



Specialty Property and Casualty Insurance Fixed and Fixed-Indexed Annuities

Bank of America Merrill Lynch
2018 Insurance Conference

February 14, 2018

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 one of only five companies rated "A" (Excellent) or better by A.M. Best for over 100 years
- Ward's 50 List



Insurance Businesses

P&C			Annuity
Property & Transportation	Specialty Casualty	Specialty Financial	
 <ul style="list-style-type: none"> • Inland and Ocean Marine • Agricultural-Related • Aviation • Commercial Automobile (buses, trucks) 	 <ul style="list-style-type: none"> • Executive and Professional Liability • Umbrella and Excess Liability • Excess and Surplus • General Liability • M&A Liability • Targeted Programs • Workers' Compensation 	 <ul style="list-style-type: none"> • Fidelity / Crime • Surety • Lease and Loan Services • Financial Institution Services 	 <ul style="list-style-type: none"> • Fixed and Fixed-Indexed Annuities • Sold in retail, financial institutions and education markets

\$46 Billion Investment Portfolio Managed In-House

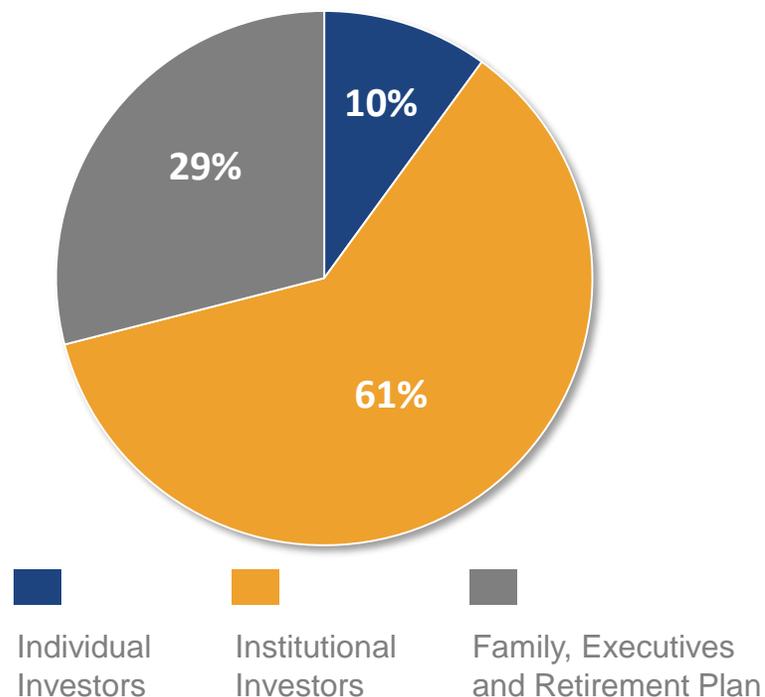
Building Long-Term Value for AFG Shareholders



Culture • Entrepreneurial Business Model • Incentives

Significant Insider Ownership

AFG Shareholder Base



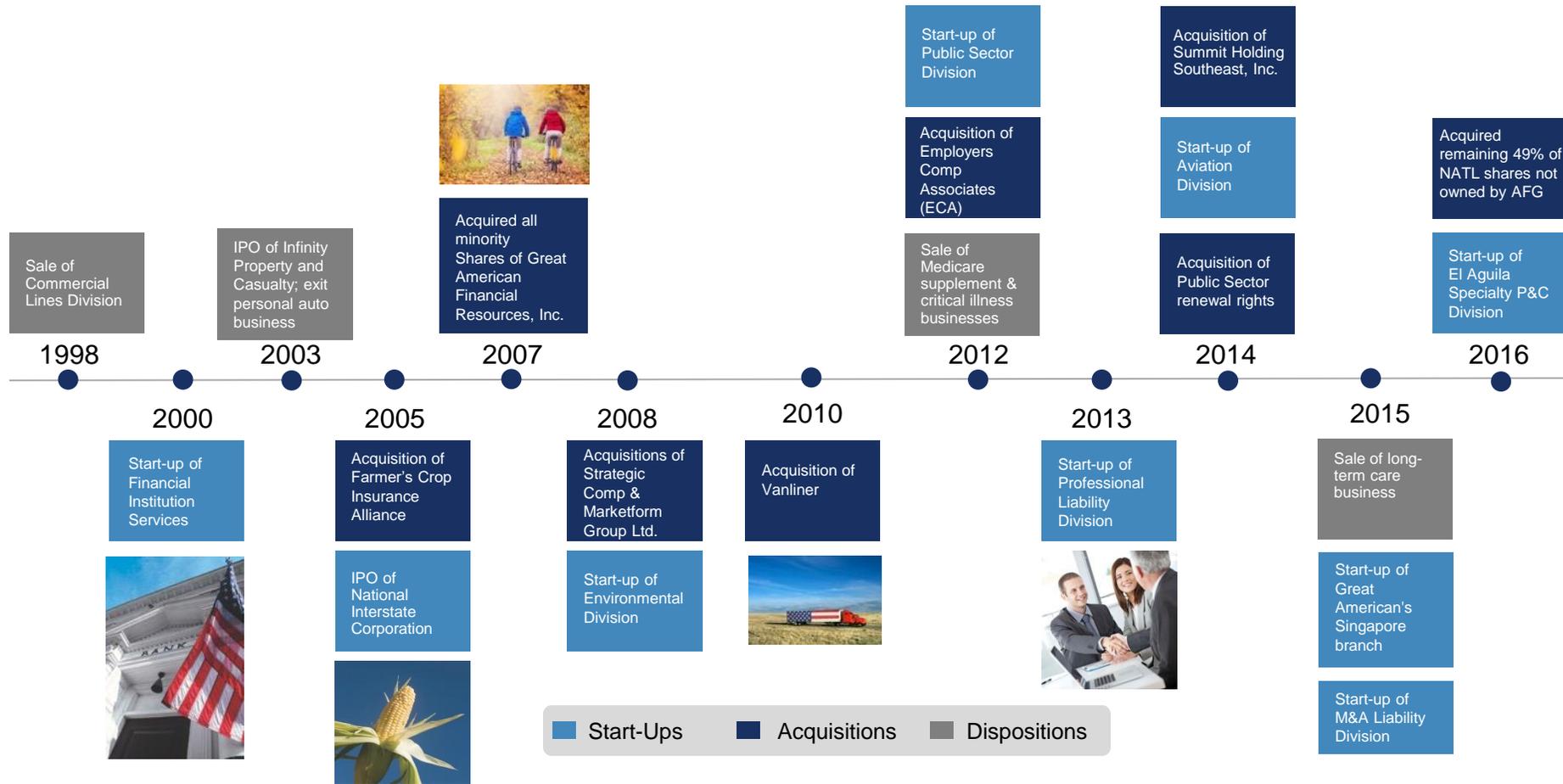
Significant ownership by management creates strong alignment of interests with shareholders over the long term

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

Ownership Details

- Co-CEOs / family = 25%
- Executives and Retirement Plan = 4%

Focusing on What We Know Best



Intelligent Use of Excess Capital

2017 Capital Management

- 12% increase in regular annual dividend
 - 12th consecutive annual dividend increase
 - five year CAGR in dividends ~ 12%
- Two special dividends paid in 2017
 - \$1.50 per share in May 2017
 - \$2.00 per share in November 2017
- Excess capital at 12/31/2017 – \$885 million
- 4.1 million shares remaining in repurchase authorization as of 2/1/2018

