

Specialty Property and Casualty Insurance Fixed and Fixed-Indexed Annuities

Bank of America Merrill Lynch
2017 Insurance Conference
February 15, 2017



Forward Looking Statements

Certain statements made during this presentation, as well as included in this document, are not historical facts and may be considered “forward-looking statements” and are based on estimates, assumptions and projections which management believes are reasonable but by their nature subject to risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements.

The reasons which could cause actual results and/or financial condition to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified from time-to-time in AFG’s filings with the Securities and Exchange Commission, including the annual report on Form 10-K and the quarterly reports on Form 10-Q. We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure which sets aside items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, discontinued operations, as well as other significant items that are not able to be estimated with reasonable precision, or that may not be indicative of ongoing operations. AFG believes that this non-GAAP measure is a useful tool for investors and analysts in analyzing ongoing operating trends of AFG.

AFG: A Specialty Insurer

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

Market Leadership

- Over 60% of Specialty P&C Group gross written premium produced by businesses with "top 10" market rankings
- Top 10 Fixed Annuity provider; #1 in sales of fixed-indexed annuities through financial institutions

Financial Strength

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



Insurance Businesses

P&C

Property & Transportation



- Inland and Ocean Marine
- Agricultural-Related
- Aviation
- Commercial Automobile (buses, trucks)

Specialty Casualty



- Executive and Professional Liability
- Umbrella and Excess Liability
- Excess and Surplus
- General Liability
- M&A Liability
- Targeted Programs
- Workers' Compensation

Specialty Financial



- Fidelity / Crime
- Surety
- Lease and Loan Services
- Financial Institution Services

Annuity



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

\$41 Billion Investment Portfolio Managed In-House

Building Long-Term Value for AFG Shareholders

**Superior
Underwriting
Results**

**Superior
Investment
Talent**

**Intelligent
Deployment
of Capital**

**VALUE
CREATION**

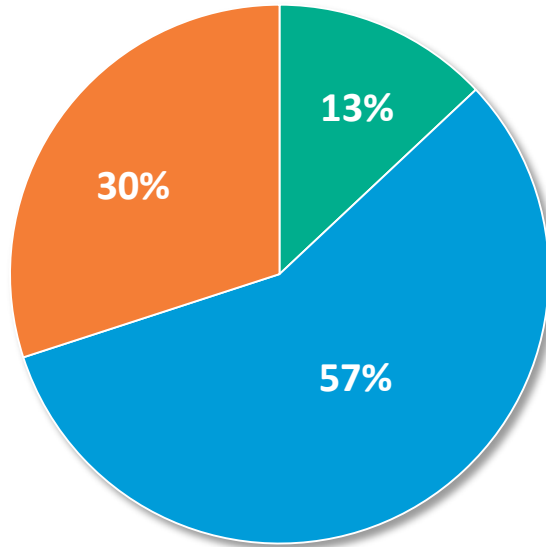
Culture • Entrepreneurial Business Model • Incentives

Corporate Culture



Significant Insider Ownership

AFG Shareholder Base



Individual
Investors



Institutional
Investors



Family, Executives
and Retirement Plan

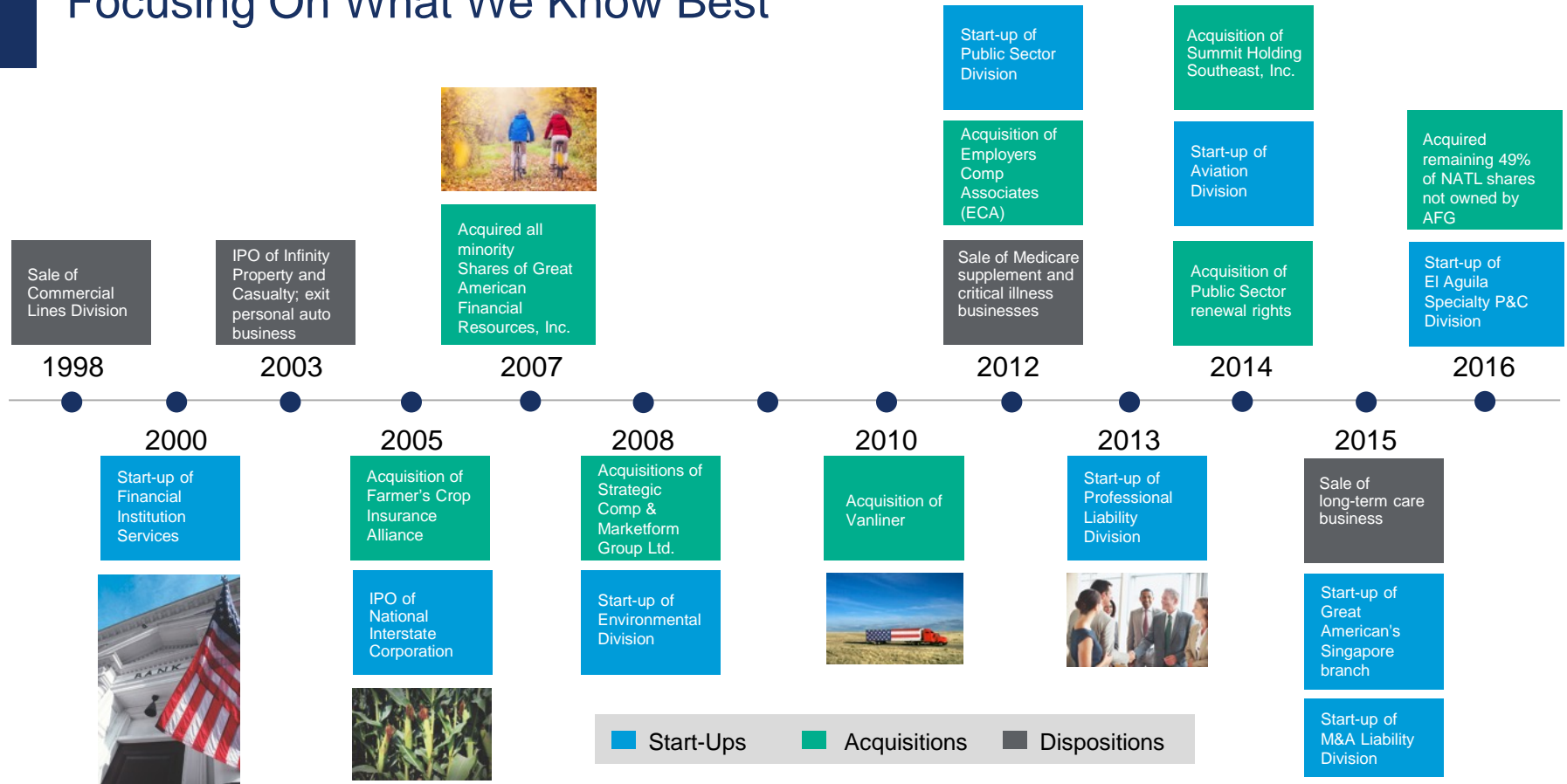
Significant ownership by management creates strong alignment of interests with shareholders over the long term

