

# Specialty Property and Casualty Insurance Fixed and Fixed-Indexed Annuities

Morgan Stanley Financials Conference

June 14, 2016

# 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, 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.

# 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

## 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 • Education Markets

\$39 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**

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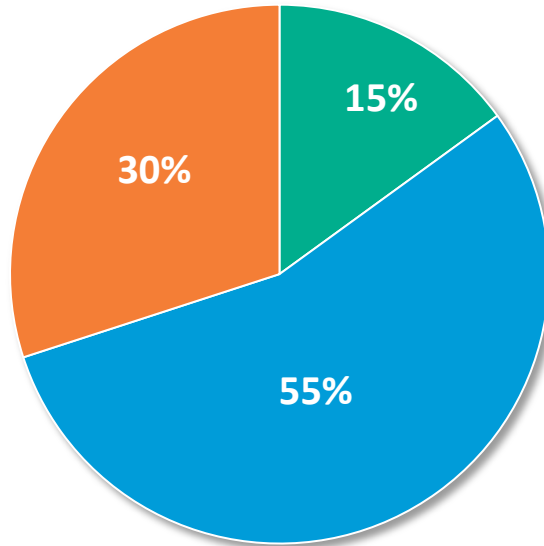
Culture • Entrepreneurial Business Model • Incentives

# Corporate Culture



# Significant Insider Ownership

AFG Shareholder Base  
March 31, 2016



Individual  
Investors

Institutional  
Investors

Family, Executives  
and Retirement Plan

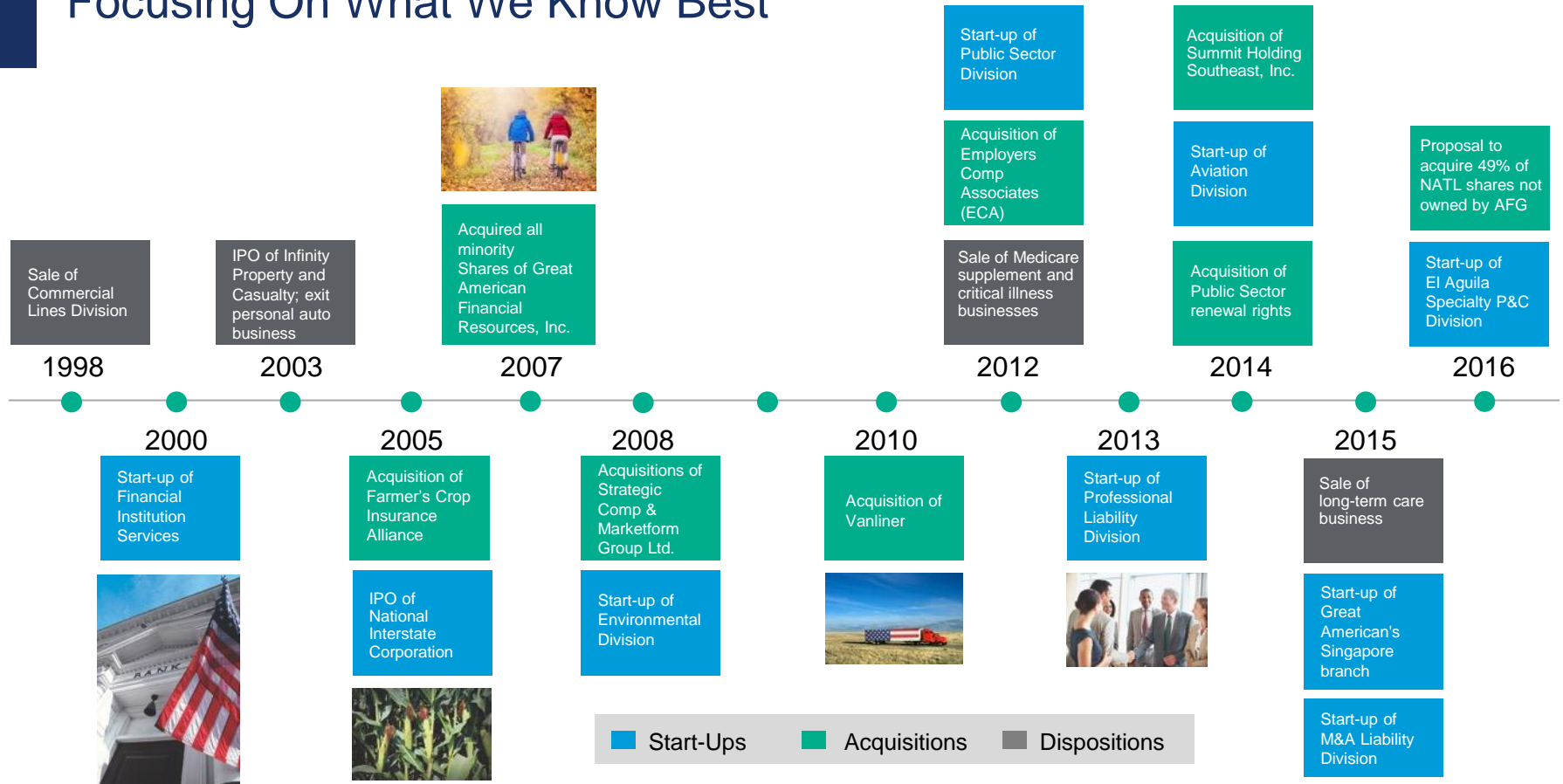
**Significant ownership by management creates strong alignment of interests with shareholders over the long term**

