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AFG - Q1 2016 American Financial Group Inc Earnings Call

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MAY 03, 2016 / 3:30PM, AFG - Q1 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 first-quarter 2016 results conference call.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Ms. Diane Weidner, Assistant Vice President of Investor Relations. You may begin, ma'am.

Diane Weidner - *American Financial Group, Inc. - Assistant VP of IR*

Good morning and welcome to American Financial Group's first-quarter 2016 earnings results conference call. I'm 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. If you are viewing the webcast from our website you can follow along with the slide presentation, if you'd like.

Certain statements made during this call 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 factors which could cause actual results and/or financial conditions 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 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 significant items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, discontinued operations, and certain nonrecurring items. AFG believes this non-GAAP measure is a useful tool for analysts and investors in analyzing ongoing operating trends and will be discussed for various periods during this call. A reconciliation of 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.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

Carl Lindner - American Financial Group, Inc. - Co-CEO

Good morning. We released our 2016 first-quarter results yesterday afternoon. I am assuming that our participants have reviewed our earnings release in the investor supplement that is posted on our website.

I'll begin on slide 3 of the webcast slides. We are pleased to report core earnings per share of \$1.25, equal to last year's record first-quarter results. We believe the results in the quarter showcase the value and the diversity of our portfolio of specialty property and casualty and annuity businesses.

Annualized core operating return on equity was 10.3% for the 2016 first quarter compared to 10.8% in the first quarter of 2015. Our net earnings per diluted share were \$1.14 including realized losses on sales of securities of \$0.11 per share.

We repurchased \$76 million of AFG's common shares during the quarter at an average price of \$67.78. Share repurchases, particularly when executed at attractive valuations, are an important and effective component of our capital management strategy. We are maintaining our 2016 core operating earnings guidance for AFG in the range of \$5.35 to \$5.75 per share. Craig and I will each discuss our guidance for each segment of our business later in the call.

Now, let's take a closer look at AFG's results this quarter. If you'd please turn to slides 4 and 5, which include an overview of results in our specialty property and casualty operations. Beginning on slide 4 you'll see that gross and net written premiums were up 4% and 6%, respectively, in the first quarter compared to the same quarter a year earlier. Although the marketplace has become more competitive, we're pleased that we're still finding meaningful opportunities to grow our specialty property and casualty businesses.

First-quarter underwriting profit was up 43% year over year. Each of our property and casualty groups reported higher underwriting profits in the first quarter of 2016, with our property and transportation group reporting the greatest increase. The first-quarter 2016 combined ratio of 91.3 improved 2.3 points when compared to the 2015 first-quarter, and included 2.7 points of favorable prior-year reserve development, and 0.8 points in catastrophe losses.

Overall renewal pricing in our specialty property and casualty group was flat during the first quarter and was impacted by price softening in our workers comp businesses. We are getting rate increases in excess of excess of loss costs of trends in those businesses where we need it the most, especially in our commercial auto, agricultural and ocean marine businesses, to name a few. In other businesses where we're reaching our profitability targets we've been a bit more flexible with pricing.

Now I'd like to turn to slide 5 to review a few highlights from each of our specialty property and casualty business groups. Our property and transportation group reported first-quarter underwriting profitability of \$32 million, an increase of \$25 million from the comparable prior-year period. Our profitability in our crop insurance business was the driver.

Underwriting profits in our transportation and inland marine businesses were also higher year over year. Although results in our transportation businesses improved in the first quarter of 2016, I'm still disappointed that National Interstate's accident year profitability deteriorated by 2 points year over year. Catastrophe losses in this group were \$6 million in the first quarter of 2016, primarily as a result of the winter storms in the month of February, compared to \$4 million in the 2015 first quarter.

First-quarter 2016 gross and net written premiums in this group were 6% and 8% higher, respectively, than the comparable prior-year period. Growth in gross and net written premiums in our transportation operations, and new premium from our Singapore branch which opened for business in June of last year, were the primary drivers of growth. Overall renewal rates in this group increased 3% in the first quarter, including a 5% increase in National Interstate's renewal rates.