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

Ownership Details

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

Focusing On What We Know Best



Intelligent Use of Excess Capital

2016 Capital Management

- Increased ordinary dividend by 12%
 - 11th consecutive annual dividend increase
 - five year CAGR in dividends ~ 12%
- Paid \$1.00 special dividend in Dec. 2016
- \$133 million in share repurchases (\$69.47 per share average)
- 4.1 million shares remaining in repurchase authorization as of 2/01/17
- Excess capital at 12/31/2016 – \$950 million

Capital Returned to Shareholders Five Years Ended 12/31/2016 (in millions)

Total Repurchases	\$ 935
Dividends Paid	<u>786</u>
Total	<u><u>\$ 1,721</u></u>



***\$1.7 Billion Returned to
Shareholders***

Compounded Shareholder Return

As of December 31, 2016

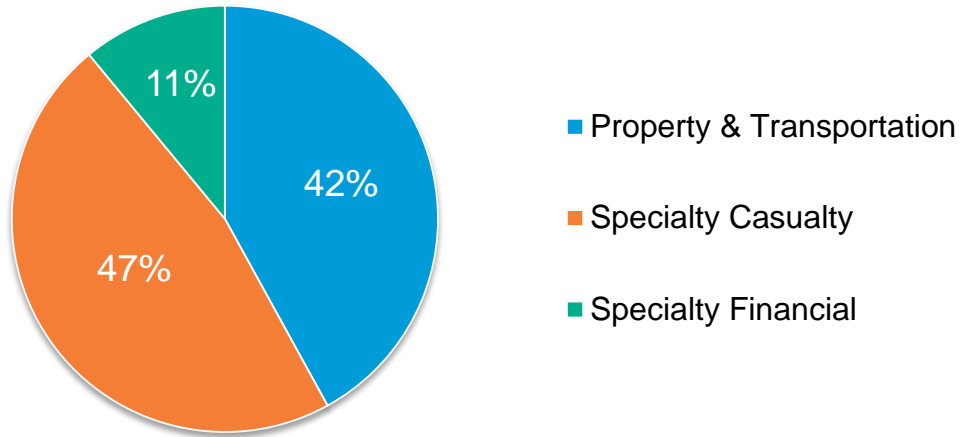
	<u>5 Years</u>	<u>10 Years</u>
AFG	22.6%	12.1%
S&P 500 Property & Casualty Insurance Index	19.5%	6.1%
S&P 500 Life & Health Insurance Index	17.4%	3.9%
S&P Midcap Insurance	21.4%	9.8%
S&P 500	14.6%	6.9%