Capital Returned to Shareholders Five Years Ended 12/31/2017 (in millions)

Total Repurchases	\$ 520
Dividends Paid	<u>1,116</u>
Total	<u><u>\$ 1,636</u></u>



\$1.6 Billion Returned to Shareholders

Compounded Shareholder Return

As of December 31, 2017

	<u>5 Years</u>	<u>10 Years</u>
AFG	26.6%	17.4%
S&P 500 Property & Casualty Insurance Index	19.9%	9.9%
S&P 500 Life & Health Insurance Index	17.8%	4.4%
S&P Midcap Insurance	20.8%	12.8%
S&P 500	15.8%	8.5%

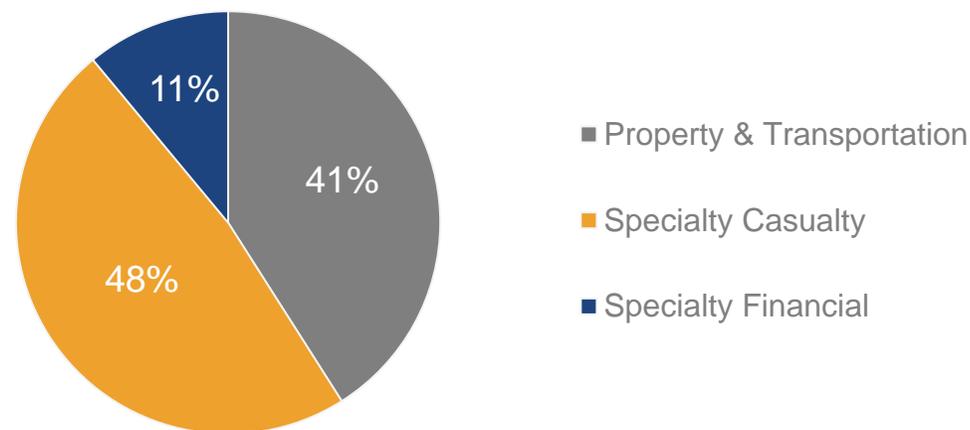
Price appreciation plus dividends through 12/31/17.

Source: Bloomberg

Specialty Property & Casualty Premium

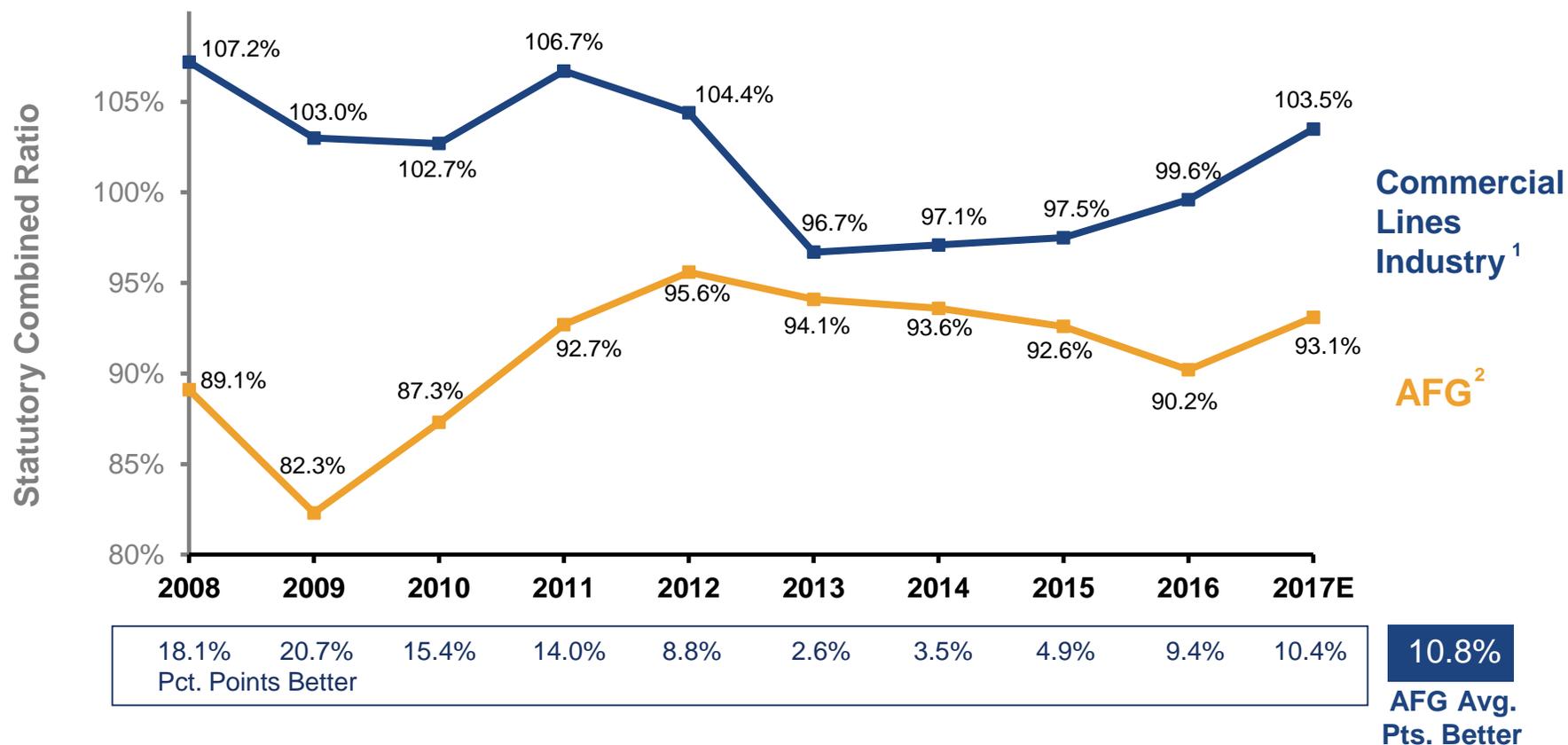
Low correlation • Lower relative coastal exposure