First-quarter underwriting profitability in our specialty casualty group was slightly higher than the comparable prior-year period. I'm especially pleased with the profitability within our workers compensation, excess and surplus lines, and executive liability businesses during the first quarter. These results help to offset continued underwriting losses within our Marketform operations as new management restructures the business.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

Underwriting profit margins were strong in nearly all businesses within this group during the first quarter. The majority of businesses in this group reported modest growth in the first quarter, particularly our excess and surplus lines businesses. This growth was partially offset by lower premiums in our general liability business, primarily the result of competitive market conditions, re-underwriting efforts within our Florida homebuilders market, and a slowdown within the energy sector.

Premiums within our workers comp businesses also declined year over year. Renewal pricing for this group decreased 1% in the first quarter, including a decrease of about 4% in our workers compensation businesses. If you exclude workers comp, renewal pricing in this group increased about 1% on average for the quarter.

Underwriting profit in our specialty financial group was slightly higher year over year. All the businesses in this group continued to achieve excellent underwriting margins during the quarter. Gross and net written premiums were up 7% and 9%, respectively in the first quarter when compared to 2015's first quarter, primarily as a result of higher premiums in our financial institution and surety businesses. Renewal pricing for this group was flat in the quarter.

Now, if you turn to slide 6, for a summary review of our 2016 outlook for the specialty property and casualty operations, our estimates are unchanged from the guidance we shared in February. We continue to expect an overall combined of between 92% and 94%, and estimate that the growth in net written premiums will be in the range of 2% to 6%. Details for each of the specialty property and casualty groups can be found on the slide.

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

S. Craig Lindner - American Financial Group, Inc. - Co-CEO

Thank you, Carl. I will start with a review of our annuity results for the first quarter, beginning on slide 7. The annuity segment reported \$53 million in core pretax operating earnings in 2016 first quarter compared to \$75 million reported in the first quarter of 2015. Although the reported earnings are down significantly, it's important to note that we believe the majority of the decrease from last year's reported earnings is driven by the impact of fair value accounting and is non-economic in nature.

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 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 first quarter of 2015, a relatively large decrease of 15 to 30 basis point in interest rates contributed to the \$17 million unfavorable impact on earnings. In the first quarter of 2016, a more significant decrease of 40 to 45 basis points in interest rates resulted in an even more unfavorable impact on earnings of \$31 million. Annuity earnings before the impact of fair value accounting were \$84 million during the first quarter, a 9% decrease from the comparable 2015 period.

AFG's first-quarter 2016 earnings continued to benefit from the growth in annuity assets, as shown on slide 8. AFG's quarterly average annuity investments and reserves grew by 14% and 13% year over year, respectively. The benefit of this growth was more than offset by the runoff of higher-yielding investments and a negative impact of mark-to-market accounting required for certain investments.

Although year-over-year profitability was lower in the first quarter, our fundamentals remain very strong, and opportunistic investing in the first quarter enabled us to achieve attractive returns on our near record level of annuity sales in the first quarter of 2016. And despite the decrease in our earned net interest spread in the first quarter of this year compared to the first quarter of last year, our net interest spread earned in the first quarter of 2016 was slightly higher than what we earned last quarter.

In addition, our balance sheet spread at March 31, 2016 was several basis points higher than our expectations. Furthermore, if interest rates continue to remain low for an extended period of time, AFG has the ability to reduce the average crediting rate on approximately \$20 billion of traditional fixed and fixed indexed annuities without guaranteed withdrawal benefit riders, by approximately 75 basis points.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

AFG's annuity premiums grew 58% year over year in the first quarter due primarily to the growth of FIA sales in both the retail and financial institutions channels. We believe AFG's growth in traditional fixed and FIA sales is consistent with overall growth in the annuity industry, as sales of these annuities have increased while sales of variable annuities have decreased. We believe AFG's increase in annuity premiums is also the result of new products, additional staffing and increased market share within existing financial institutions and national marketing organizations.

Additionally, we've reduced the crediting rates on new annuities several times in 2016 due to the decline in interest rates. These reductions, once announced, often lead to a short-term spike in sales in advance of the effective date of the rate decreases.

Finally, even though premiums were extremely strong in the first quarter of 2016, we're not increasing our original guidance of a projected 4% to 8% increase in sales in 2016 as compared to 2015. Because we have made several decreases to crediting rates on new business, we expect those decreases to result in a drop in sales, some of which we have already seen in April.

