a point from the 94.1% reported in the comparable 2025 period.

Third quarter 2026 gross and net written premiums in this group were 12% and 14% higher than the comparable prior year period. The increase is primarily attributable to growth in certain crop insurance products, along with new business opportunities and a favorable rate environment in several of our transportation businesses.

Overall renewal rates in this group increased approximately 7% on average in the third quarter of 2026, slightly below pricing achieved in this group for the second quarter of this year. For the third consecutive quarter, we did make an underwriting profit in commercial auto liability and continue to be enthusiastic about the progress there. Renewal rates in commercial auto liability were up about 15% during the quarter and for the year-to-date nine months.

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In our crop business, harvest pricing for corn and soybeans settled 3% and 14% higher, respectively, than the spring discovery pricing, which is well within acceptable ranges. Recent overall weather conditions are more likely to affect harvest timing than final yield outcomes. Corn harvest progress remains behind average in parts of the western Corn Belt, while soybean harvest is generally advancing at a faster pace.

Recent freezes effectively ended the growing season across northern production areas but are not expected to meaningfully affect mature corn and soybean crops. Based on all these factors, we continue to anticipate an average crop year.

As is our standard practice, we record the majority of our calendar year crop profitability in the fourth quarter, wherein we have better visibility into actual yields and claims activity in our MPCI business, and a clearer indication of the performance of our private product business. The businesses in our Specialty Casualty Group achieved a solid 94.9% calendar year combined ratio overall in the third quarter of 2026, an improvement of nearly a point from the 95.8% reported in the comparable period in 2025. We continue to be mindful of social inflation and remain cautious in our initial loss picks for the lines of business written by the businesses in this Group. Third quarter 2026 gross written premiums in this group increased less than 1% and net written premiums increased 2% when compared to the same prior year period. New business opportunities, strong policy retention and higher rates contributed to growth in several of our Specialty Casualty businesses, particularly our excess and surplus and workers' comp businesses. Though this growth was partially offset by non-renewals of underperforming accounts in certain of our targeted markets businesses, including actions to decrease our casualty footprint in California. Excluding our workers' comp businesses, renewal rates for this group were up approximately 6% in the third quarter. Pricing in this group, including workers' comp was up about 4%. Both measures are an improvement of about 2 points over pricing achieved in the second quarter.

The Specialty Financial Group reported an underwriting profit of $23 million in the third quarter of 2026, compared to $51 million in the third quarter of 2025. The decrease reflects an isolated large loss in our European operations and lower overall levels of favorable prior year development. Gross and net written premiums in this segment were both up 14% in this group when compared to the prior year period, primarily due to growth across our lender services businesses. Renewal pricing in this group was up approximately 4% in the third quarter.

Craig and I are proud of our proven track record of innovation, long-term value creation and a forward-thinking mindset. AFG is well positioned to continue to build long-term value for our shareholders for the remainder of 2026 and beyond.

We will now open the lines for the Q&A portion of today's call, and Craig and Brian and I would be happy to respond to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question will be coming from the line of Hristian Getsov of Wells Fargo. Please go ahead.

Hristian Getsov - *Wells Fargo Securities - Analyst*

Hi, good morning. My first question is on workers' comp. We've heard from a few work comp players that there's some increase in frequency of claims given the expiration of the ACA subsidies and overall affordability challenges. Can you talk about the loss trends you're seeing in your comp book and anything incremental you're seeing in recent quarters, away from the cumulative trauma dynamic you've pointed to in recent calls in your California comp book?

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Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, overall we're really continuing to see flat to slightly down frequency in our workers' comp business. The exception is California, as you mentioned, pretty much driven by the cumulative trauma claims that is pushing frequency up some, both in our Republic book and in our Strategic Comp higher deductible business that's written in California.

We continue to be very pleased with our overall workers' comp underwriting results. They continue to be strong on a calendar year and accident year basis in the third quarter and year-to-date 2026. We're also growing the business. In the third quarter, business was probably up a high single-digit increase and mid-single-digit year-to-date. So we think the loss ratio trends continue to be pretty favorable.