Price appreciation plus dividends through 12/31/16.
Source: Bloomberg

Specialty Property & Casualty Premium

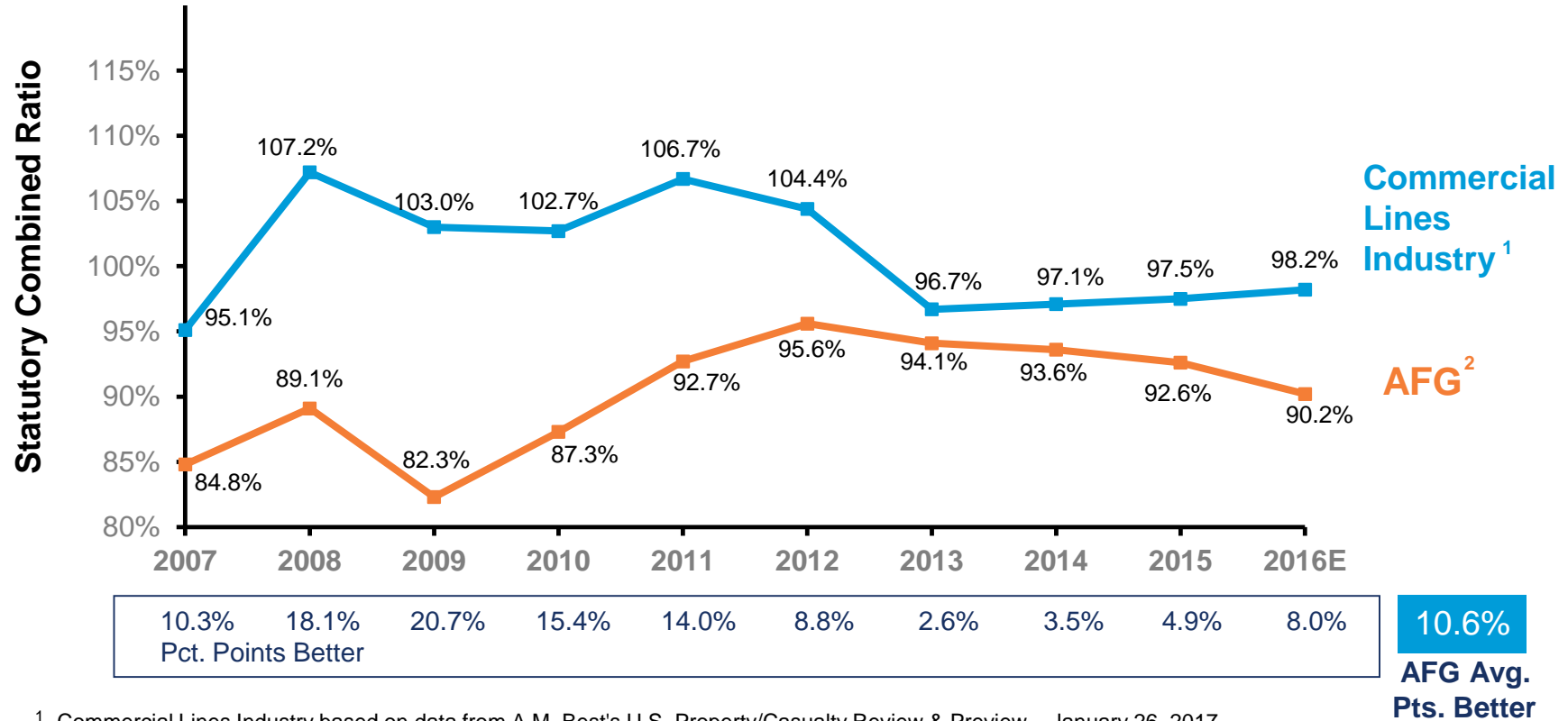
Low correlation • Low coastal exposure

**2016 Gross Written
Premiums – \$6.0 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



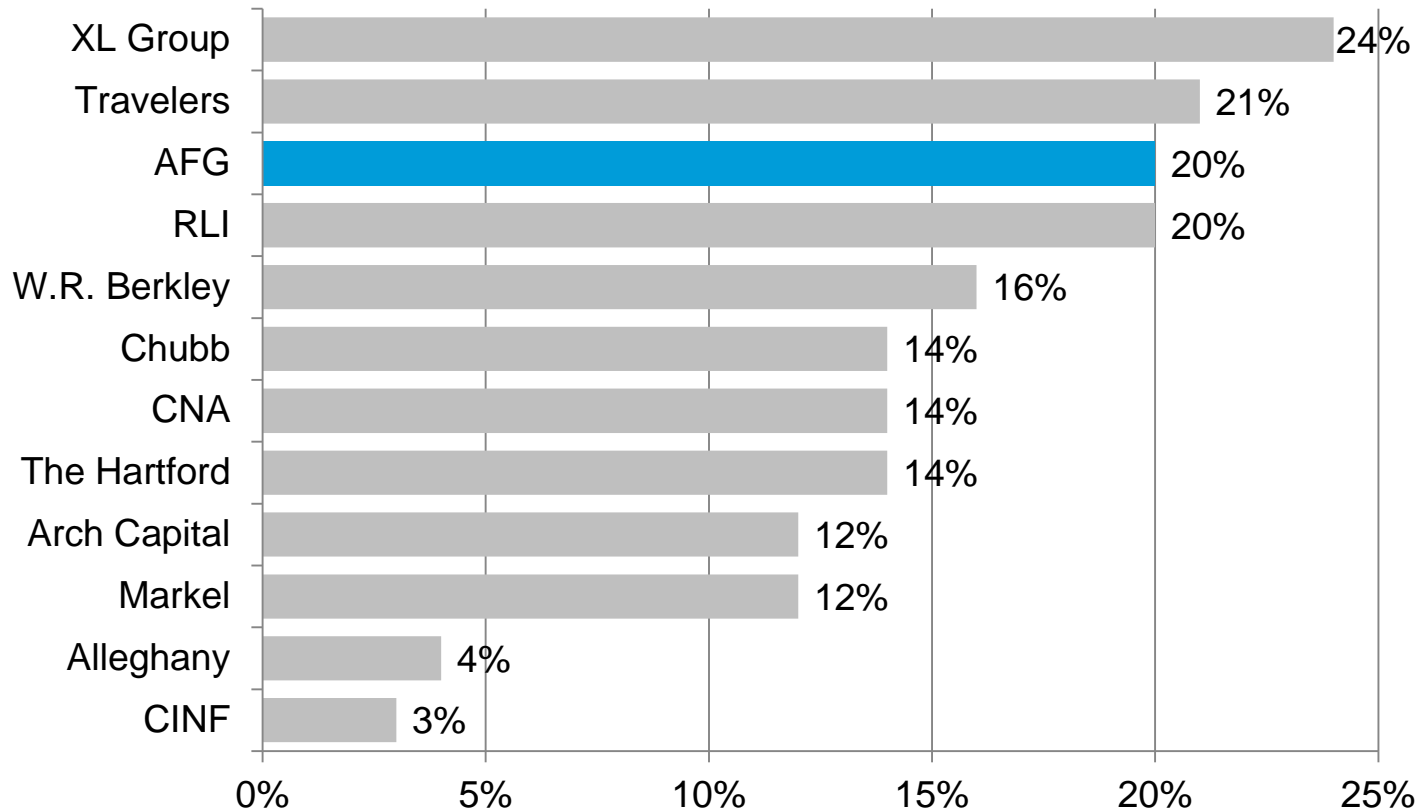
¹ Commercial Lines Industry based on data from A.M. Best's U.S. Property/Casualty Review & Preview – January 26, 2017.

² American Financial Group Form 10K filings.

Strong Alignment Creates Superior Underwriting Results

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

Pre-Tax Property & Casualty Returns 2011 - 2015



Source: Dowling & Partners

Fitch Top Performers (of 35 Largest Property & Casualty groups)¹

Five-Year Performance 2011 - 2015

Assurant Group	#1
Chubb (Federal Insurance Company)	#2
American Financial Group, Inc.	#3
Travelers Companies, Inc.	#4
Berkshire (National Indemnity Company)	#5
Progressive Insurance Group	#6
Munich Reinsurance America, Inc.	#7
Markel and Affiliates	#8
W.R. Berkley	#9
Cincinnati Insurance Group	#10
Old Republic General Ins. Group - U.S.	#11
Tokio Marine Group	#12
Zurich American Insurance Company	#13
FM Global (Factory Mutual Ins. Co.)	#14
Allstate Insurance Group	#15

Top Performers 2011 – 2015:

“Assurant, Inc., The Chubb Corporation, and American Financial Group, Inc. reported the strongest long-term statutory operating performance for U.S. insurance operations based on these weighted measures* from a group of the 35 largest property/casualty insurance groups based on 2015 net written premiums. This group represents nearly three quarters of the total net written premium of the P/C insurance industry.”

*Five Key Measures Evaluated

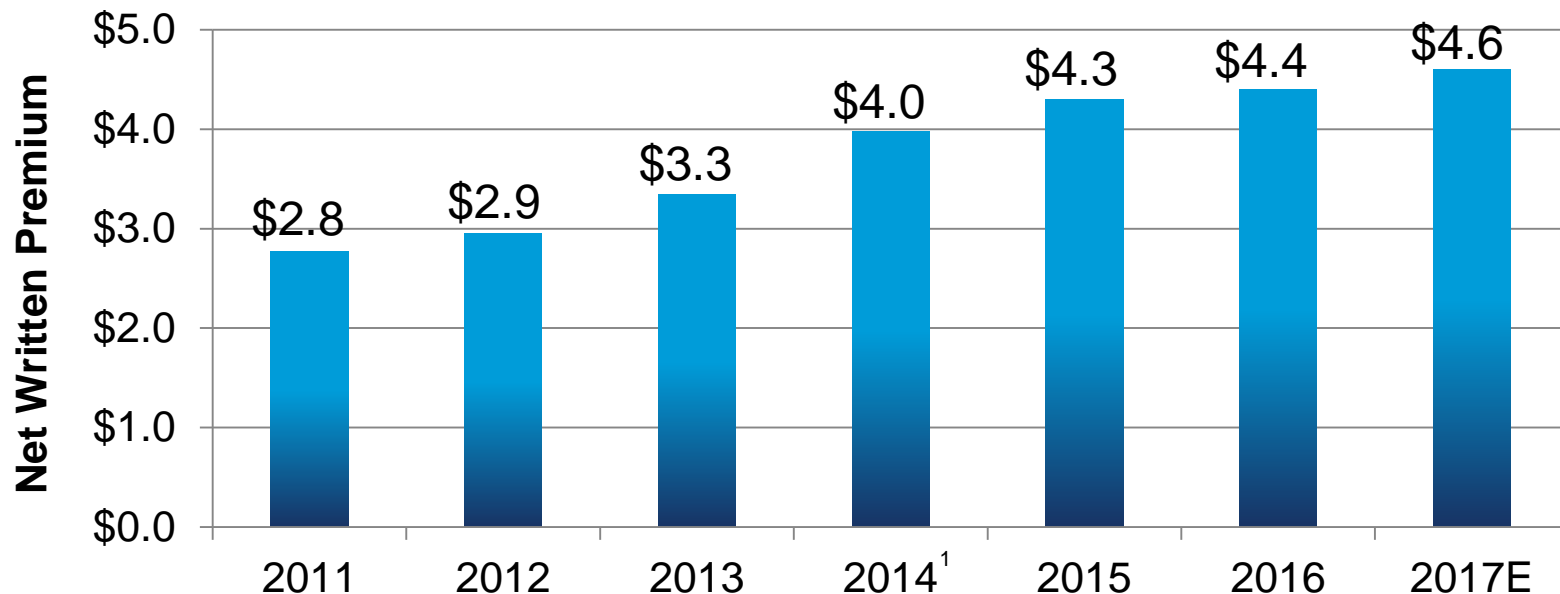
- underwriting margin
- operating cash flow ratio
- return on assets
- return on surplus
- internal capital formation

¹ “Statutory Performance Rankings – U.S. Property/Casualty Insurers: Best Performers Succeed Despite Cyclical Changes.” Source: Fitch Ratings Special Report issued September 14, 2016.