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

## 2015 Capital Management

- Increased ordinary dividend by 12%
  - 10<sup>th</sup> consecutive annual dividend increase
  - five year CAGR in dividends ~ 12%
- Announced \$1.00 per share special dividend, payable in December 2015
- \$126 million in share repurchases (\$64.52 per share average)
- Excess capital at 12/31/15 – \$950 million
- 4.6 million shares remaining in repurchase authorization as of 5/02/16

## 2016 Capital Management

- \$97 million in share repurchases, year-to-date through 5/02/2016 (\$67.88 per share average)

## Capital Returned to Shareholders Five Years Ended 12/31/2015 (in millions)

Total Repurchases	\$ 1,116
Dividends Paid	<u>668</u>
Total	<u><u>\$ 1,785</u></u>



***\$1.8 Billion Returned to Shareholders***

# Compounded Shareholder Return

As of March 31, 2016

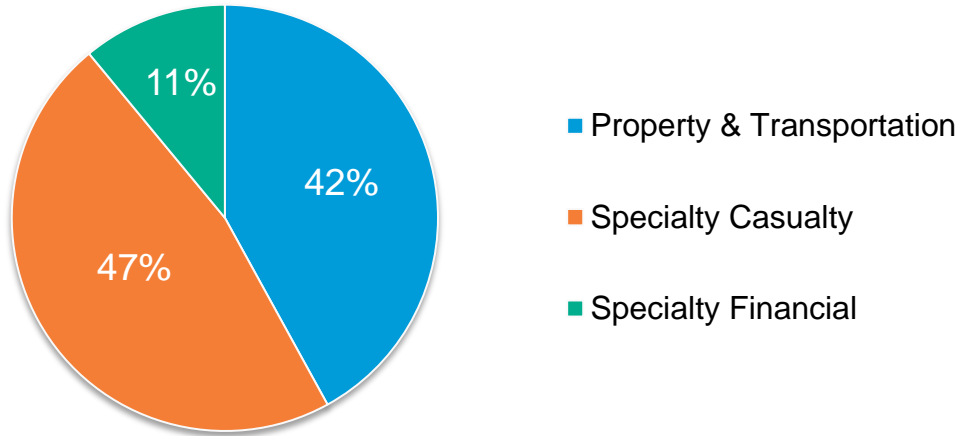
	<u>5 Years</u>	<u>10 Years</u>
<b>AFG</b>	<b>18.2%</b>	<b>12.3%</b>
S&P 500 Property & Casualty Insurance Index	16.2%	6.9%
S&P 500 Life & Health Insurance Index	5.3%	2.4%
S&P Midcap Insurance	15.9%	8.2%
S&P 500	11.5%	7.0%