Hristian Getsov - *Wells Fargo Securities - Analyst*

Got it. Thank you. Can you think about --

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

California obviously being --

Hristian Getsov - *Wells Fargo Securities - Analyst*

You can finish your thought, sorry.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, when you look at the -- pretty much all parts of our workers' comp business, excluding Republic in California, are doing well. California would be the exception where we have a moderate underwriting loss there.

Hristian Getsov - *Wells Fargo Securities - Analyst*

Got it. And then as we think about competition widening into casualty lines away from just property, and you obviously continue to see very strong growth across your portfolio, how should we think about growth trending from here? Are there still enough opportunities to maintain a mid-single-digit or better top-line growth number?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

In casualty or overall as a company?

Hristian Getsov - *Wells Fargo Securities - Analyst*

Just overall.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah. I think we're showing that in our quarter's growth and in our year-to-date growth. I think that's one of the benefits of having 35 specialty businesses. Not all the business is correlated to the general property and casualty cycle. There's businesses like crop that have double-digit growth or commercial auto where others are still struggling with fixing the underwriting results and we're in good shape and are finding

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opportunities to grow. Our excess liability business in Specialty Casualty and workers' comp are growing. So, yeah, we continue to find good opportunities for growth. Really, the majority of our businesses of those 35 are showing some growth.

Hristian Getsov - *Wells Fargo Securities - Analyst*

Got it. And one more, if I may. The non-renewals in the California casualty book, is there any size we can get with that? And are you expecting any other non-renewal actions as we kind of think about the Q4 and 2027?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

I think I've really mentioned over the past year, in businesses like SHS or nonprofit business that we've been more defensive there. So, that gets to be kind of an account by account basis, quarter by quarter, and what we decide to do. And our public sector business, I think we're also being more careful about and really kind of reducing our California exposures there.

Hristian Getsov - *Wells Fargo Securities - Analyst*

Great. Thank you.

Operator

One moment for the next question. Our next question will be coming from the line of Andrew Andersen of Jefferies. Please go ahead.

Andrew Andersen - *Jefferies LLC - Analyst*

Hey, good morning. Specialty Casualty's accident year loss ratio increased to about 65% from 63.5% in the first half of the year. Could you just talk about what drove the increase? Should we think of that as normal volatility, business mix, or was there a change in underlying loss trend there?

Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

So you're looking at Specialty Casualty accident year loss ratio ex-cats?

Andrew Andersen - *Jefferies LLC - Analyst*

Yep.

Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

So for the quarter, we're seeing some improvement there coming out of our E&S businesses in particular. So if you look at the third quarter of 2026 versus the third quarter of 2025, we're seeing better results out of our excess and surplus lines from lower severity there.

Andrew Andersen - *Jefferies LLC - Analyst*

It does look like a little bit higher compared to the beginning of the year.

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Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

Some of that would just be -- if you're looking at two quarters before that, a lot of that would just be more a mix of business there throughout the year. When you look at the nine months, we're fairly consistent at the loss ratio ex-cats right around 64%.

Andrew Andersen - *Jefferies LLC - Analyst*

Got it. And as we think of the Specialty Financial segment, it's had pretty strong growth despite pricing being more moderate compared to a few years ago, but could you talk about what's driving that strong growth in lender services and how sustainable you think that is into next year?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, we continue to be optimistic about our ability to grow the business. There are a number of different businesses within the group. And Specialty Equipment Services is a business we don't talk about that much, but we're seeing nice growth there. It's kind of an embedded product that's sold on the front end of capital goods as their sales made, we do that in Europe and also the US and our basic lender -- Yeah, so with our lender-placed property business continues to be healthy and growing and so has a tendency to be a little bit lumpier.

Andrew Andersen - *Jefferies LLC - Analyst*

Thank you.

Operator

Thank you. One moment for the next question. Our next question will be coming from the line of Michael Zaremski of BMO. Please go ahead.