Our strategy continues to include a commitment to disciplined product pricing, as well as consumer-friendly product design and careful expense management. Additional information can also be found at AFG's quarterly investor supplement posted on our website.

Please turn to slide 9 for a summary of the 2016 outlook for the annuity segment. In addition to maintaining our overall premium guidance we're also maintaining our earnings guidance, as well as guidance for the other items noted on the slide. Significant changes in interest rates and/or the stock market from our expectations could lead to additional positive or negative impacts on the annuity segment's results.

As you'll see on slide 10 in April the Department of Labor issued the final version of its fiduciary rule that, beginning in 2017, will impose additional requirements on the sale of certain annuities to retirement accounts, including IRAs. We were surprised that, unlike the draft rule released in April 2015, the final rule requires the sale of FIAs to IRAs to be made in accordance with the best interest of customer, or BIC, exemption. About half of our annuity sales are qualified and therefore subject to the new rules.

We believe that the biggest impact on AFG will be on sales of FIAs by insurance-only agents or non-registered representatives in our retail channel. This segment accounted for 11% of our annuity sales in the first quarter of 2016, as you'll see on slide 11. It's expected that all carriers will experience some impact when the rule takes effect in 2017 including additional costs and temporary sales disruption during a transition period.

We believe the rule will have a greater impact on variable annuity companies and on lower-rated FIA providers that sell primarily higher commission and higher surrender charge annuities in the retail channel. We believe our business model makes us less vulnerable to the rule than many of our competitors for several reasons. Our sales of variable annuity products are minimal. Furthermore, these products are sold in the 403(b) market, which is excluded from the DOL regulation.

Our insurance companies have a higher financial strength rating than many of our competitors. Many of our FIA products have a simpler product design with shorter surrender charge periods, lower commissions and trail commission options. And, finally, our distribution channels include banks, broker-dealers, registered investment advisors, and large national marketing organizations that will be best positioned to comply with the more rigorous compliance requirements.

We are studying the rule and having extensive discussions with our distribution partners to determine appropriate changes to our business model. These changes are likely to include new products and compensation arrangements.

Now please turn to slide 12 for a few highlights regarding our \$39 billion investment portfolio. AFG reported first-quarter 2016 net realized losses on securities of \$10 million after tax and after deferred acquisition costs, compared to net realized gains on securities of \$12 million in the comparable prior-year period.

As of March 31, 2016, unrealized gains on fixed maturities were \$426 million after tax and after DAC, and unrealized gains on equities were \$40 million after tax. In April 2016, AFG sold an apartment property in Pittsburgh that was owned and managed by a subsidiary of Great American Insurance Company. As a result of this sale, we expect to recognize a non-core after-tax gain on the sale of approximately \$15 million in the second quarter of 2016.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

As you'll see on slide 13 our portfolio continues to be high quality, with 88% of our fixed maturity portfolio rated investment grade, and 97% with an NAIC rating of 1 or 2, its highest two categories. We've provided additional detailed information of the various segments of our investment portfolio in the quarterly investors' supplement on our website.

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

Jeff Consolino - *American Financial Group, Inc. - EVP and CFO*

Thank you, Craig. Slide 14 recaps AFG's first-quarter consolidated results by segment. Core net operating earnings per share in the quarter were \$1.25, equaling 2015's record first-quarter results. \$1.25 is based on core net operating earnings in the quarter of \$111 million, essentially flat to last year's core net operating earnings. You can see a more detailed view of the components on page 4 of our quarterly investor supplement.

P&C segment core pretax operating earnings improved by \$29 million year over year. This is due to P&C underwriting profit improving by \$27 million, an increase in P&C net investment income of \$4 million thanks to a higher invested asset base, and P&C other expenses increasing by \$2 million.

As for the other components of AFG's core net operating earnings, Craig previously covered our annuity segment earnings, which were \$22 million lower year over year on a reported basis. I will not go into the unfavorable impact of fair value accounting again. Results in our run-off long-term care and life segment were a loss of less than \$1 million in the first quarter of 2016, but in comparison to the first quarter 2015 declined by \$5 million year over year.