Price appreciation plus dividends through 3/31/16.  
Source: Bloomberg

# Specialty Property & Casualty Premium

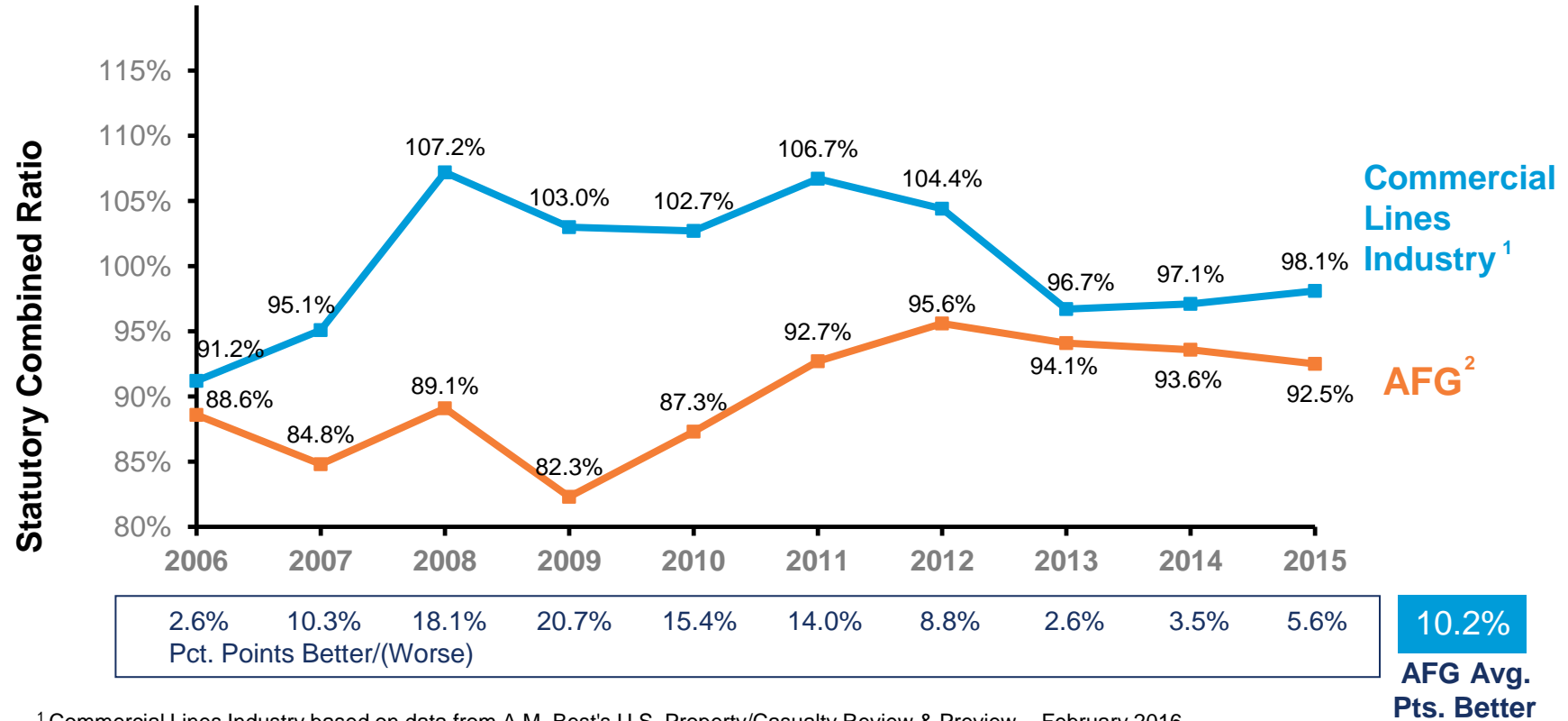
Low correlation • Low coastal exposure

**2015 Gross Written  
Premiums – \$5.8 Billion**