Michael Zaremski - *Bank of Montreal - Analyst*

Hey, thanks. Good morning. In the Specialty Casualty segment, there was a little bit of a reserve release. I know not a huge number, but nice to see the biggest number in a while. I don't know if you want to provide any color there.

Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

Sure. This is Brian. So what we'll see -- as a reminder, we look at our reserves by business unit each quarter and make adjustments as needed. In some of the previous quarters, we've had things going both directions, which kind of always happens. But what we're really seeing here is the social inflation-exposed businesses behaving better. So in that number, which is a net of some favorable and some adverse development, there's less adverse development.

So it didn't come from excessive workers' comp releases or anything like that. It's really just a good solid performance across the whole group of casualty businesses. We're especially pleased by the behavior of the social inflation-exposed businesses where, on a net basis, they were favorable, which hasn't always been the case.

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Michael Zaremski - *Bank of Montreal - Analyst*

Got it. On the social inflationary business, and I think Carl made a comment or Brian, you made a comment earlier too about seeing a little less loss trend in E&S in Specialty Casualty, but just kind of overall, has there been any change to the absolute loss trend? Is the slope changing or is it more AFG has been picking at its reserves at higher levels, so the loss trend relative to your expectations is coming in a bit better year over year? Does that make sense?

Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

Yeah, I mean, we react to bad news as quickly as we can. So we would strive to be on the conservative side of our accident year picks with the hope that we will be correct or that we are more likely to have favorable than adverse development. So in areas like commercial liability where we're seeing profit now, we're still keeping our initial loss picks higher. And the same thing would be true in the social inflation-exposed businesses in casualty, where we're being sensitive in our current year loss picks despite seeing flatter trends overall.

So we're not really seeing a big change in frequency or severity overall in social inflation exposed lines. But obviously, we're not going to call victory on that, and we're going to be mindful of that as we reserve for our businesses and price our businesses for quite a while.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, and I continue to be enthusiastic about the pricing that we're getting in the social inflation-exposed lines. I think I had mentioned in my comments, commercial auto rates being up 15%. I didn't mention things like excess liability rates are still up 10%plus year-to-date. Our nonprofit business, particularly as we increase rates tied to abuse, overall nonprofit rates are up some 7% year-to-date. So, I mean, those are still strong -- those are still strong pricing, in those particular social inflation-exposed businesses.

Michael Zaremski - *Bank of Montreal - Analyst*

That's helpful. And I guess just my follow-up would be on the pricing environment. I guess one of the beauties of your business model is you have a lot of diversification. But in terms of the sequential increase in -- so you can choose your spots, but in terms of the sequential increase in pricing, is this more of a specific to American Financial Group, given your kind of business mix changes you're making more intentionally or is this kind of the marketplace as well?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Well, I think it's always some of both. But again, quarter by quarter, they're going to be based off of what your mix is in a quarter, there'll be slight changes. That said, with pricing a point higher, we'll take it in the third quarter, that's pretty good along with the growth that we had. So I really like as an organization, the balance of rate and growth opportunity that we have across our businesses right now.

Michael Zaremski - *Bank of Montreal - Analyst*

Got it. And just lastly, the California Insurance Commissioner race, I know that this is usually a personal home sometimes auto question, but just want to, are there any -- does the industry or AFG have any thoughts about whether the insurance commissioner would be making tweaks to the commercial or workers' comp kind of lines in her agenda?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Probably too early to tell. But I think there's a lot bigger focus on things like homeowners affordability in California, wildfires. There seems to be a lot bigger focus on other areas than workers' comp. I mean, when you look at workers' comp rates up until this year, workers' comp

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rates have gone down for everybody. Finally, with combined ratios in the industry in the 120s, finally, there's been some rate increase. We just filed a 9.1% increase effective in this fourth quarter. And we're achieving 6% rate increase in California. I don't think the commissioner is going to have much impact on comp rate. If anything, maybe some partial additional reform tied to the combined ratios that are impacting the industry.