Specialty Property & Casualty Premium Growth

Dollars in billions

P&C Net Written Premium and Renewal Rates



Rate Increases

1%

3%

4%

3%

1%

1%

0% – 1%

¹ Includes Summit premiums for nine months.

Annuity Segment – Overview

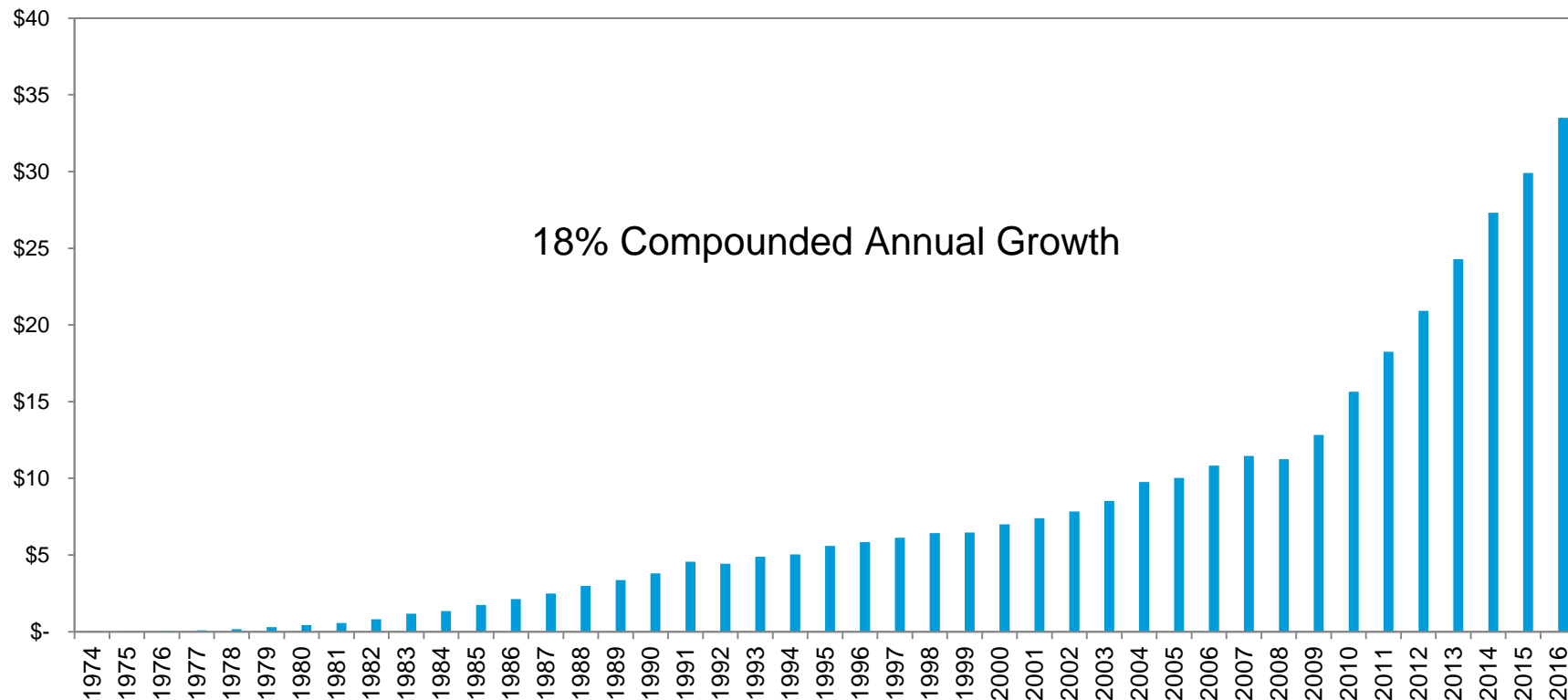
- Significant transformation since 2009
- Record earnings, premiums and assets in 2016
- Leader in its channels
- Consumer-centric business model has generated strong statutory earnings, resulting in excess capital and significant dividend paying capacity
- Emphasis on
 - appropriate pricing in challenging and changing environment (ROEs vs. premium growth)
 - expense discipline – invest wisely in people and infrastructure
 - growth in profitable premiums – a good use of AFG's excess capital

Annuity Segment – Strengths in the Marketplace

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

Growth in Annuity Segment Assets (GAAP)

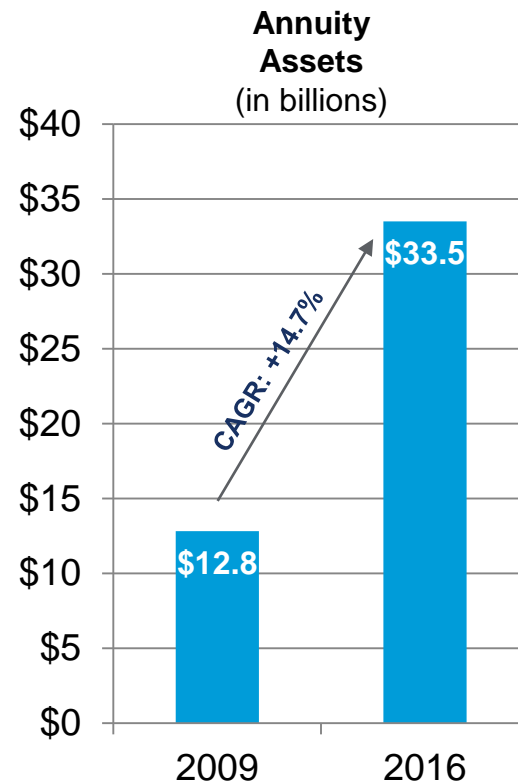
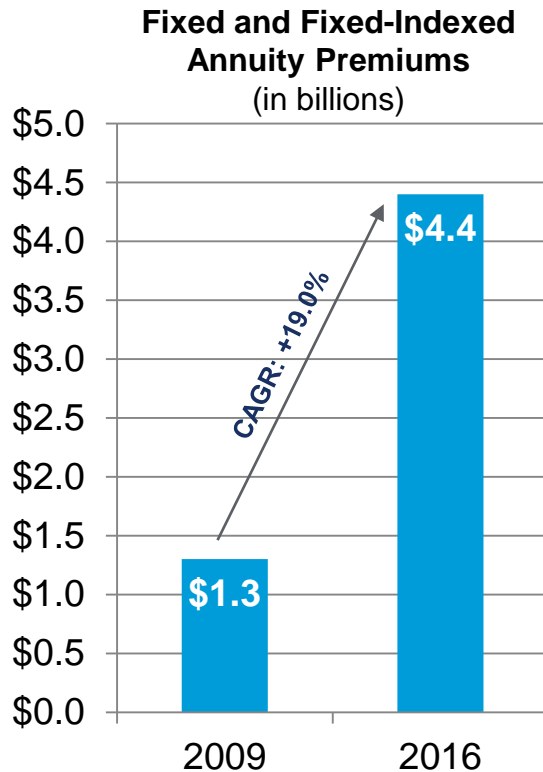
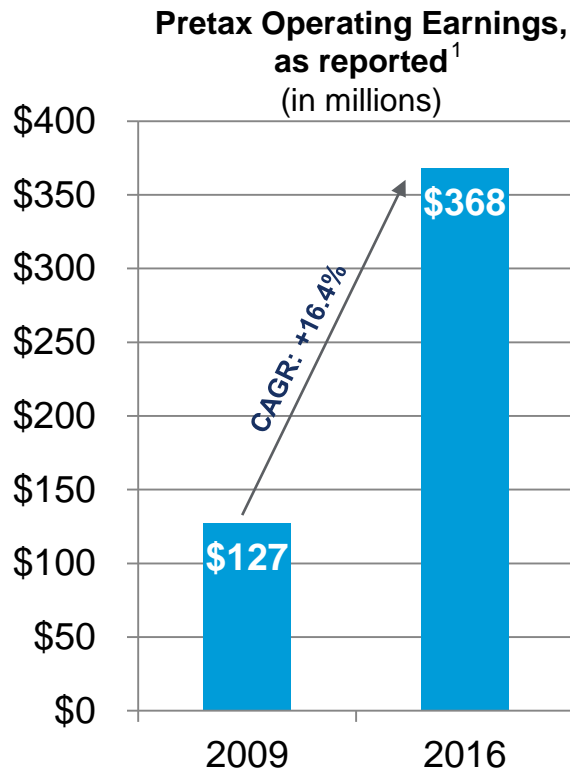
Dollars in billions