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

# Superior Underwriting Talent



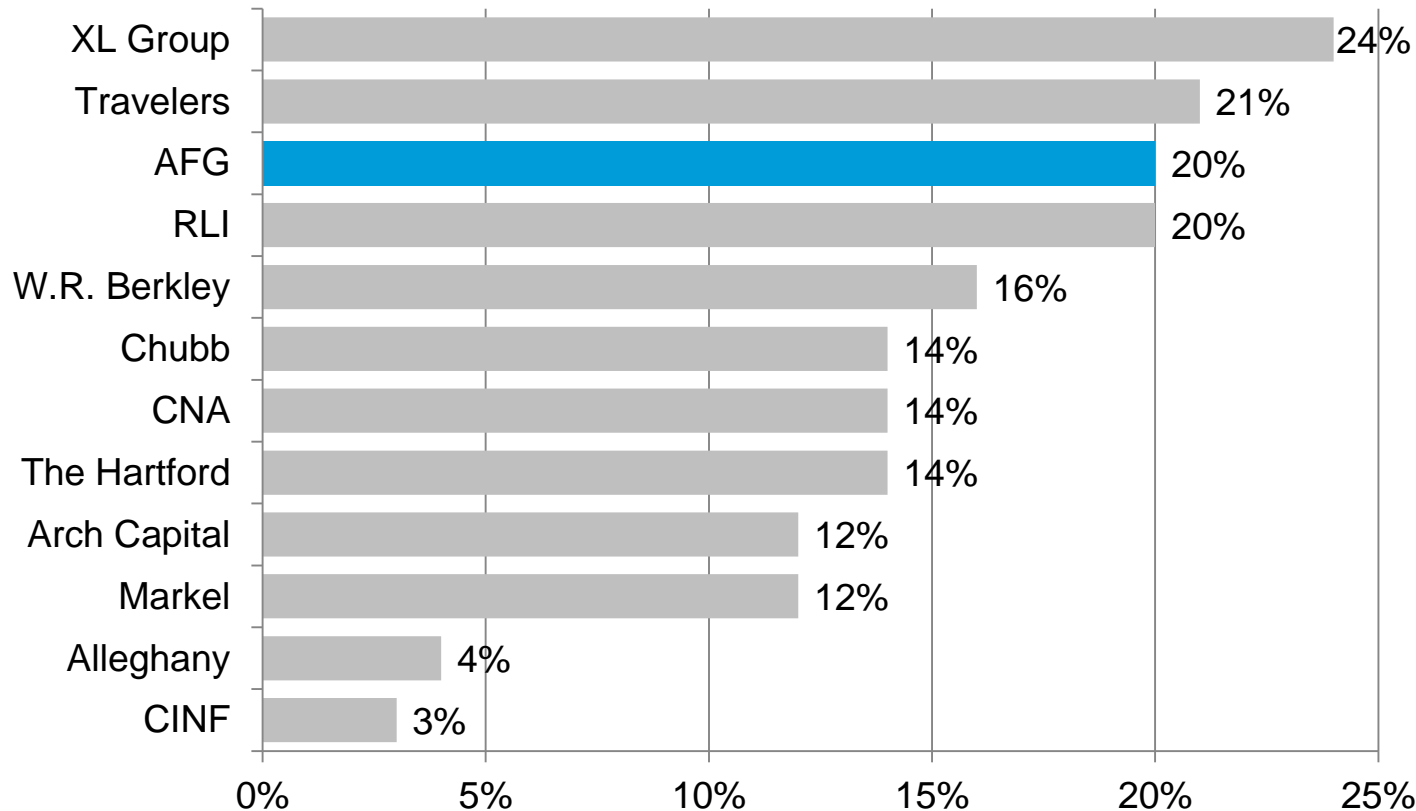
<sup>1</sup> Commercial Lines Industry based on data from A.M. Best's U.S. Property/Casualty Review & Preview – February 2016.