Interest expense of parent holding company decreased by \$1 million, called for redemption \$132 million of 7% debt in September 2015, and issued \$150 million of 6% hybrid debt in mid-November 2015. Other expense was \$22 million in both periods.

AFG's provision for income taxes is \$4 million higher than the 2016 first quarter as result of a lower effective tax rate in Q1 of 2015. As indicated on slide 15, AFG's adjusted book value per share was \$49.77 as of March 31, 2016. Adjusted tangible book value per share was \$46.94 at March 31, 2016.

As of the end of the quarter, our excess capital stood at approximately \$900 million. We plan to hold approximately \$200 million to \$300 million as dry powder to maintain flexibility, especially in light of opportunities that may arise from industry disruption.

In the quarter, we returned \$100 million to our shareholders through dividends and share repurchases. We plan to continue returning excess capital to our shareholders through the course of 2016, as indicated by our significant buyback activity in Q1 2016. This is subject to market conditions. Approximately 4.6 million shares remain under our repurchase authorization as of May 2, 2016.

On slide 16, you will find a single page summary of our 2016 core earnings guidance. As a reminder, AFG's expected 2016 core operating results exclude non-core items, such as realized investment gains and losses, and other significant items, that may not be indicative of ongoing operations.

Now, we'd like to open the lines for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Paul Newsome, Sandler O'Neill.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

Paul Newsome - *Sandler O'Neill - Analyst*

I was hoping you could get into a little bit more of the Department of Labor's ruling. My core question is, obviously that 10% or 11% of your business that's through FIAs is at risk. But it sounds like you're thinking that the rate of sales from the other distribution systems will be pretty commensurate with what they have been historically despite new restrictions. The Department of Labor impacts every distribution system, some more than others. At least that's my knowledge. But is it your expectation that those distribution systems will be largely unaffected from the sales perspective? And if the answer is yes, why?

S. Craig Lindner - *American Financial Group, Inc. - Co-CEO*

Paul, this is Craig. I think the statement you made is accurate that all distribution will be impacted. Obviously it will have by far the greatest impact, as it's written today, on the IMOs that have life-only agents. I think there is going to be an adjustment period for banks, for broker dealers, for registered investment advisors. But I think they're going to figure out how to deal with the new regs. So, I think the impact is going to be significantly lower.

As it relates specifically to us, I think we come out far better than many of our competitors because of the makeup of our distribution, because we already have a consumer-centric model, with lower commissions, simpler products, shorter surrender charge periods. And our ratings are among the higher of the companies in the industry, and I do think ratings are going to be a more significant factor. When the people selling products are taking on a fiduciary responsibility, they darn well better make sure that the company they are selling products for is going to be around 5 years from now, or 10 years from now. So, for all those reasons, I believe we're going to come out far better than most. But I do think it's going to have an impact for some period of time on every segment of distribution.

I think some of the companies that are impacted in a major way are going to lose those premiums, but I don't think those premiums are going away. I think some of those are going to be channeled through other distribution. And certainly my hope is that we will get some of those premiums. So, on one hand I think we're clearly going to be hurt for some period of time. On the other hand, I think our model and our high ratings puts in a position to perhaps capture some of the premium dollars that are moving away from other companies.

Operator

Ryan Baird [sic -- Byrnes], Janney.

Ryan Byrnes - *Janney Capital Markets - Analyst*

I just had a question on excess capital. Does that include the National Interstate offer in it? And, secondly, I didn't have a chance to listen to the National Interstate call but is there any update other than them hiring Morgan Stanley?

Jeff Consolino - *American Financial Group, Inc. - EVP and CFO*

Hi Ryan, this is Jeff Consolino. I will address your two questions. With respect to our excess capital figure of \$900 million at March 31, that does not include capital that might be committed in the National Interstate transaction, if that were to occur. The total commitment there would be approximately \$300 million. So, that would be capital we would be allocating from that excess capital number.