Annuity Segment – Significant Transformation Since 2009

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

Annuity Segment – Significant Transformation Since 2009



¹ After the impact of fair value accounting for FIAs.

Diversified Specialty Niche Insurance Businesses - Annuity



	Market Rank	Market Focus	Distribution
Fixed-Indexed	#4 Overall #1 In Financial Institutions	<ul style="list-style-type: none">• Retail• Financial Institutions• Education (K-12)	<ul style="list-style-type: none">• 60 NMOs directing nearly 1,400 actively producing agents• Financial Institutions - Direct• Financial Institutions - Indirect
Fixed	#8 Overall #4 In Financial Institutions		
Variable	Never a Significant Issuer of Variable Annuities; Accommodation Product Only		

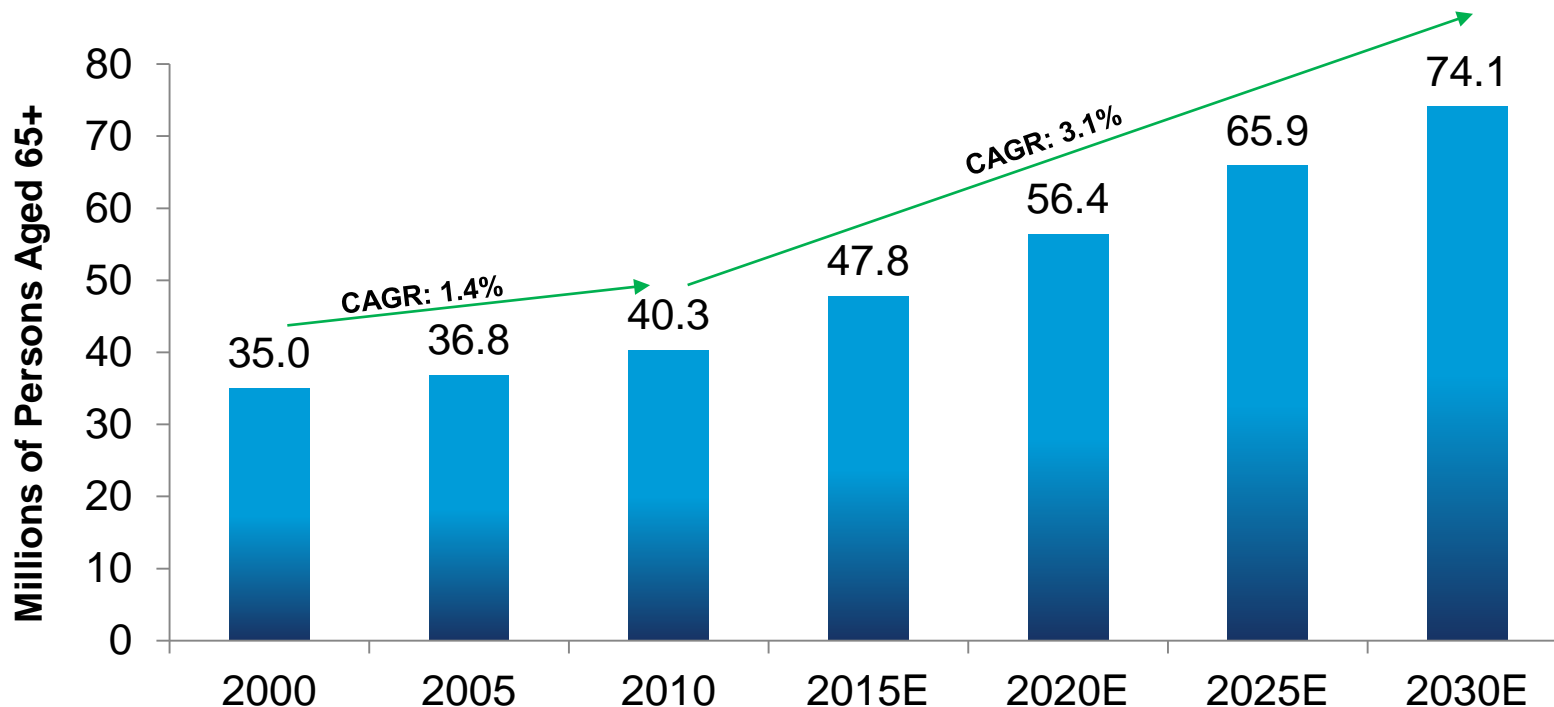
- Focus on fixed and fixed-indexed annuities makes use of core competency in fixed income investing
- Simple, easy to understand products
- Lower up-front commissions and bonuses, shorter surrender charge periods

Protection From Changes in Interest Rates

- Protection From Rising Interest Rates
 - 87% of inforce annuities have some surrender penalty
 - 66% of annuity reserves have a surrender charge of 5% or higher
 - including 11% of annuity reserves are two-tier in nature with an average surrender charge of 14%
 - other product features that should encourage persistency or discourage lapses
 - 23% with 3%+ GMIR
 - 24% with an MVA or Longevity Rider
 - almost 35% of new sales electing some form of trail/multi-year commission
 - asset duration shorter than liability duration by 0.5 (5.35 vs. 5.85)
 - unrealized gain in bond portfolio of \$700+ million (103% of book value)
- Protection From Low Interest Rate Environment
 - ability to lower crediting rates by 80bps on \$22 billion of reserves
 - low upfront costs to recover (lower commissions than competitors, low/no bonuses)