<sup>2</sup> 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



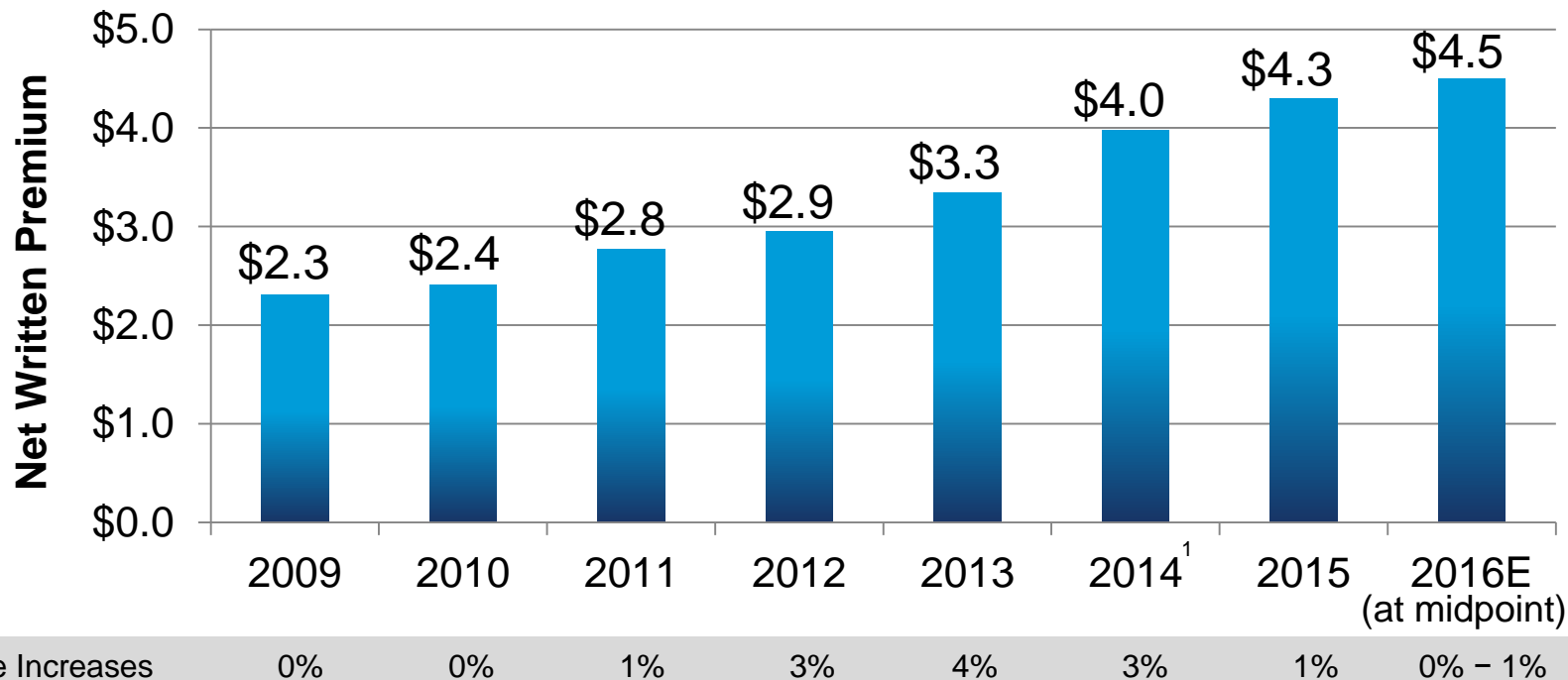
Source: Dowling & Partners



# Specialty Property & Casualty Premium Growth

Dollars in billions

## P&C Net Written Premium and Renewal Rates



<sup>1</sup> Includes Summit premiums for nine months.

