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# Review of Second Quarter 2019

August 7, 2019

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# Forward Looking Statements

Certain statements made during this call, 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, annuity non-core earnings, discontinued operations, and certain nonrecurring items. AFG believes that this non-GAAP measure is a useful tool for investors and analysts in analyzing ongoing operating trends of AFG.

# 2019 Second Quarter Highlights and 2019 Expectations

- Core net operating earnings per share of \$2.12
  - strong operating profitability and investment results in our Specialty P&C insurance and Annuity operations
  - second quarter annualized core operating ROE of 15%
- Net earnings of \$2.31 per diluted share
  - includes \$0.48 in after-tax net realized gains on securities and a negative impact of \$0.29 per share related to newly-reclassified Annuity non-core items
- Midpoint of AFG's 2019 core earnings guidance maintained with a narrowed range of \$8.40 - \$8.80 per share
  - compared to our previous guidance of \$8.35 to \$8.85 per share

# Property & Casualty Results

Dollars in millions

	Three Months Ended June 30,		Change <sup>1</sup>
	2019	2018	
Gross Written Premiums	\$ 1,664	\$ 1,665	-%
Net Written Premiums	\$ 1,264	\$ 1,257	1%
P&C Insurance Operating Earnings	\$ 175	\$ 180	(3%)
Specialty P&C Underwriting Profit	\$ 60	\$ 73	(18%)
Specialty P&C Combined Ratio	95.0%	93.7%	1.3%
Adverse (Favorable) Impact of:			
Catastrophe Losses	0.9%	1.4%	(0.5%)
Prior Year Development	(3.4%)	(3.9%)	0.5%

<sup>1</sup> Calculated as a percentage change for dollars and an arithmetic difference for percentages.

# Specialty P&C Groups

Dollars in millions

	Net Written Premiums Three Months Ended June 30,			Combined Ratio Three Months Ended June 30,	
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2019</u>	<u>2018</u>
Property & Transportation	\$ 422	\$ 422	-%	99.1%	93.9%
Specialty Casualty	\$ 662	\$ 639	4%	92.5%	95.1%
Specialty Financial	\$ 149	\$ 159	(6%)	85.6%	85.6%

# 2019 Outlook – Specialty P&C

	Updated Guidance		Previous Guidance	
	NWP Growth	Combined Ratio	NWP Growth	Combined Ratio
Specialty P&C Group Overall	2% – 5%	92% – 94%	0% – 3%	92% – 94%
Business Groups:				
Property & Transportation	4% – 8%	93% – 97%	3% – 7%	92% – 96%
Specialty Casualty	2% – 6%	90% – 94%	(2%) – 2%	91% – 95%
Specialty Financial	(4%) – 0%	87% – 91%	3% – 7%	88% – 92%
P&C investment income	+ 2% to 6%		flat to up 4%	
P&C average renewal rates	+ 2% to 4%		+ 1% to 3%	

# Annuity Segment

Dollars in millions

	Three Months Ended June 30,		<u>Change</u>
	<u>2019</u>	<u>2018</u>	
Annuity Premiums	<u>\$ 1,349</u>	<u>\$ 1,399</u>	(4%)

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## Pretax Annuity Core Operating Earnings – see slide 8

<b>Annuity Core Operating Earnings – New Method</b>	<b>\$ 104</b>	<b>\$ 113</b>
Amounts Previously Reported as Operating Earnings	<u>n/a</u>	<u>(14)</u>
Pretax Annuity Core Operating Earnings – as reported	<u>\$ 104</u>	<u>\$ 99</u>

# Annuity Segment

Dollars in millions

	Three Months Ended June 30,	
<u>Pretax Annuity Core Operating Earnings:</u>	<u>2019</u>	<u>2018</u>
Pretax earnings before certain items below	\$ 147	\$ 141
Investments marked to market through core operating earnings – net of DAC	29	33
Amortization of option costs – net of DAC	<u>(72)</u>	<u>(61)</u>
Pretax Annuity core operating earnings – new method	104	113
Other amounts previously reported as operating, net <sup>1</sup>	<u>n/a</u>	<u>(14)</u>
Pretax Annuity core operating earnings – as reported	<u>\$ 104</u>	<u>\$ 99</u>
 <i>Year over year growth in quarterly average invested assets</i>	 <b>12%</b>	 <b>10%</b>
 <i>Yield on investments marked to market through core operating earnings</i>	 <b>11.2%</b>	 <b>16.4%</b>

<sup>1</sup> “Other” primarily reflects (i) the impact of fair value accounting, (ii) the impact of changes in the stock market on the liability for guaranteed benefits and DAC, and (iii) unlocking.