Relative to the second part of your question, just to recap, AFG put out a press release on March 7 making a proposal to acquire all the shares of National Interstate that we don't currently own. We encouraged National Interstate's Board to form a special committee of directors that are unaffiliated with American Financial Group. That committee has been formed and National Interstate issued a press release on April 6 to that effect. Further, on April 21, there was a press release indicating that the special committee had hired an outside financial expert to serve as their financial advisor.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

The pacing of the transaction really is going to be the pacing as determined by the special committee, and it's up to them to respond to the proposal that's been made once they've received the legal and financial advice that they consider to be requisite with their ability to evaluate the proposal. As a reminder, AFG won't move forward with the transaction unless it's approved by the special committee. And, further, if approved by the special committee the proposal is subject to a non-waivable condition requiring approval of the majority of the minority shareholders of National Interstate.

So, those are two hurdles that need to be surmounted before the shareholders of National Interstate can receive their consideration. So, that's everything that we know at this point, and hopefully things will progress on a reasonable timeframe going forward.

Ryan Byrnes - *Janney Capital Markets - Analyst*

Great. Thanks for that. And then, Craig, just moving over to the guidance for the annuity segment for the year, obviously unchanged. But if I look, again, the fair value accounting, I can back into the guidance. The mid point implies about a \$9 million gain from those accounting items in the back half of the year. I just want to figure out any clarity there. Interest rates don't have a linear impact on those fair value accounting numbers, but just any other color there you could have for how interest rates will impact that for the rest of the year. From my understanding, if interest rates go down further here they won't be as bad, but if they rebound it'll be more spring in the recovery.

S. Craig Lindner - *American Financial Group, Inc. - Co-CEO*

First of all, you need to understand when we put out the original guidance that there had been a significant decline in interest rates at that point in time that we factored into the guidance that we put out. So, you need to understand that. Obviously, fair value accounting will be impacted by the level of interest rates. Our assumption that goes into our earnings projections and our guidance is that interest rates will trend up. Generally we look at the forward curve and assume that the forward curve is accurate, at least near term, from the standpoint of interest rates trending up for the balance of the year.

The other thing that we do is we assume the historical returns of the stock market will be achieved going forward, which is a total return of around 2% per quarter. So those are the assumptions that go into our plan and for the guidance that we put in place.

Ryan Byrnes - *Janney Capital Markets - Analyst*

Thank you for the color.

Operator

(Operator Instructions)

Jay Cohen, Bank of America.

Jay Cohen - *BofA Merrill Lynch - Analyst*

Let me just say up front that I missed much of the call because of some stupid issue. So, if this has been asked and answered you can say we've answered that already. Another big seller of fixed indexed annuities that sells through independent distribution suggested the new DOL rule makes that company the, quote, financial institution that assumes fiduciary liability. How do you guys view this? And is this interpretation correct?



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

S. Craig Lindner - American Financial Group, Inc. - Co-CEO

That interpretation is not correct unless the insurance company decides to be the financial institution and take on the fiduciary obligation of the distribution.

Jay Cohen - BofA Merrill Lynch - Analyst

Good clarification. I will check with that other company. I don't understand exactly why they would say that, then. That is helpful. That's all I had, thanks.

Operator

Greg Peters, Raymond James.

Greg Peters - Raymond James & Associates, Inc. - Analyst

Thank you for hosting the call. I had a couple of questions. First, just circling back to National Interstate, if I were to judge by the current stock price, the market thinks that perhaps your offer is inadequate for the remaining 50% of the outstanding stock. And yet, Carl, I noted your reference to their operating results in the first quarter where you talked about the higher accident year combined ratio. I was wondering if you could just spend a minute providing us your perspective on how you think about return on invested capital as it relates to your outstanding offer for the remaining shares that you don't own of National Interstate.

Carl Lindner - American Financial Group, Inc. - Co-CEO

I'm sorry, Greg, the question was how do I view the offer as it relates to the ability to earn a long-term return?

Greg Peters - Raymond James & Associates, Inc. - Analyst

Absolutely. The Company is reporting disappointing results, not generating the returns that it historically generated. How do you think about the value of the company in the context of the \$30 offer? The stock price is trading above that right now and obviously someone out there thinks you're going to pay more for it. I'm not sure that --.

Carl Lindner - American Financial Group, Inc. - Co-CEO

You appropriately point out that we feel that the \$30 offer was a very fair and very full offer considering the historical operating results and the current operating results of National Interstate. I've told you in the past, along with others, that we're probably more long-term thinkers. You might be correct. If we were to only take the look at what we felt the short-term return or impact would be on AFG from this offer, probably wouldn't do it. But we do take a longer viewpoint with our operations. We're more patient.