U.S. Growth in Persons Aged 65+

Population in millions



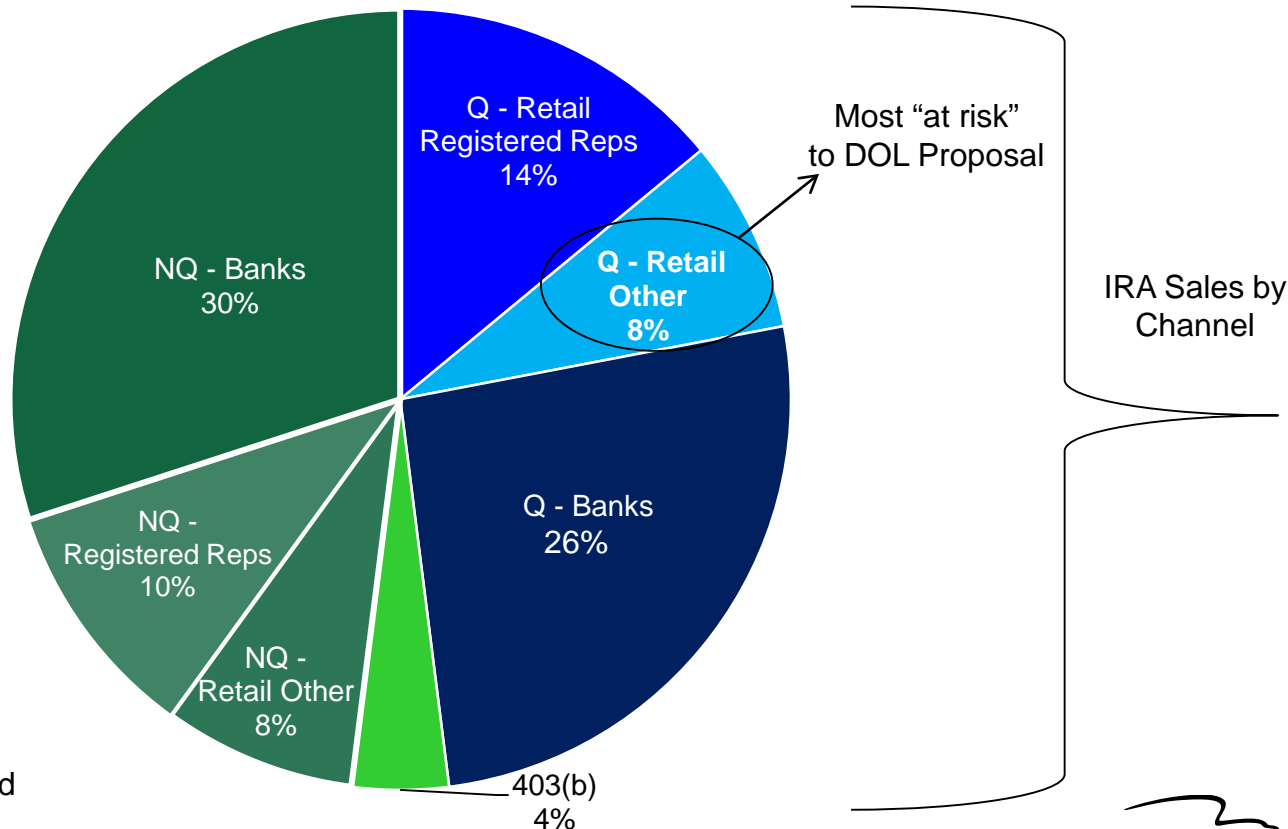
Source: U.S. Census Bureau, 2014 National Projections.

Department of Labor Rule

- There is considerable discussion surrounding the possibility of a delay or other action impacting the rule, and there remains pending litigation seeking to invalidate the rule.
- Until there is some definitive action impacting the rule, the Company intends to continue implementing product and process changes needed to comply with the DOL fiduciary rule, and is proceeding under the premise the DOL rule becomes effective in April 2017 in its current form.
- A number of our distribution partners intend to make business model changes even if the rule does not become effective. We are making the changes necessary to continue to work with these partners, regardless of the rule's ultimate outcome.
- Assuming the rule is effective in April 2017, AFG believes the biggest impact will be on insurance-only licensed agents whose sales represented less than 10% of our fourth quarter premium.
- While AFG management continues to believe the adjustments required of the Company and its distribution partners to comply with the rule will impact 2017 premiums, management does not believe the new rule will have a material impact on AFG's results of operations.

Annuity Sales by Type

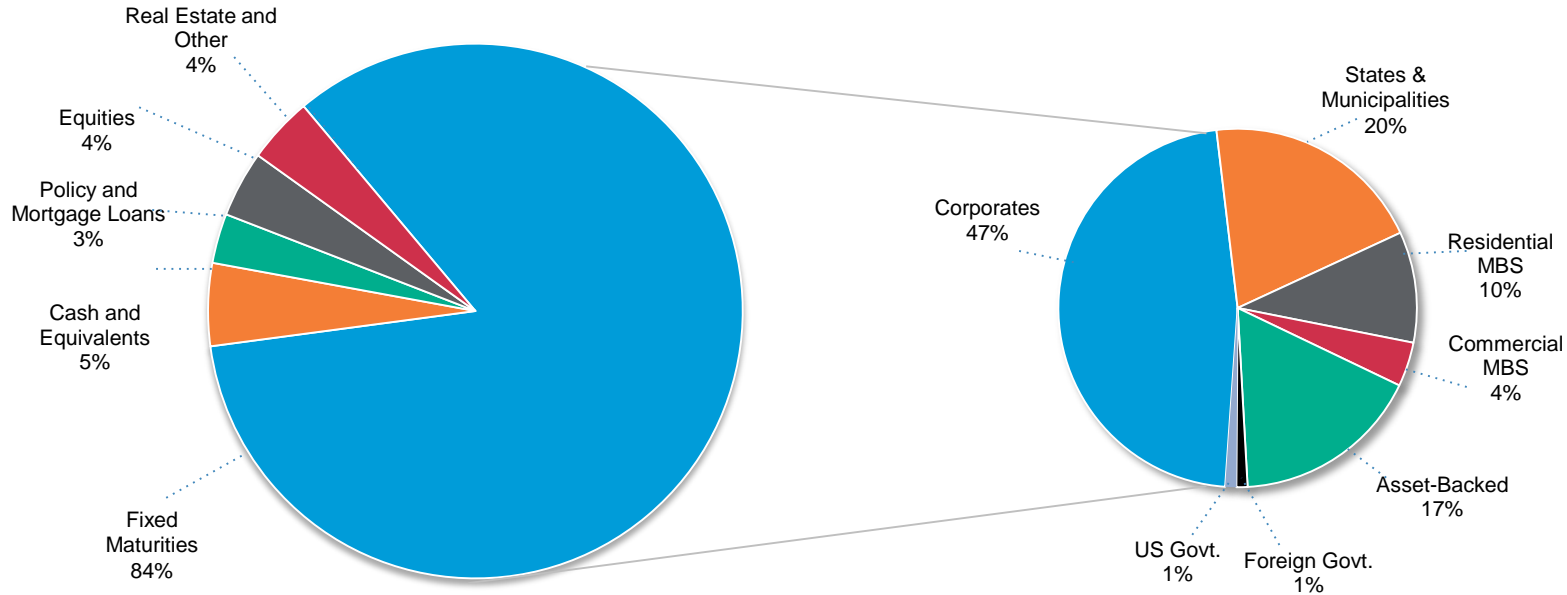
For three months ended December 31, 2016



AFG Investment Portfolio

As of December 31, 2016

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



Carrying Value – \$41.4 Billion

Investment Portfolio Information and Outperformance

	Property & Casualty	Annuity & Runoff
Approximate Average Duration – Fixed Maturities as of December 31, 2016	3.5 years	5.0 years
Annualized yield on available for sale fixed maturities		
Quarter ended 12/31/16:		
• Net of investment expenses ^(a)	3.67%	4.67%
• Tax equivalent, net of investment expenses ^(b)	4.20%	4.67%

^(a) Annualized yield is calculated by dividing investment income for the quarter by the average cost over the quarter. Average cost is the average of the beginning and ending quarter asset balances.