**Gross Written Premiums
Full Year 2017
\$6.5 Billion**



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

Superior Underwriting Talent

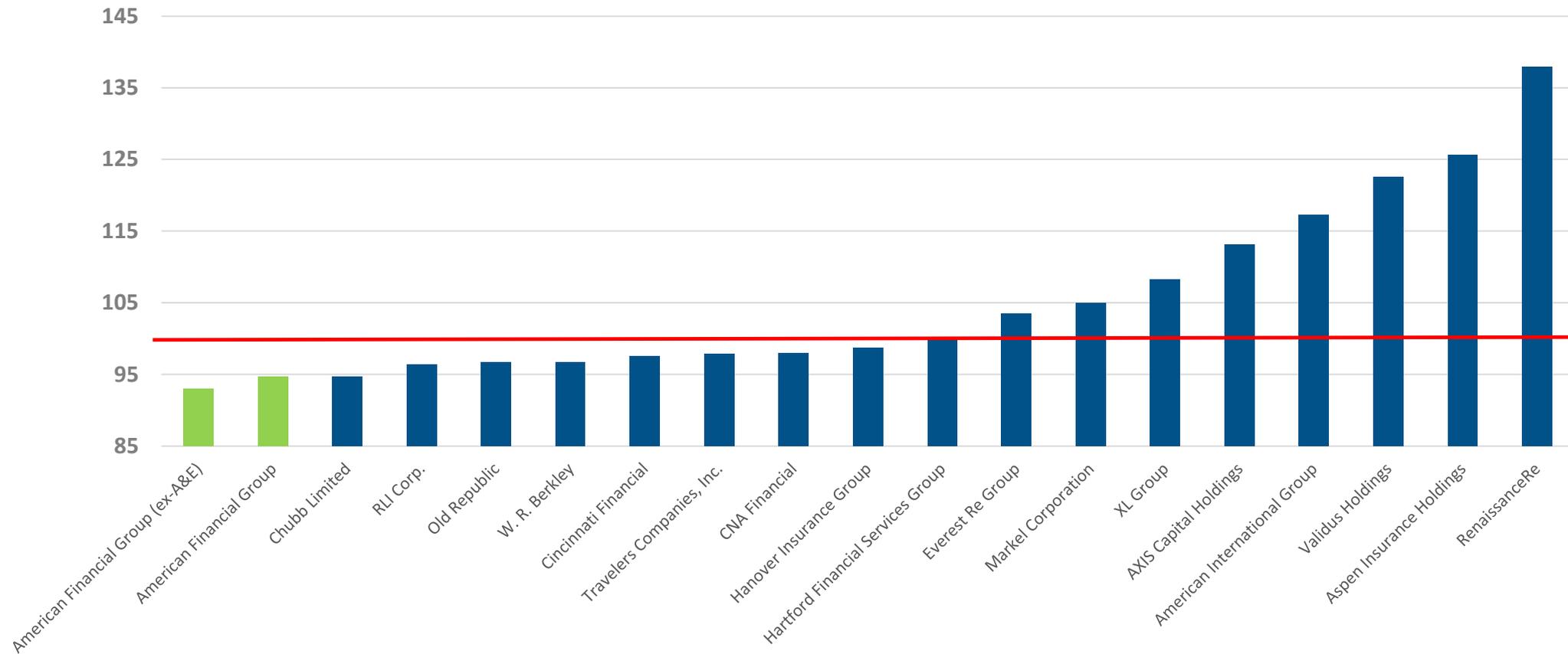


¹ Commercial Lines Industry based on data from A.M. Best's U.S. Property/Casualty Review & Preview – February 6, 2018.

² American Financial Group Form 10K filings.

Industry Outperformance

2017 Combined Operating Ratio

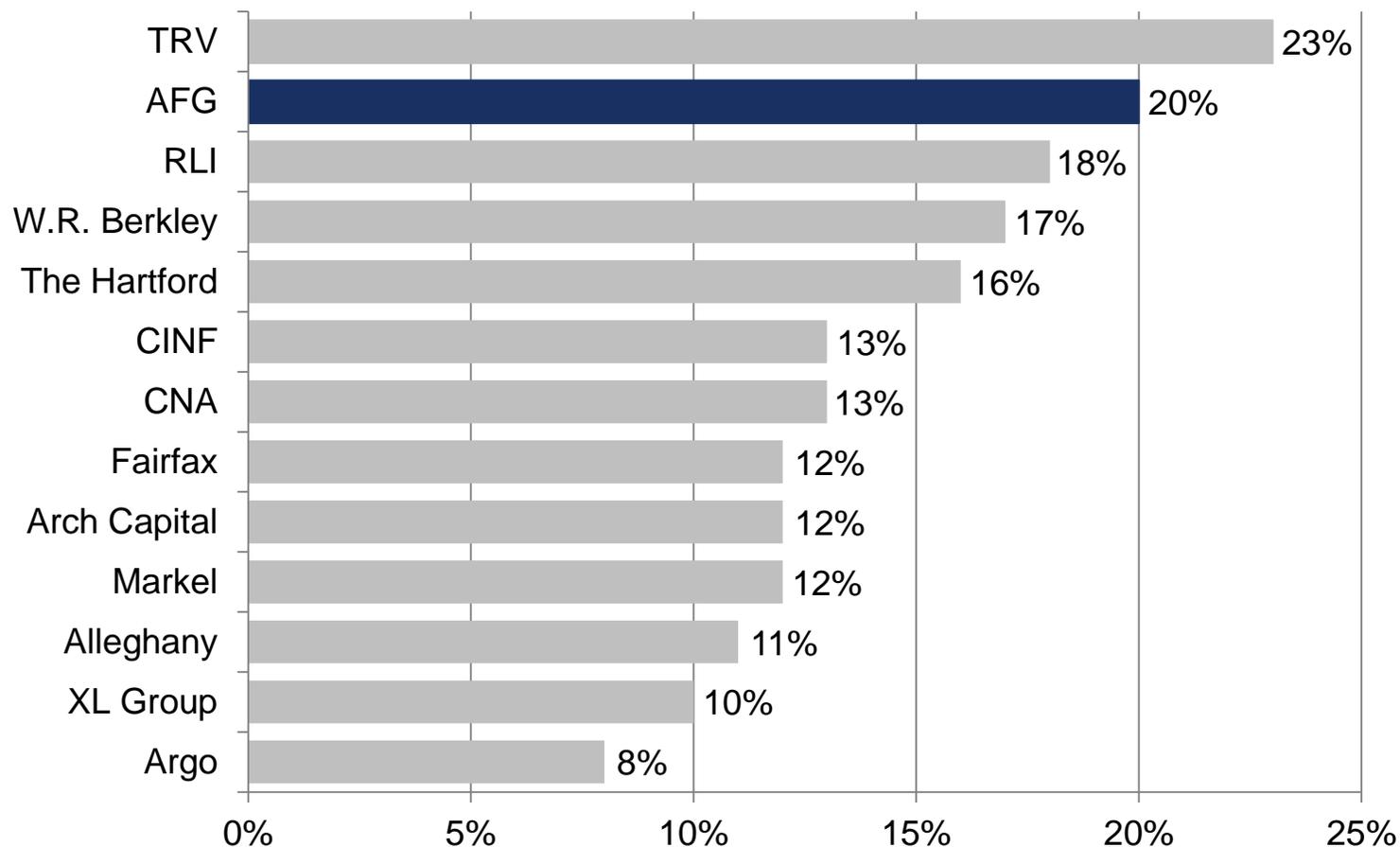


Source: S&P Global Market Intelligence (data through 2/12/18)