It may take a little longer to get to the right returns but we feel we have a quality management team in place that eventually will get us to where we want to be on that. I hope that answers your question. We're clearly disappointed that the we're not seeing more improvement in the accident year. That could have some bearing on our negotiations with the special committee.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

Greg Peters - *Raymond James & Associates, Inc. - Analyst*

Indeed. I appreciate the color, Carl. Thank you. In your comments you also singled out Marketform in the continuing restructuring plans that you have underway there. Can you give us a little bit additional color on how that's going, and when that business might be back and operating in line with more reasonable expectations?

Carl Lindner - *American Financial Group, Inc. - Co-CEO*

We'd be happy to do that. I may turn to Jeff to get into more details, but I can tell you that it's a complete makeover. We've brought in who we consider to be one of the top Lloyd's talents in Martin Reith and no stone is being unturned in our review of the business. Jeff, why don't you add some color to that.

Jeff Consolino - *American Financial Group, Inc. - EVP and CFO*

Greg, thanks for asking, and thanks for the opportunity to talk about what Martin Reith and the team is doing in London. As Carl said, they are taking a fresh approach to looking at the whole business. There's been a reasonable amount of news flow out of Marketform in the past quarter. During the month of February Marketform announced separately that they were exiting from general liability, that they were exiting from the international med mal business, and that was transferred to a Dale Syndicate, and exiting from the UK med mal business which was transferred to the Beazley Syndicate.

And during March also they announced at Marketform that their review of the lines of business was therefore complete, and the existing lines of business, other than those three, would be going forward lines of business for the syndicate. They also continue to hire talent, including the former active underwriter from another very successful syndicate. As Martin continues to attract the kind of executives that we think are required to run a good business at Lloyd's.

But there's still definitely more work to do. And I think you'll see continued news out of Marketform through 2016 as the business gets positioned for a more prosperous and successful future. We'd like Marketform ultimately to be capable of matching the results in the Lloyd's market as a waystation to achieving top quartile performance, which we've seen in Martin Reith's previous tenure at Ascot.

Greg Peters - *Raymond James & Associates, Inc. - Analyst*

Thank you for that answer, Jeff and Carl. One other question, I suppose, would be around your financial results. The surety operations, I think you singled out, is doing well. We've observed a bunch of bankruptcies in the energy complex. I'm curious about your perspective on surety bonds that might be outstanding to the energy complex and how you might be exposed or not exposed to any performance related issues there.

Carl Lindner - *American Financial Group, Inc. - Co-CEO*

We are pleased with our surety business right now. With good results, I think from a premium standpoint, they reflect some improvement in the US economy. I don't think we really have a whole lot of energy exposure in our particular surety book. Jeff, do you have any color on it?

Jeff Consolino - *American Financial Group, Inc. - EVP and CFO*

I do, Greg. The energy industry bankruptcies you are referring to, I would assume, refer first to the coal mining operations domestically in the US and secondarily to the tenuous circumstances for some of the fracking and smaller extractors. We have shied away from those types of exposures in our surety business. Our management team historically does not like them.



MAY 03, 2016 / 3:30PM, AFG - Q1 2016 American Financial Group Inc Earnings Call

We did have the opportunity in the recent past to evaluate some surety companies that had larger exposures or, in some cases, even specialized in the energy industry, and for obvious reasons we didn't choose to proceed with those types of opportunities. We do have an operation out of Tulsa, Oklahoma that has specialized over time in the energy industry but their surety component is quite small. They've generally focused on liability coverages for the energy industry. Their volumes are down as a result of lower economic activity but we don't feel like we've taken on any material exposure to bankruptcies, either in the coal industry or the fracking industry.

Greg Peters - *Raymond James & Associates, Inc. - Analyst*

Excellent answers. Thank you for all of them.

Operator

I am not showing any further questions. I would now like to turn the call back to Ms. Diane Weidner for any further remarks.

Diane Weidner - *American Financial Group, Inc. - Assistant VP of IR*

Thank you for joining us this morning as we discussed our first-quarter results. We look forward to speaking with you again as we share our second-quarter results.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a wonderful day.

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