^(b) Adjusts the yield on tax-exempt bonds to the fully taxable equivalent yield.

Fixed Income Annualized Total Return Eight Years Ended 12/31/15¹

AFG **6.6%**

Benchmark:
Blended Insurance Industry² 5.4%

Outperformance 1.2%

≈ \$2.0 Billion Total Return
Outperformance

¹ 2008-2015 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.

2017 Outlook – AFG

AFG Core Earnings Guidance \$6.20 – \$6.70 per share

	<u>NWP Growth</u>	<u>Combined Ratio</u>
Specialty P&C Group Overall	2% – 6%	92% – 94%
<u>Business Groups:</u>		
Property & Transportation	0% – 3%	91% – 95%
Specialty Casualty	5% – 9%	94% – 96%
Specialty Financial	0% – 4%	84% – 88%

P&C average renewal rates up 0% to 1%

P&C investment income approximately 4% higher than 2016

Annuity Segment:

- Full year pretax operating earnings before impact of fair value accounting for FIAs, \$375 million to \$395 million
- Full year pretax operating earnings, as reported, \$375 million to \$395 million
- Full year annuity premiums flat to down 10% from \$4.4 billion reported in 2016

Key Considerations Underlying 2017 Guidance

- Higher P&C Operating Earnings
 - improved results in Neon
 - offset by lower crop profitability, following 2016's strong results
 - acquisition of National Interstate
 - higher overall P&C investment income
- Higher Earnings in the Annuity Segment
 - improvement in impact from fair value accounting for FIAs
 - partially offset by lower yield on investment portfolio

Appendix

**AMERICAN
FINANCIAL
GROUP, INC.**

Financial Highlights

Dollars in millions, except per share amounts

	Twelve Months Ended December 31,	
	<u>2016</u>	<u>2015</u>
• Results of Operations:		
– Core net operating earnings	\$ 534	\$ 486
– Core net operating earnings per share	\$ 6.03	\$ 5.44
– Average number of diluted shares	88.5	89.4
• Book Value per Share:	Dec. 31, <u>2016</u>	Dec. 31, <u>2015</u>
– Excluding unrealized gains (losses) related to fixed maturities	\$ 53.11	\$ 49.32
– Tangible, unrealized gains (losses) related to fixed maturities	\$ 50.43	\$ 46.49
• Capital Adequacy, Financial Condition and Liquidity:		
– Maintained capital at levels that support operations; in excess of amounts required for rating levels		
– Excess capital of approximately \$950 million at December 31, 2016, including parent cash of approximately \$200 million.		

Specialty Property & Casualty Businesses

Dollars in millions

	Net Written Premiums			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017E</u>
Specialty Property & Transportation	\$ 1,566	\$ 1,636	\$ 1,672	0% – 3%
Specialty Casualty	\$ 1,864 ¹	\$ 2,052	\$ 2,036	5% – 9%
Specialty Financial	\$ 488	\$ 540	\$ 572	0% – 4%
Other Specialty	<u>\$ 102</u>	<u>\$ 99</u>	<u>\$ 106</u>	n/a
Total Specialty	<u>\$ 4,020</u> ¹	<u>\$ 4,327</u>	<u>\$ 4,386</u>	2% – 6%

¹ Includes nine months of Summit premiums.

Specialty Property & Casualty Businesses

	GAAP Combined Ratio			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017E</u>
Specialty Property & Transportation	98.7%	96.9%	90.0%	91% – 95%
Specialty Casualty	92.3% ¹	92.7%	96.1%	94% – 96%
Specialty Financial	86.5%	83.1%	84.9%	84% – 88%
Other Specialty	83.4%	85.5%	91.4%	n/a
Total Specialty	93.9%¹	93.1%	92.3%	92% – 94%

¹ 2014 includes nine months of Summit results.

Annuity Segment

Dollars in millions, unless otherwise noted

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017E</u>
Annuity Premiums	\$ 3,696	\$ 4,140	\$ 4,435	Flat to down 10% ¹
Average Fixed Annuity Investments	\$ 22,391	\$ 25,174	\$ 28,223	8% to 9% growth
Average Fixed Annuity Reserves	\$ 22,119	\$ 24,898	\$ 28,146	9% to 10% growth
Pretax Operating Earnings (before impact of fair value accounting)	\$ 362 ²	\$ 354	\$ 395	\$375 to \$395 million ³
Pretax Operating Earnings, As Reported ⁴	\$ 328 ^{2, 5}	\$ 331 ⁶	\$ 368	\$375 to \$395 million ³
Net Spread Earned ⁷ (before impact of fair value accounting)	1.56%	1.35%	1.39%	1.23% to 1.29%
Net Spread Earned ⁴	1.41%	1.26%	1.29%	1.23% to 1.29%

¹ Assumes no delay in implementation of the DOL Rule.

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

³ Assumes interest rates and stock market rise moderately. Also assumes a more normalized return on certain investments that are required to be marked to market through earnings.

⁴ After the impact of fair value accounting related to FIAs.

⁵ The decrease in interest rates in 2014 had an unfavorable impact on earnings due to fair value accounting for FIAs.

⁶ The decrease in the stock market and interest rates had an unfavorable impact on earnings due to fair value accounting for FIAs.

⁷ Calculated as Net Spread Earned excluding the impact of fair value accounting for FIAs, offset by the estimated related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs.

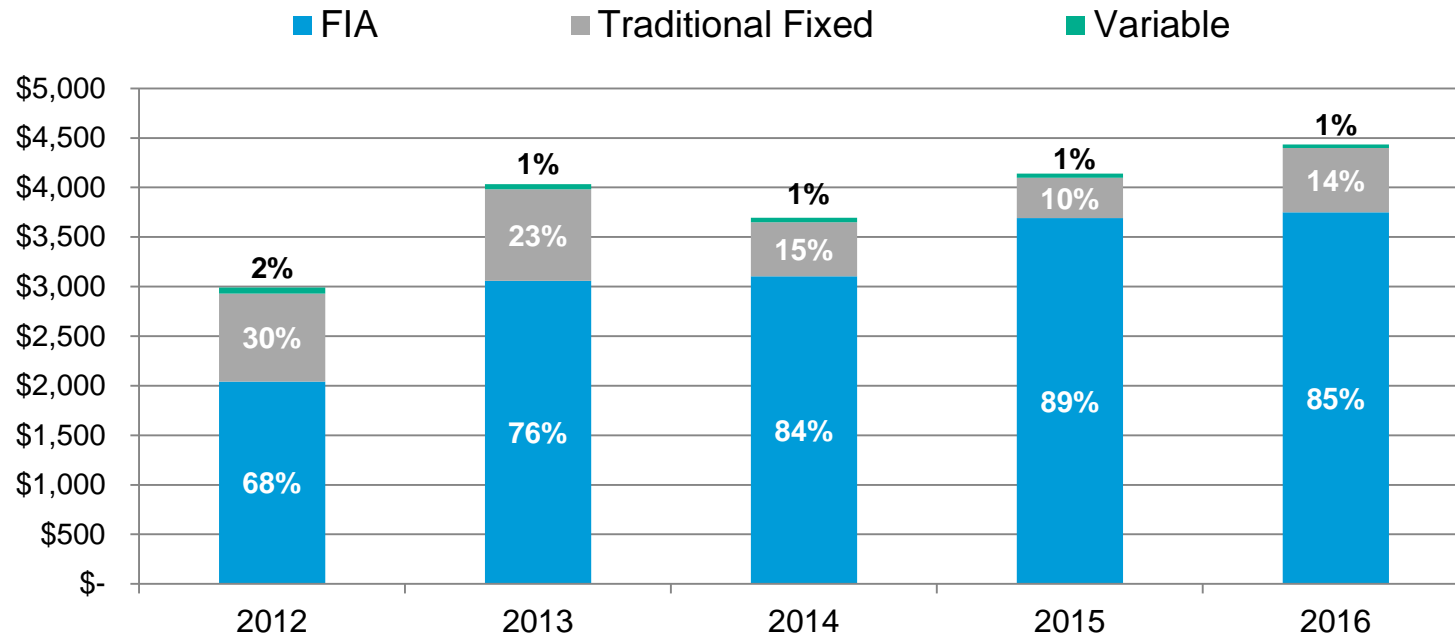
Snapshot of Current AFG Annuity Segment Sales