Strong Alignment Creates Superior Underwriting Results

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

Pretax Property & Casualty Returns 2012 - 2016

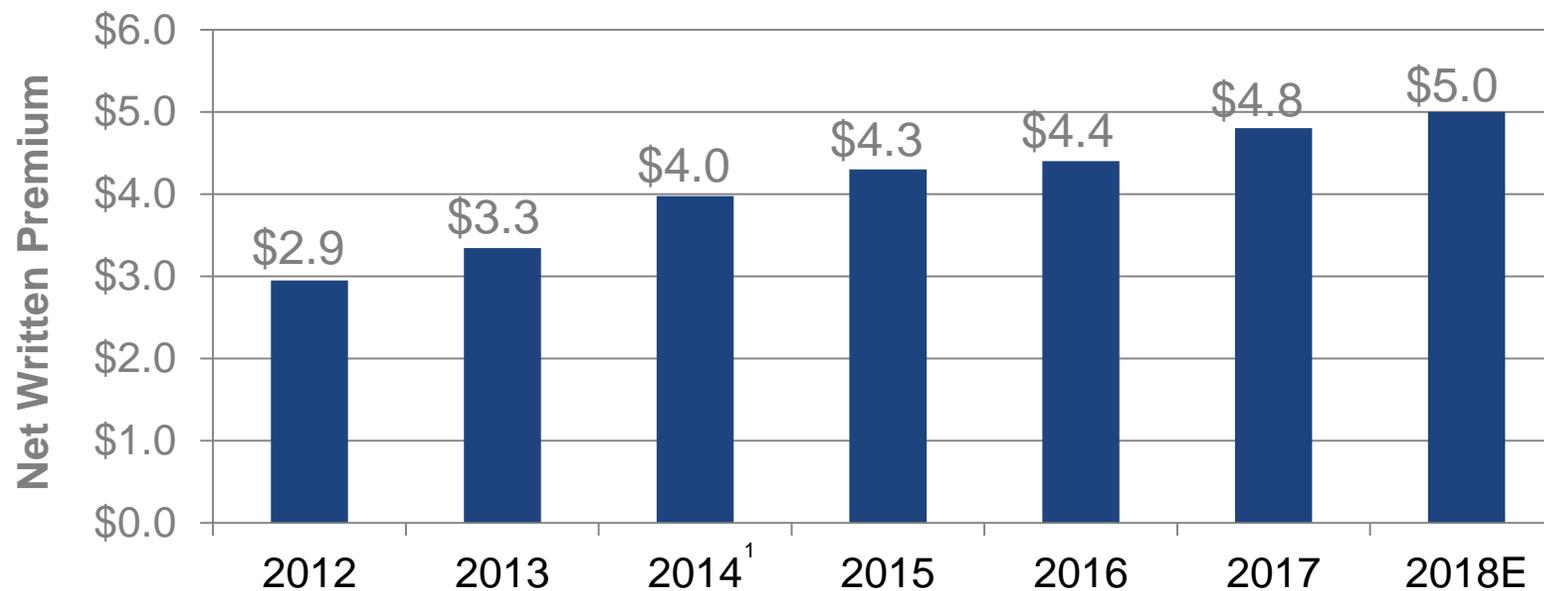


Source: Dowling & Partners

Specialty Property & Casualty Premium Growth

Dollars in billions

P&C Net Written Premium and Renewal Rates



Rate Increases	2012	2013	2014 ¹	2015	2016	2017	2018E
	3%	4%	3%	1%	1%	1%	1% - 3%

¹ Includes Summit premiums for nine months.

Annuity Segment – Overview

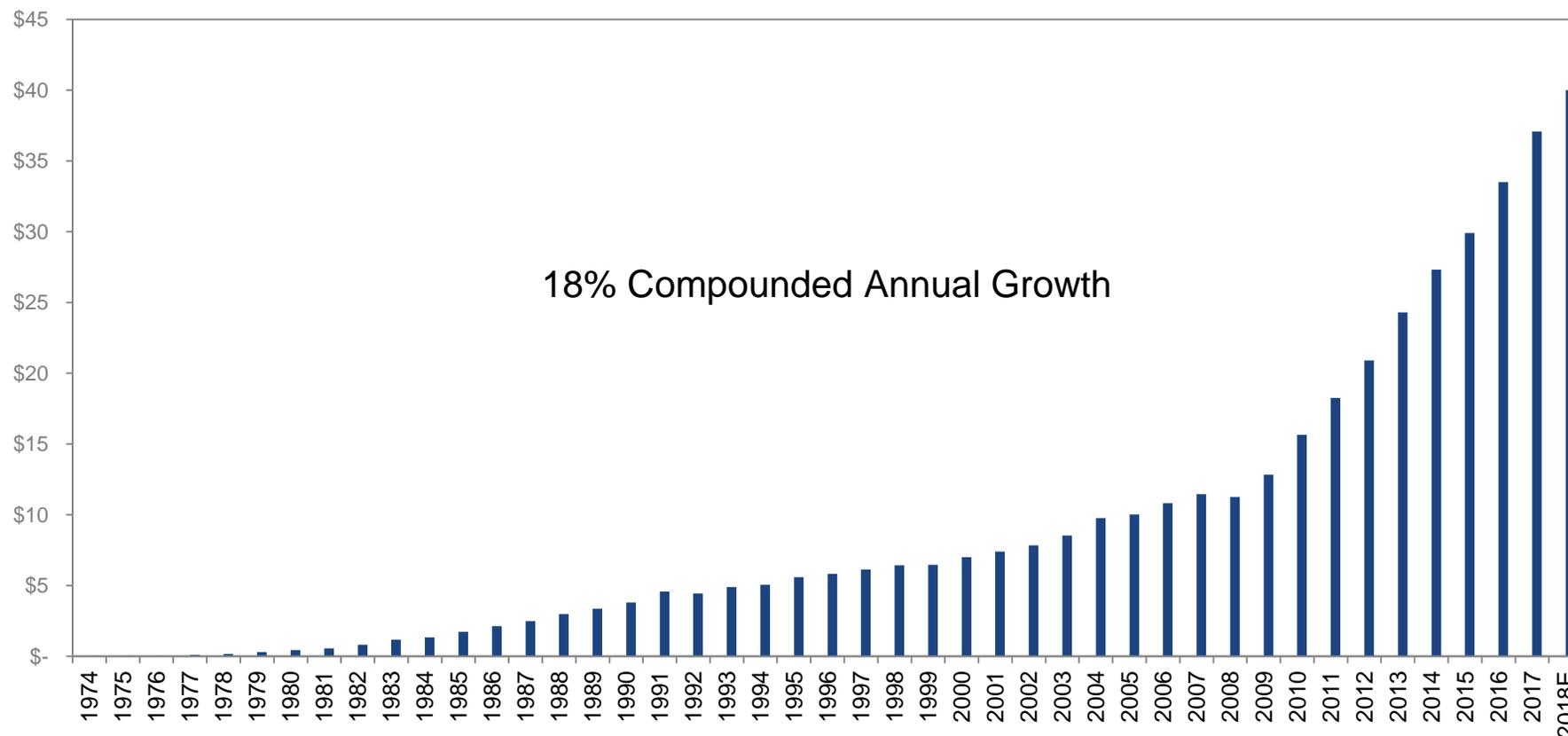
- Significant transformation since 2009
- Record earnings and assets in 2017
- Leader in its channels
- Consumer-centric business model has generated strong statutory earnings, resulting in excess capital and significant dividend paying capacity
- Emphasis on
 - appropriate pricing in challenging and changing environment (ROEs vs. premium growth)
 - expense discipline – invest wisely in people and infrastructure

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)