# Fixed Annuities

Dollars in millions

Three Months Ended  
June 30,

2019      2018      Change<sup>1</sup>

Average Fixed Annuity Investments      \$ 37,907      \$ 33,935      12%

Average Fixed Annuity Reserves      \$ 38,202      \$ 34,165      12%

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Core Net Interest Spread – New Method      2.08%      2.28%      (0.20%)<sup>2</sup>

## Net Spread Earned:

Core Net Spread Earned – New Method      1.11%      1.34%      (0.23%)<sup>2</sup>  
Items Previously Reported as Operating      n/a      (0.16%)      nm

Core Net Spread Earned, As Reported<sup>3</sup>      1.11%      1.18%      (0.07%)

<sup>1</sup> Calculated as a percentage change for dollars and an arithmetic difference for percentages.

<sup>2</sup> The decrease in spreads reflects higher FIA renewal option costs and lower income from investments required to be marked to market through operating earnings.

<sup>3</sup> Amounts for 2019 are calculated using the new definition of core operating earnings. Amounts for 2018 are shown as originally reported.

# 2019 Outlook – Annuity Segment

	<u>Updated Guidance<sup>1</sup></u>	<u>Previous Guidance</u>
Pretax Annuity Core Earnings, as reported	\$375 to \$405 million	\$365 to \$425 million
Average Fixed Annuity Investments	+9% to 11%	+ 8% to 10%
Average Fixed Annuity Reserves	+9% to 11%	+ 8% to 10%
Annuity Premiums	(5%) to (10%)	flat to down slightly
Core Net Spread Earned, as reported	1.00% to 1.10%	N/A

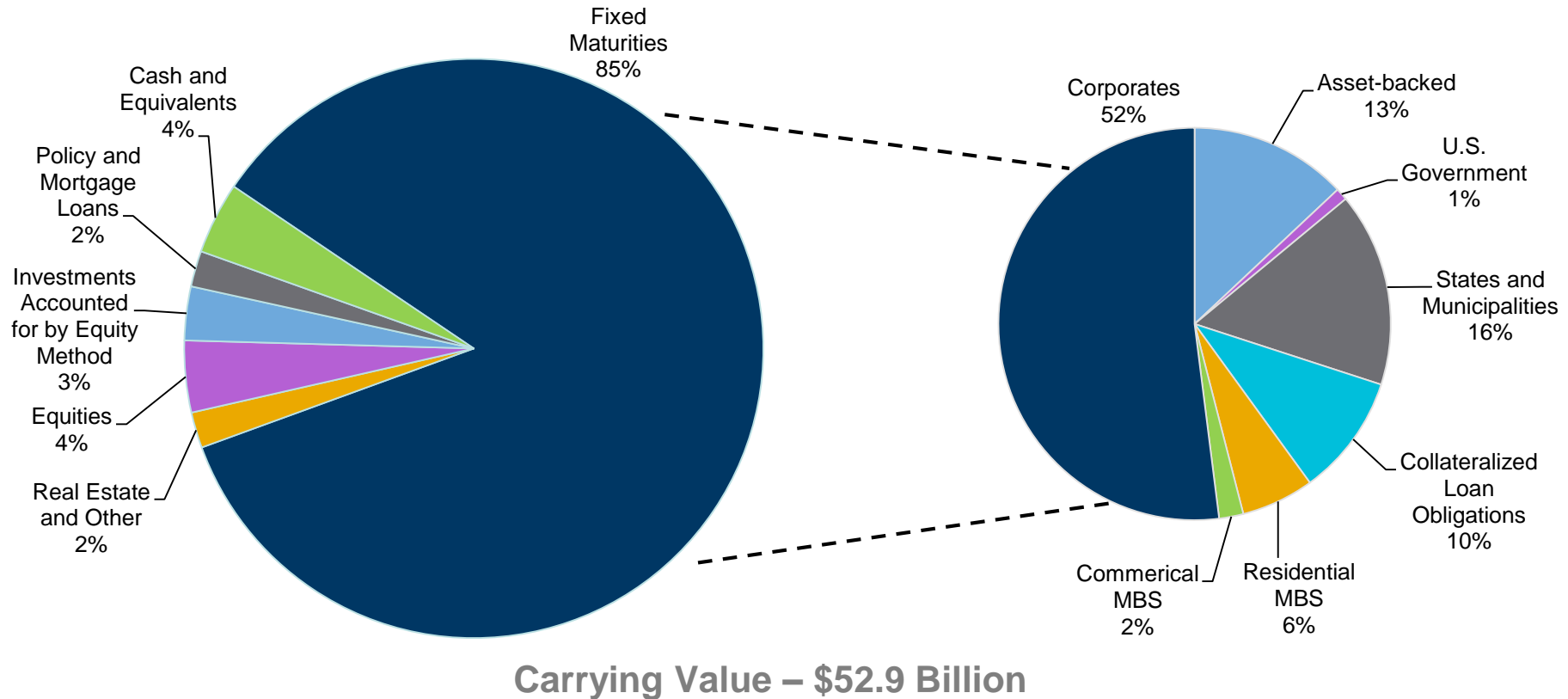
<sup>1</sup> Updated guidance reflects (i) renewal option costs in line with recent purchases, (ii) a return of 8% to 10% on investments required to be marked to market through operating earnings, in contrast to the 11% earned in the first half of 2019, (iii) the negative impact that lower long-term reinvestment rates will have on the runoff of the Annuity segment's investment portfolio, and (iv) the negative impact that lower short-term rates are expected to have on the Annuity segment's net investment in cash, short-term investments and floating rate securities, which were approximately \$4 billion at June 30, 2019. Fluctuations in these items could lead to significant positive or negative impacts on the Annuity Segment's results.