## Annuity Segment – Overview

- Significant transformation since 2009
- Record earnings, premiums and assets in 2015
- Leader in its channels
- Consumer-centric business model has generated strong statutory earnings, excess capital and dividend paying capacity
- Emphasis on
  - appropriate pricing in challenging and changing environment (ROEs vs. premium growth)
  - expense discipline – invest wisely in people, infrastructure and initiatives
  - growth in profitable premiums – a good use of AFG's excess capital

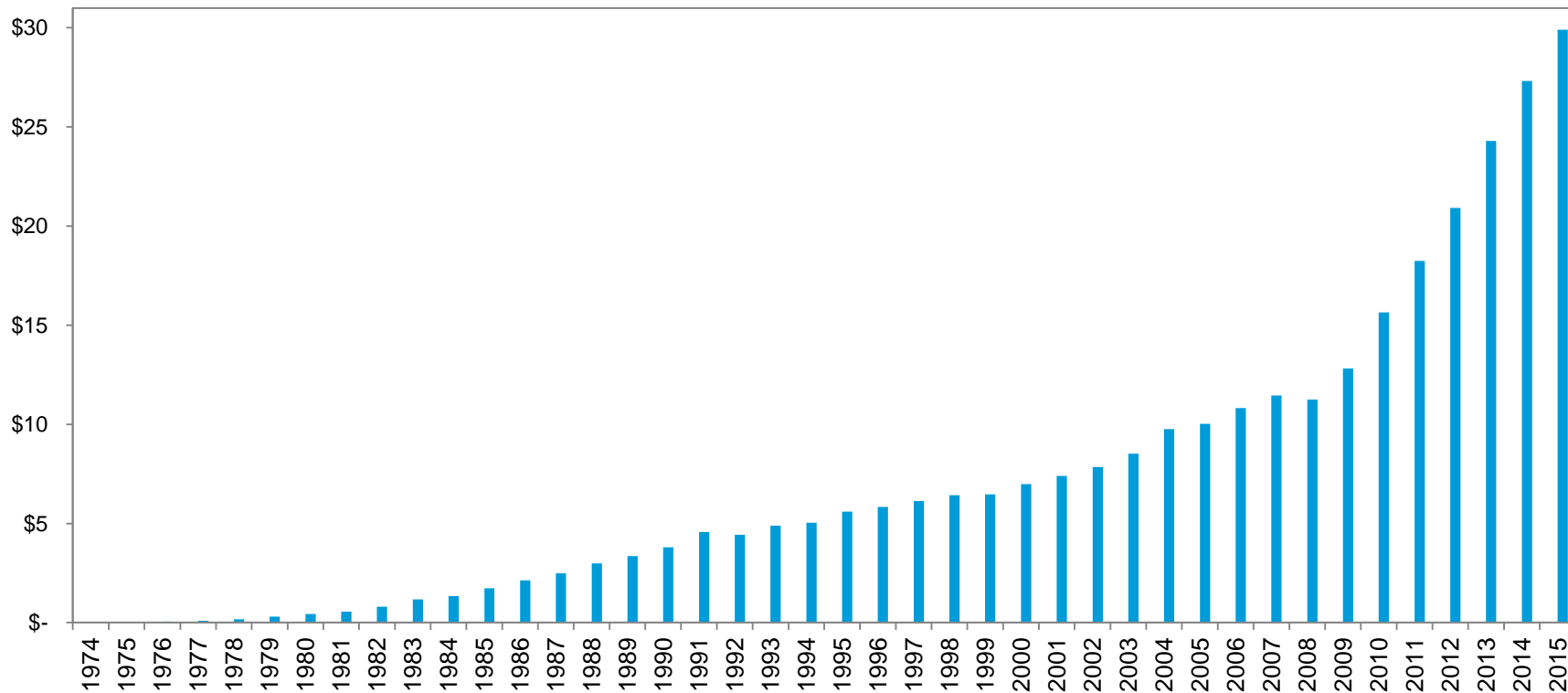
## Annuity Segment – Strengths in the Marketplace