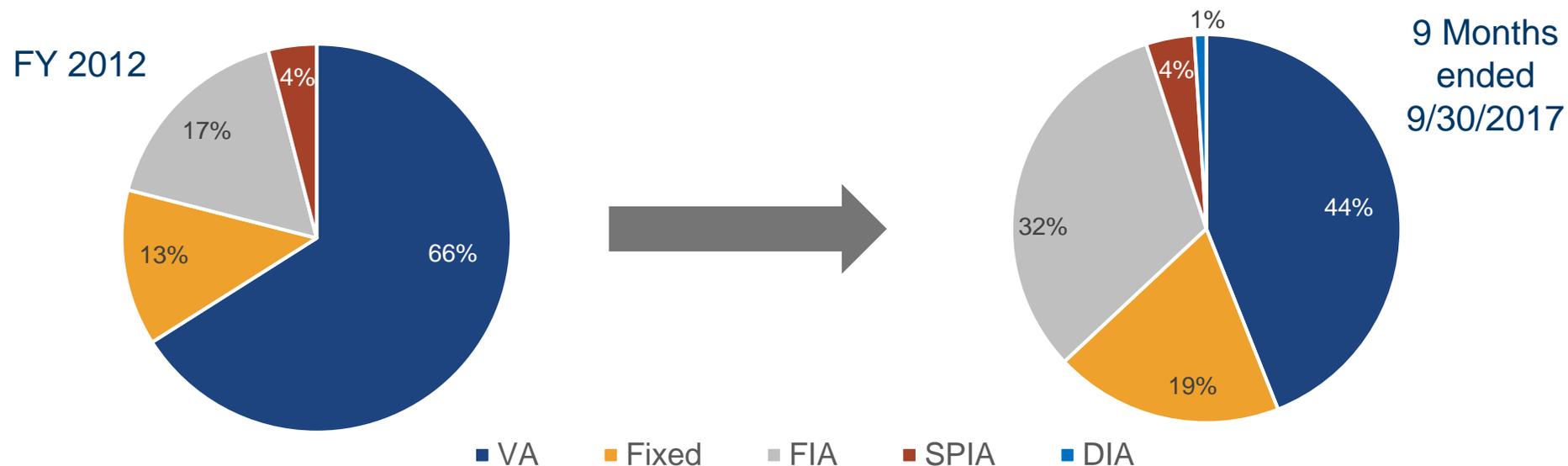
Dollars in billions



Annuity Market Share by Product Line

Dollars in billions

Shift from Variable Annuities to Traditional Fixed and Fixed-Indexed Annuities
*Fixed-indexed annuity market share **increased by more than 80%***

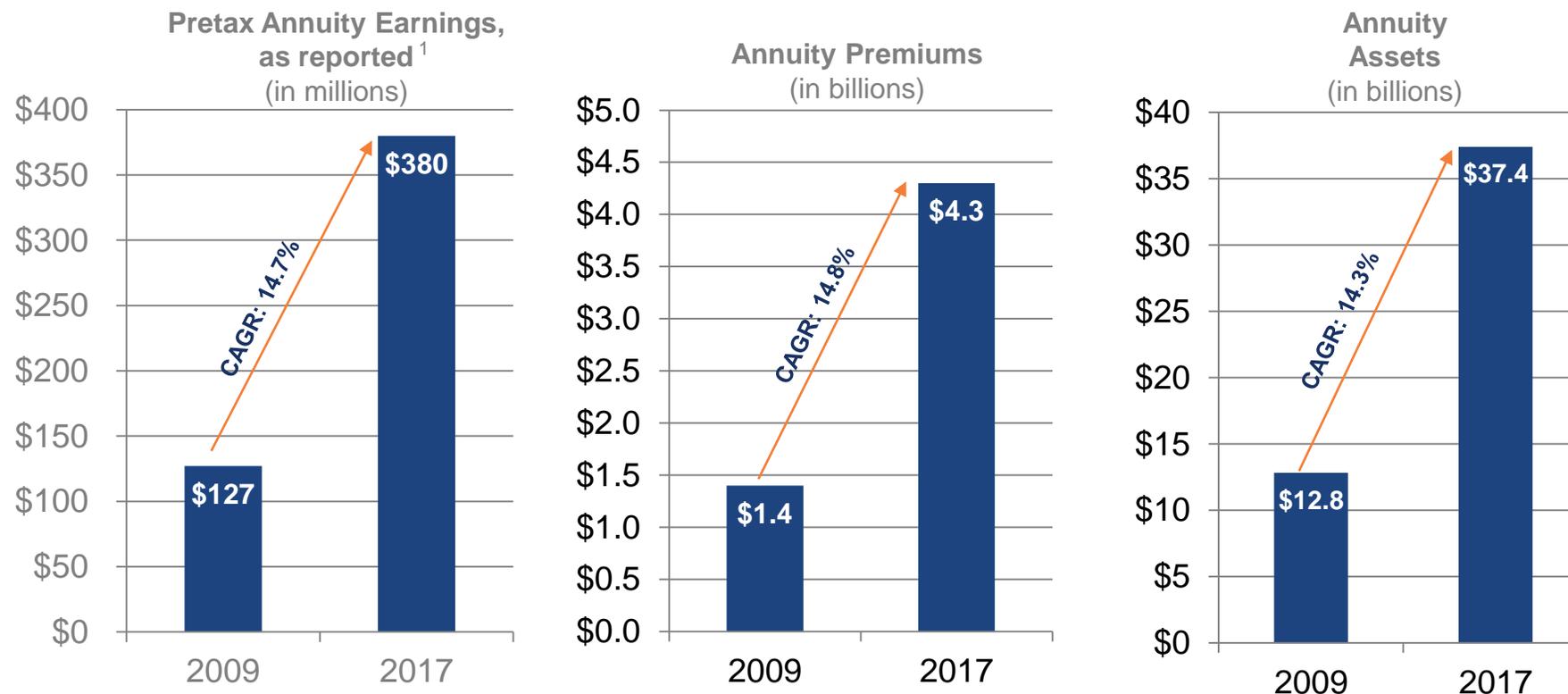


Market share for Bank, Independent B-D, Independent Agent, Full-Service BD, and Career Agent Channels only; Source: LIMRA

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
- Tripled earnings, tripled premiums, nearly tripled assets
- Reduced unit costs significantly
- Significantly improved ROEs
- Ratings
 - no downgrades during recession
 - upgrades by S&P and Moody's since recession

Growth in Annuity Earnings, Premiums and Assets



¹ After the impact of fair value accounting for FIAs.

Diversified Specialty Niche Insurance Businesses – Annuity



Channel	Market Rank	Distribution	Product Focus	2017 Premiums
Financial Institutions	#1 FIAs #4 in Total Sales	30+ Financial Institutions; ~ 5,000 agents – Direct through Financial Institutions – Independent Agents and Brokers	<ul style="list-style-type: none"> • Fixed Annuities • Fixed-Indexed Annuities 	\$2.3B
Retail (Independent Producers)	#5 Indexed Sales Top 10 in Total Sales	<ul style="list-style-type: none"> • Over 5,000 Retail Agents – Independent Marketing Organizations (IMOs) – Independent Broker Dealers – Registered Investment Advisors 		\$1.8B
403(b)		<ul style="list-style-type: none"> • PPGAs • Insurance Agent • Broker Dealer 		\$0.2B

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

Market results through 9/30/17 as reported by LIMRA for deferred annuities.