- Target market = middle and mass affluent baby boomers (not high wealth clients)
- Average single premium policy size ~\$100,000
- Approximately 85% of 2016 sales are FIA
- About 50% of 2016 sales are qualified / IRA
- Almost 20% of new FIA premiums have riders
- Almost 35% of sales have some form of "non-heaped" commissions
- Each product is priced to its own risk-adjusted return target, 12% in aggregate

Annuity Product Snapshot

Dollars in millions

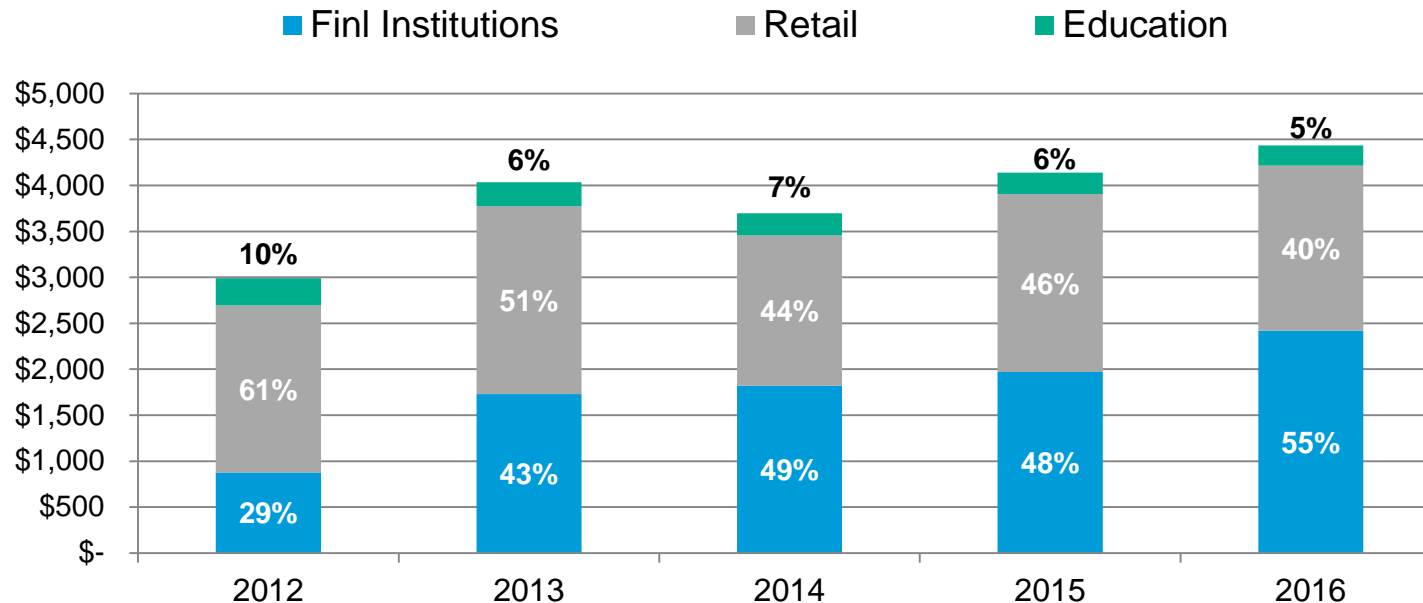
Premiums by Product Line



Annuity Product Snapshot (continued)

Dollars in millions

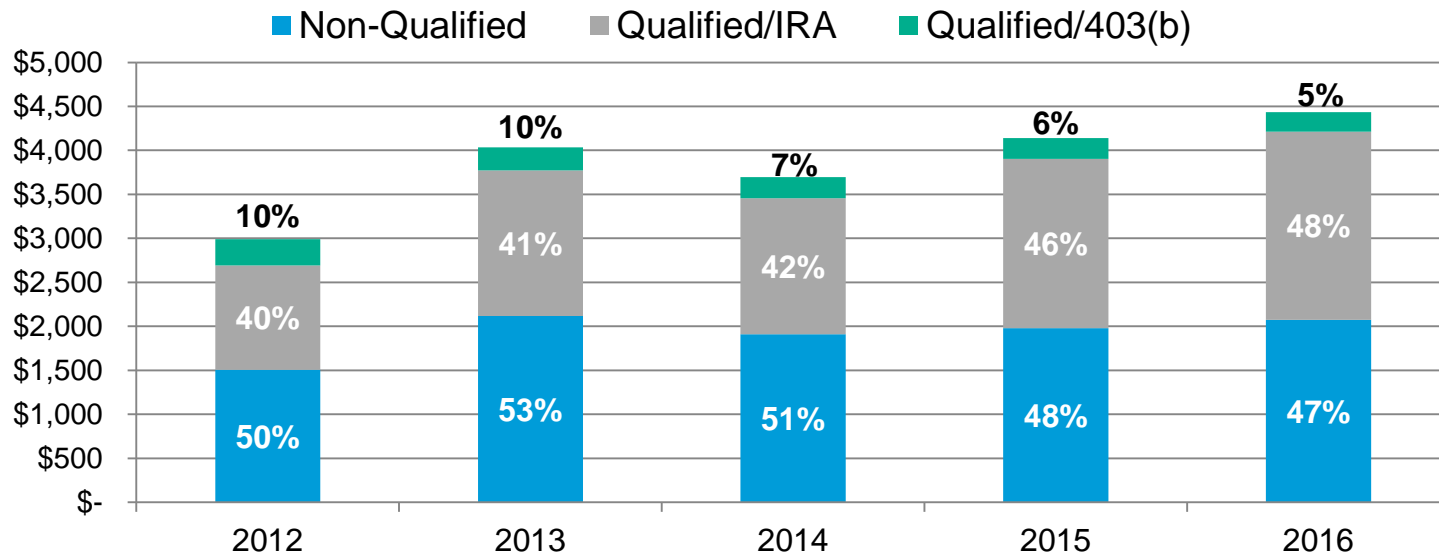
Premiums by Distribution Channel



Annuity Product Snapshot (continued)

Dollars in millions

Premiums by Tax Qualification Type



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