Michael Zaremski - *Bank of Montreal - Analyst*

Helpful. Thank you.

Operator

Thank you. One moment please, for the next question. Our next question is coming from the line of Paul Newsome of Piper. Please go ahead.

Paul Newsome - *Piper Sandler - Analyst*

Good morning. Congratulations on the quarter. With the business mix shifting around, any signs that -- I think I know what the answer is, any signs that you're seeing a shift towards more admitted as opposed to less E&S kind of a topical question. And I don't know if that would have any impact on your overall rate environment, if something is happening there.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

The question is, are we seeing any meaningful shift of E&S business back to the admitted market?

Paul Newsome - *Piper Sandler - Analyst*

That's right. Yes. Sorry if I wasn't clear.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, at this point, I don't think, we're seeing anything that's meaningful.

Paul Newsome - *Piper Sandler - Analyst*

So, I guess we're pushing back a little bit on the rate increases, given where everything else is happening. Any thoughts to giving a little additional color as to why -- knock on wood, you guys are seeing a little bit better rate. Is it just mix, more of things like auto that have higher rates or is it something else that would make your current outlook for price increases a little different than your peers?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, I think it's kind of our mix, but our intentionality, particularly around, as I mentioned earlier, around social inflation-exposed businesses to make sure that we're getting rates that help us meet or exceed our targeted returns in some of those businesses. Naturally, commercial auto is an area that we're continuing to get sizable rates. Commercial auto is around 12% of our business. So I suppose that could have a more meaningful impact.

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Paul Newsome - *Piper Sandler - Analyst*

That's good. Appreciate the help as always.

Operator

Thank you. (Operator Instructions) One moment for the next question. Our next question is coming from the line of Mitchell Rubin of Raymond James. Please go ahead.

Mitchell Rubin - *Raymond James - Analyst*

Hey, good morning. This is Mitch on for Greg. Earlier in the year, you had expected multi-family conditions to improve in the second half of 2026. How have your expectations for the timing and extent of that recovery changed?

Craig Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer*

This is Craig. It's probably coming a bit slower than we would have expected. Having said that, there clearly are signs that we're in the early stage of recovery. After several years of unprecedented supply growth, the supply and demand is coming back into balance. Some markets still have excess supply that will take a bit more time to absorb, but demand continues to be healthy.

Let me just give you a couple of stats that I think tell the story. Units under construction are now roughly 50% below their early 2023 peak. Construction starts are running 28% below the 10-year average. So clearly, future delivery should continue to moderate, creating a much more favorable supply environment in the years ahead.

The gap between the cost of owning and renting remains very substantial, probably as great as we've ever seen since we've been in the business. Construction costs remain elevated. For a lot of reasons, we think that we're in the early stages of a turn and it is happening a bit later than I would have expected, but it's coming.

Mitchell Rubin - *Raymond James - Analyst*

I appreciate the color. In response to another question, you mentioned opportunities to grow commercial auto, while others are remediating their books. How should we think about your appetite for growth in 2027 and where within the book do you see the most compelling opportunities?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, I think that we're excited about having continued opportunities to grow the business. I think some of the uniqueness in what we do is that 70% or so of our group premium is in alternative risk captive solutions where a little bit more sticky members want loss prevention and work towards having lower losses.

I think our diversity of business and our specialization and kind of our market leadership and businesses like passenger transportation, moving and storage, the owner-operator truck physical damage space, things like paratransit, medical transportation, crane and heavy haul, we're looked at as a leader, and I believe that that specialization and leadership gives us the opportunity to grow our business.

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Mitchell Rubin - *Raymond James - Analyst*

Thanks for the answers.

Operator

Thank you. One moment for the next question. Our next question is coming from the line of Meyer Shields, Keefe, Bruyette & Woods. Please go ahead.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Great. Thanks so much. I was hoping for a little bit more color on the large European loss, maybe its size, and how it interacts with facultative reinsurance.

Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

Sure. This is Brian. So we don't typically get into a lot of details about individual claims. That particular claim is a fire and business interruption claim coming out of our European business. If you pulled that unusual claim out, you would see our loss and LAE ratio accident year ex-cats was very consistent with the first half of this year, which is reflective of our business mix.

So another way to say that is, if you took that loss out, our combined ratio for the Financial segment would be in the high 80s versus above 90 and sort of in line with our expectations. So it really is the driver of that accident year loss ratio ex-cats going up, and without that, it would be more what we've seen in the last couple of quarters.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Okay, no, that is helpful. Thank you. On the Property and Transportation side, I guess one of the things that makes it a little bit hard to interpret is how disruptive to the math crop premiums in the third quarter can be. I was hoping you can get a sense as to how everything besides crop was performing in the third quarter relative to the third quarter of last year.

Brian Hertzman - *American Financial Group, Inc. - Chief Financial Officer, Senior Vice President*

Sure. And you are correct, as Carl said, and as you know, we book our crop profit more in the fourth quarter when we know the outcome. At the same time, the crops are in the ground, mostly in the third quarter. So we have a very large amount of earned premium booked at a high combined ratio for crop. And with the crop business growing, it's a bigger portion of Property and Transportation. So if you were to pull out the crop business, you would see accident year loss ratio ex-cats are very comparable to last year's third quarter and also to the sort of first half of this year, remembering that we're being cautious in things like commercial auto liability and our accident years, despite seeing improved performance there. And on the development side, we have favorable development across almost every business in Property and Transportation.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Okay, perfect. That's helpful. And then finally, I was just hoping to get a few words from Craig, in terms of what last night's election means for his expectations for interest rates over the next couple of years.

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Craig Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer*

Meyer, that's hard for me to predict, to be honest. I mean, this morning you see rates moving down a bit. I wish I had a better crystal ball on that, but that's a hard one for me to answer.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

I do trust your crystal ball a lot, thus the question. But thank you.

Operator

Thank you. (Operator Instructions) Our next question is a follow-up from Michael Zaremski of BMO. Michael Zaremski of BMO. Please go ahead.

Michael Zaremski - *Bank of Montreal - Analyst*

Great. In terms of specifically the lender-placed insurance business, I believe you articulated last quarter that the growth was more being driven by a change in the reinsurance program. Just seeing if there are any added color or changes there, placement rates are changing or distribution market share and just kind of get more want to see if that's still the main driver, or if there's anything else going on. Thanks.

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah. Maybe what you're talking about is a quota share agreement that we had -- that we put into place that reduced our Florida exposures within the lender services area. I think that ended in – they renewed in April. So think of it this way, after April, there's not as much impact to net written premiums versus gross written premiums going forward, as there would have been in the prior 12-month period of time. So pretty much now our gross written premium growth in that business converts into a more similar net written premium growth. So the business is growing and it's healthy and continues to earn the returns that we're targeting.

Michael Zaremski - *Bank of Montreal - Analyst*

And just -- thank you for the clarification. Is pricing much of a factor there? In the consumer home insurance marketplace, it's easier to track pricing, but I think there's less elasticity or just less volatility in pricing on lender-placed? Would that be a fair statement?

Carl Lindner - *American Financial Group, Inc. - Co-Chief Executive Officer, Director*

Yeah, it's different than the homeowners market. It's a product with more limited coverage and so I'm not sure it's really -- yeah, it's not really comparable. Serves a different purpose.

Michael Zaremski - *Bank of Montreal - Analyst*

Thank you.

Operator

Thank you. This does conclude today's Q&A session. I would now like to turn the call back over to Diane for closing remarks. Please go ahead.

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Diane Weidner - *American Financial Group, Inc. - Vice President of Investor & Media Relations*

Thank you all for joining us this morning as we shared some more information about our third quarter results and we look forward to talking with you all again as we report the results for the end of the year. Thank you all and have a great day.

Operator

Thank you for joining today's programming. You may now disconnect.

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