Protection From Changes in Interest Rates

As of December 31, 2017

Protection From Rising Interest Rates

- 87% of inforce annuities have some surrender penalty
 - 61% of annuity reserves have a surrender charge of 5% or higher
 - 9% of these annuity reserves are two-tier in nature, with an average surrender charge of 14%
- Other product features that should encourage persistency or discourage lapses
 - 19% with 3%+ GMIR
 - 25% with an MVA or Longevity Rider
 - almost 40% of new sales electing some form of trail or multi-year commission when available
- Asset duration shorter than liability duration by 0.7 (5.10 vs. 5.80)
- Unrealized gain in bond portfolio of \$1.2 billion (104% of book value)

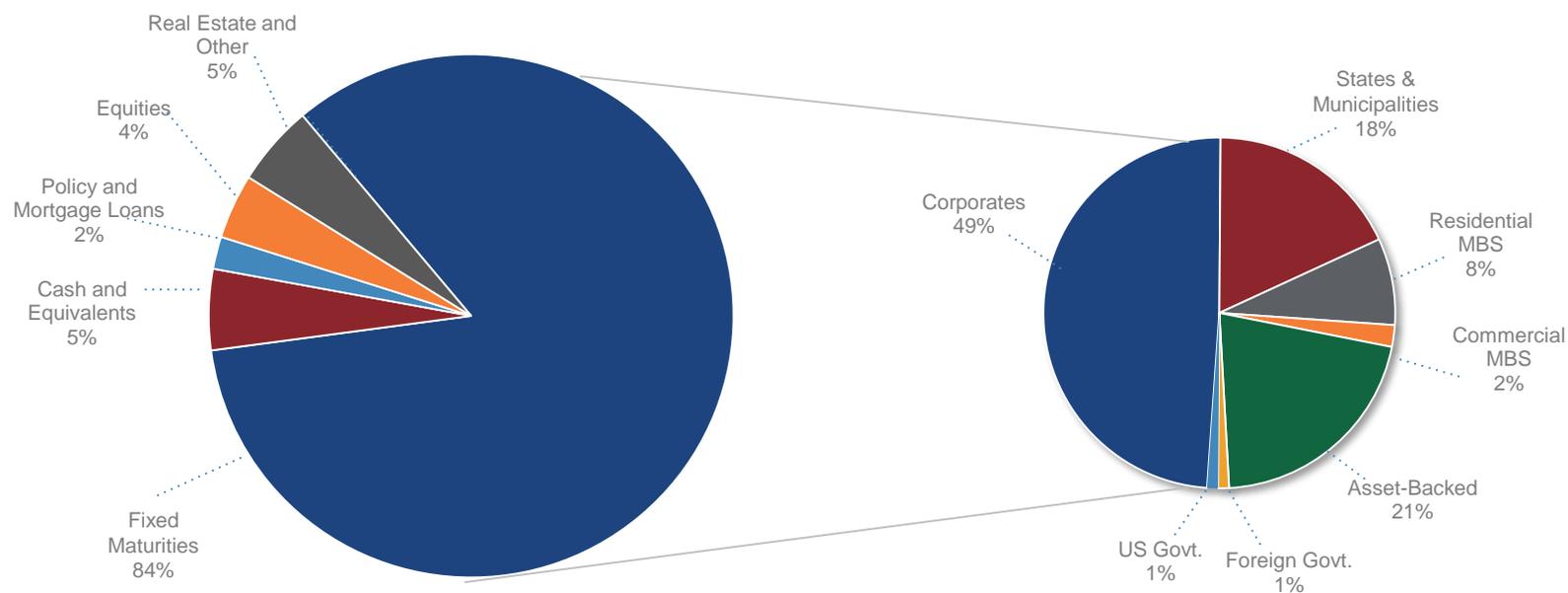
Protection From Falling Interest Rate Environment

- Ability to lower crediting rates by 92 bps on \$25 billion of reserves (excludes immediate annuities and FIAs with riders)
- Produces extra \$230 million of pretax income
- Low upfront costs to recover (lower commissions than competitors, low or no bonuses)

AFG Investment Portfolio

As of December 31, 2017

Fixed Maturities Portfolio – 90% investment grade; 98% NAIC 1 & 2



Carrying Value – \$46.0 Billion

Investment Portfolio Information and Outperformance

	Property & Casualty	Annuity & Runoff
Approximate Average Duration – Fixed Maturities as of December 31, 2017	4.0 years	5.0 years
Annualized yield on available for sale fixed maturities		
Quarter ended 12/31/17:		
• Net of investment expenses ^(a)	3.54%	4.61%
• Tax equivalent, net of investment expenses ^(b)	4.03%	4.61%

^(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 Nine Years Ended 12/31/16¹

AFG	6.4%
Benchmark: Blended Insurance Industry ²	<u>5.4%</u>
Outperformance	<u><u>1.0%</u></u>

≈ \$2.0 Billion Total Return Outperformance

¹ 2008-2016 time period captures the beginning of the global financial crisis.

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

2018 Outlook – AFG

AFG Core Earnings Guidance \$7.90 – \$8.40 per share

	<u>NWP Growth</u>	<u>Combined Ratio</u>
Specialty P&C Group Overall	3% – 7%	92% – 94%
<u>Business Groups:</u>		
Property & Transportation	2% – 6%	92% – 96%
Specialty Casualty	3% – 7%	92% – 96%
Specialty Financial	2% – 6%	85% – 89%

P&C average renewal rates up 1% to 3%

P&C investment income approximately 4% to 6% higher than 2017

Annuity Segment:

- Full year pretax annuity earnings before fair value accounting for FIAs, \$400 million to \$430 million
- Full year pretax operating earnings, as reported, \$385 million to \$425 million
- Full year annuity premiums up 2% to 6% from the \$4.3 billion reported in 2017

APPENDIX

Financial Highlights

Dollars in millions, except per share amounts

	Twelve Months Ended December 31,	
	<u>2017</u>	<u>2016</u>
• Results of Operations:		
– Core net operating earnings	\$ 588	\$ 534
– Core net operating earnings per share	\$ 6.55	\$ 6.03
– Average number of diluted shares	89.8	88.5
	Dec. 31,	Dec. 31,
	<u>2017</u>	<u>2016</u>
• Book Value per Share:		
– Excluding unrealized gains (losses) related to fixed maturities	\$ 53.51	\$ 53.11
– Tangible, unrealized gains (losses) related to fixed maturities	\$ 50.95	\$ 50.43
• 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 \$885 million at December 31, 2017, including parent cash of approximately \$300 million.		