# Investments – June 30, 2019

- Total carrying value of investment portfolio = \$52.9 billion
- Second quarter after-tax, after-DAC net realized gains on securities of \$45 million
  - includes \$29 million in after-tax, after-DAC net realized gains to adjust equity securities the company continues to own to fair value through earnings
- After-tax, after-DAC net unrealized gains on fixed maturities of \$812 million

# Investment Portfolio – June 30, 2019

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



# Consolidated Results

Dollars in millions, except per share data

	Three Months Ended June 30,	
	2019	2018
P&C Insurance Segment	\$ 175	\$ 180
Annuity Segment – new method	104	113
Annuity Results Previously Reported as Operating Earnings	-	(14)
Interest & Other Corporate Expenses <sup>1</sup>	(42)	(48)
Core Pretax Operating Earnings	237	231
Related Income Taxes	45	46
Core Net Operating Earnings	<u>\$ 192</u>	<u>\$ 185</u>
Average Number of Diluted Shares	91.0	90.7
Core Net Operating Earnings per Share	\$ 2.12	\$ 2.04
Annualized Core Operating Return on Equity	14.7%	15.1%

<sup>1</sup> Other Corporate Expense includes income and expenses associated with AFG's run-off businesses.

# Consolidated Results (continued)

Dollars in millions, except per share data

	Three Months Ended June 30, 2019	
		(Per Share)
Core Net Operating Earnings	\$ 192	\$ 2.12
<u>Non-core Items</u>		
After-tax Realized Gains on Securities	45	0.48
Annuity Non-Core Earnings (Loss)	<u>(27)</u>	<u>(0.29)</u>
Net Earnings Attributable to Shareholders	<u>\$ 210</u>	<u>\$ 2.31</u>

# Book Value and Liquidity

• Book Value per Share:	<u>6/30/19</u>	<u>12/31/18</u>
Excluding unrealized gains (losses) related to fixed maturities	\$ 58.49	\$ 54.86
Tangible, excluding unrealized gains (losses) related to fixed maturities, goodwill and intangibles	\$ 55.65	\$ 51.93

• 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 \$1.0 billion, including parent cash of approximately \$135 million as of June 30, 2019

# 2019 Outlook – AFG

AFG Core Earnings Guidance \$8.40 – \$8.80 per share

	NWP Growth	Combined Ratio
Specialty P&C Group Overall	2% – 5%	92% – 94%
<u>Business Groups:</u>		
Property & Transportation	4% – 8%	93% – 97%
Specialty Casualty	2% – 6%	90% – 94%
Specialty Financial	(4%) – 0%	87% – 91%

P&C investment income between 2% and 6% higher than 2018

P&C average renewal rates up between 2% and 4%

## Annuity Segment:

- Pretax Annuity Core Operating Earnings \$375 million to \$405 million
- Annuity premiums down 5% to 10% from the \$5.4 billion reported in 2018





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