Specialty Property & Casualty Businesses

Dollars in millions

	Net Written Premiums			
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018E</u>
Specialty Property & Transportation	\$ 1,636	\$ 1,672	\$ 1,765	2% – 6%
Specialty Casualty	\$ 2,052	\$ 2,036	\$ 2,280	3% – 7%
Specialty Financial	\$ 540	\$ 572	\$ 596	2% – 6%
Other Specialty	<u>\$ 99</u>	<u>\$ 106</u>	<u>\$ 110</u>	n/a
Total Specialty	<u>\$ 4,327</u>	<u>\$ 4,386</u>	<u>\$ 4,751</u>	3% – 7%

Specialty Property & Casualty Businesses

	GAAP Combined Ratio			
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018E</u>
Specialty Property & Transportation	96.9%	90.0%	91.0%	92% – 96%
Specialty Casualty	92.7%	96.1%	95.2%	92% – 96%
Specialty Financial	83.1%	84.9%	89.4%	85% – 89%
Other Specialty	85.5%	91.4%	102.7%	n/a
Total Specialty	93.1%	92.3%	93.1%	92% – 94%

Annuity Segment

Dollars in millions, unless otherwise noted

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018E</u>
Annuity Premiums	\$ 4,140	\$ 4,435	\$ 4,341	2% to 6%
Average Fixed Annuity Investments	\$ 25,174	\$ 28,223	\$ 31,250	8% to 10%
Average Fixed Annuity Reserves	\$ 24,898	\$ 28,146	\$ 31,526	8% to 10%
Pretax Annuity Earnings (before fair value accounting for FIAs)	\$ 354	\$ 395	\$ 413	\$400 to \$430 million ¹
Pretax Annuity Earnings, as Reported ²	\$ 331	\$ 368	\$ 380	\$385 to \$425 million ¹
Net Spread Earned ³ (before fair value accounting for FIAs)	1.35%	1.39%	1.33%	1.20% to 1.30%
Net Spread Earned ³	1.26%	1.29%	1.23%	1.17% to 1.29%

¹ Assumes interest rates and stock market rise moderately.

² After the impact of fair value accounting for FIAs.

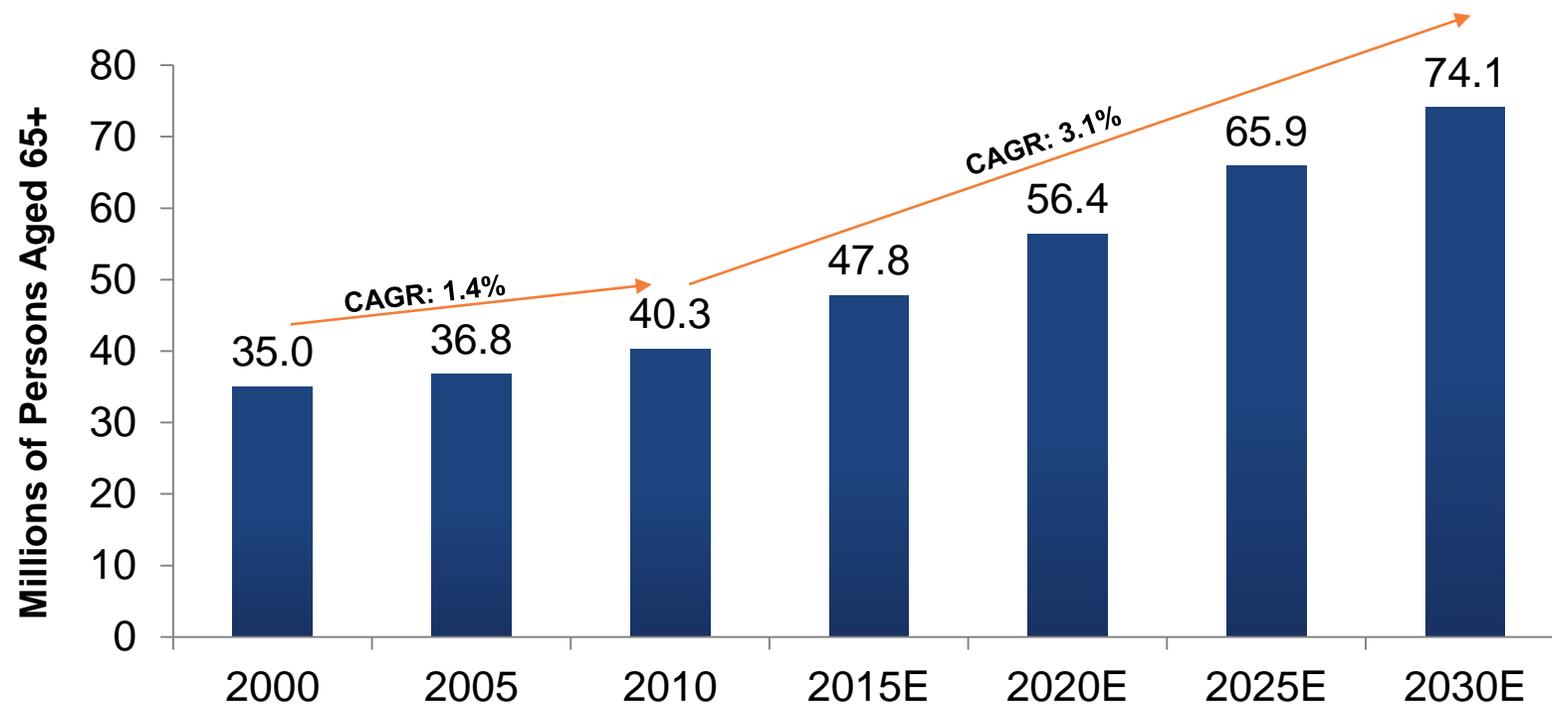
³ Calculated as Net Spread Earned excluding fair value accounting for FIAs, offset by the estimated related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs.

Snapshot of Current AFG Annuity Segment Sales

- Target market = middle and mass affluent baby boomers (not high wealth clients)
- Average single premium policy size ~\$100,000
- Approximately 80% of 2017 sales were FIA
- About 50% of 2017 sales were qualified / IRA
- Almost 15% of new FIA premiums have riders
- Almost 40% of sales have some form of "non-heaped" commissions
- Each product is priced to its own risk-adjusted return target, 12% in aggregate

U.S. Growth in Persons Aged 65+

Population in millions

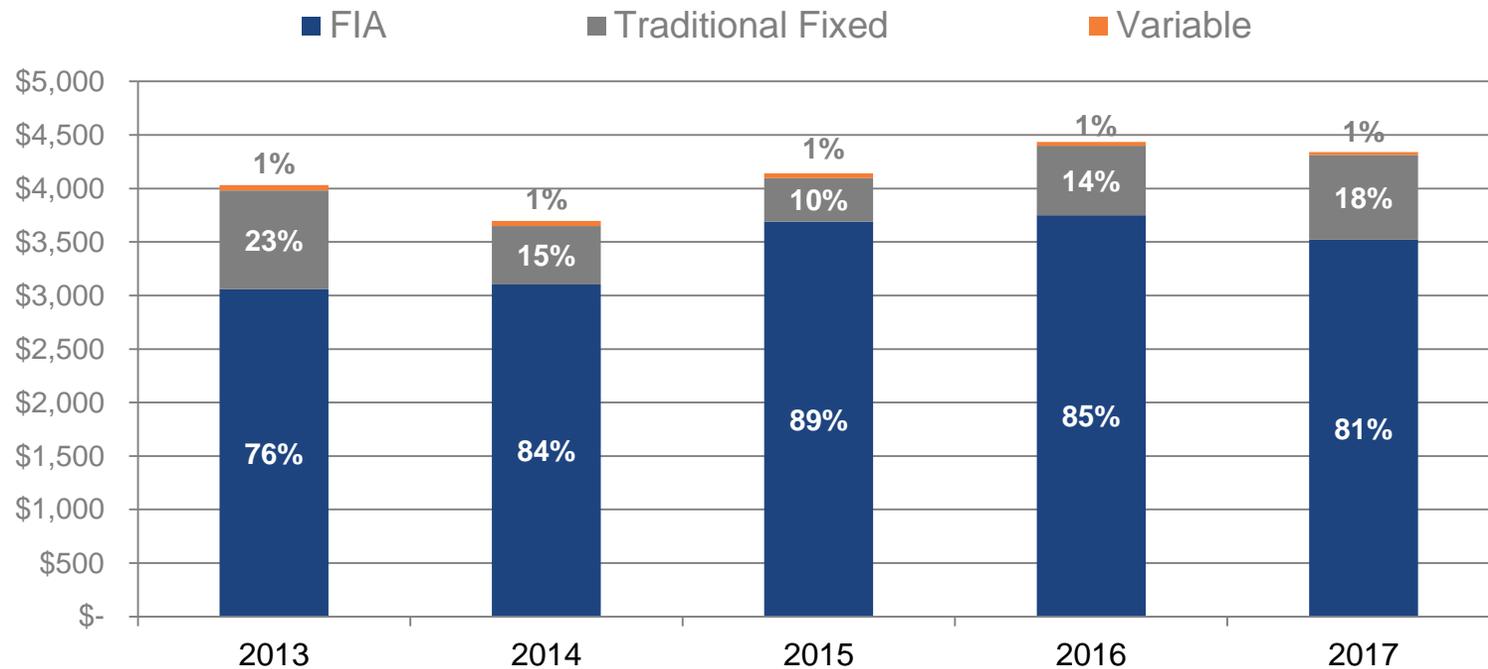


Source: U.S. Census Bureau, 2014 National Projections.

Annuity Product Snapshot

Dollars in millions

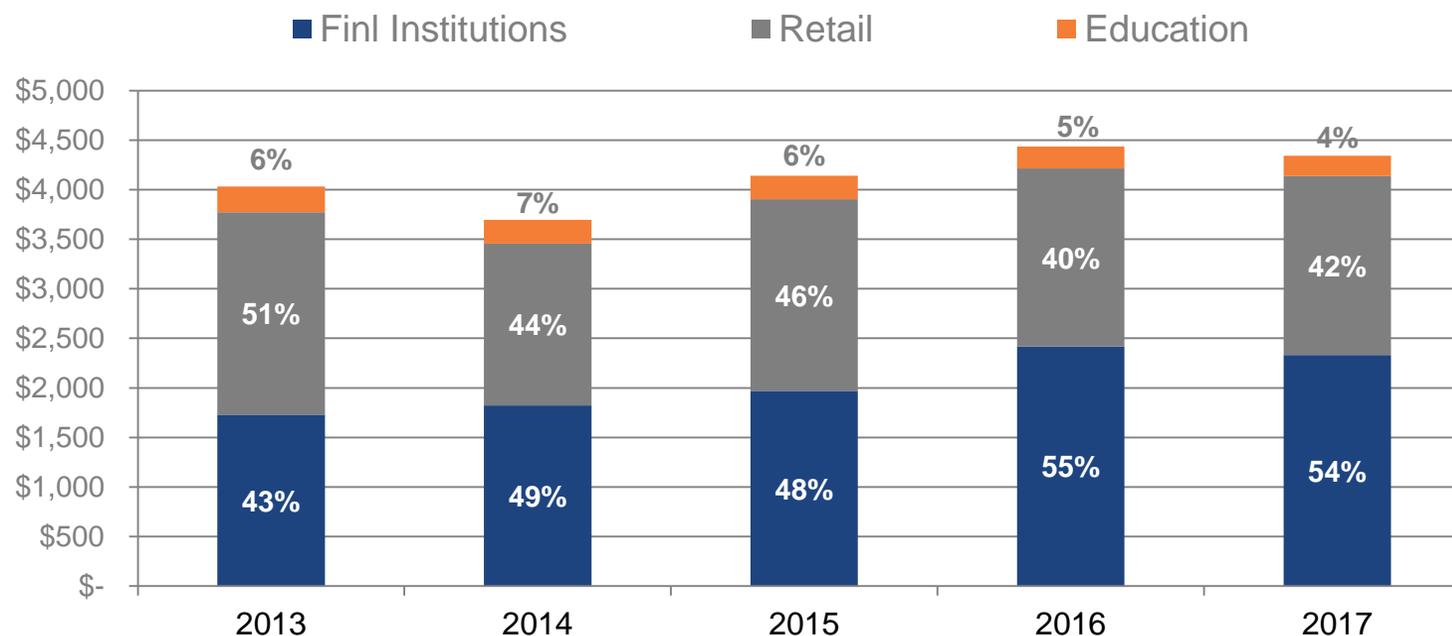
Premiums by Product Line



Annuity Product Snapshot (continued)

Dollars in millions

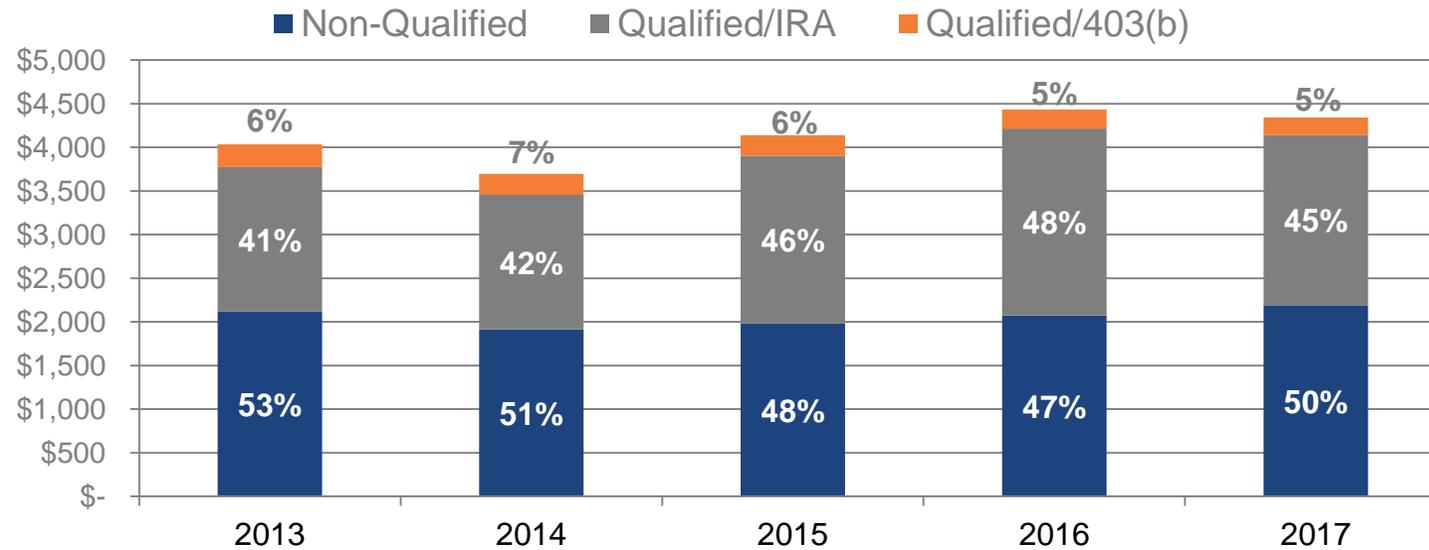
Premiums by Distribution Channel



Annuity Product Snapshot (continued)

Dollars in millions

Premiums by Tax Qualification Type



Annuity Sales by Type

For three months ended December 31, 2017