- 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

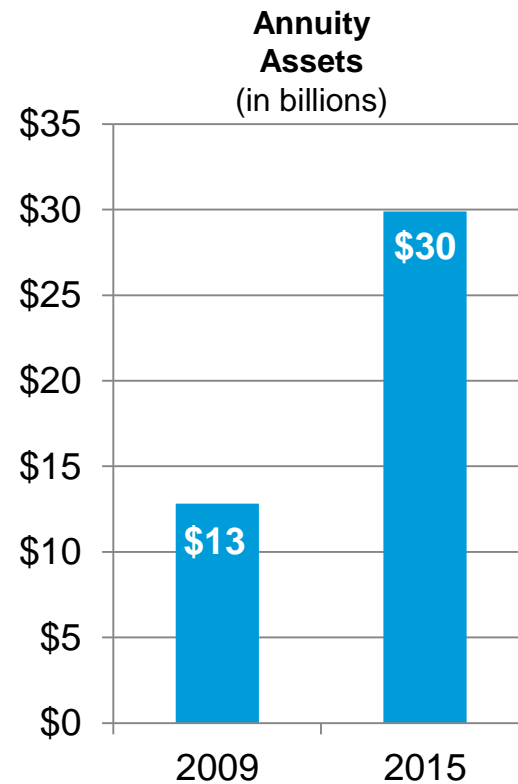
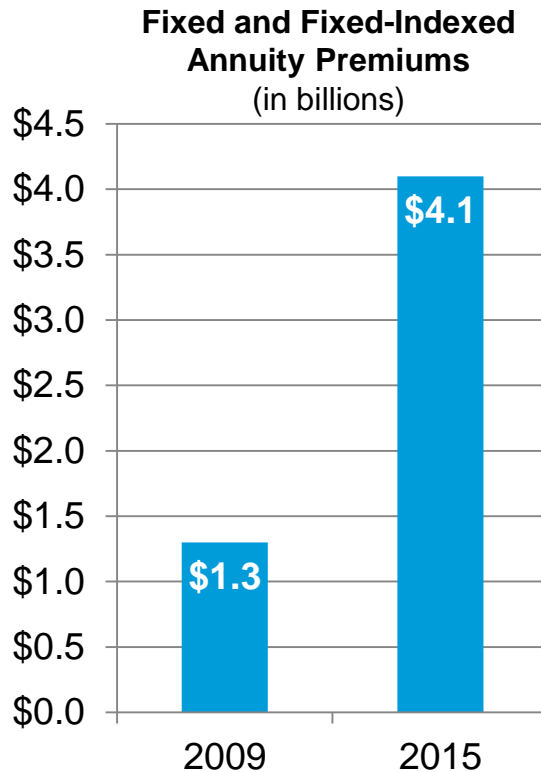
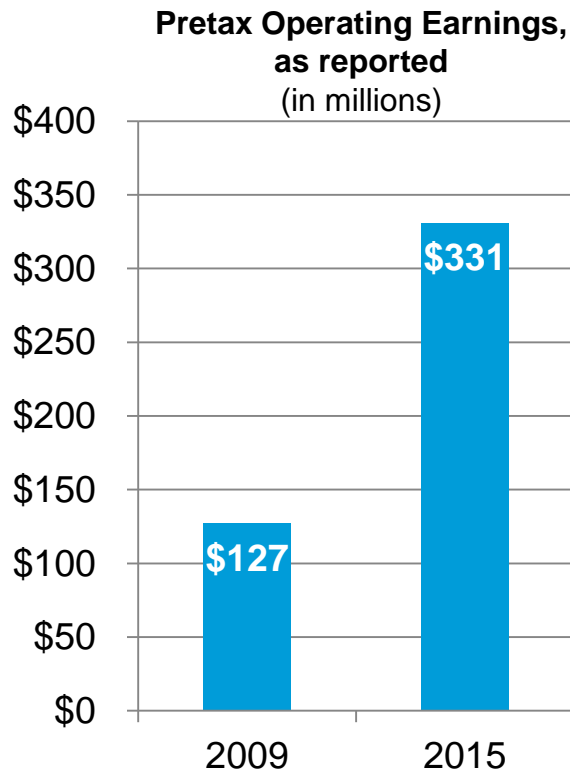
18% Compounded Annual Growth



## 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





# Diversified Specialty Niche Insurance Businesses - Annuity

			
	Market Rank	Market Focus	Distribution
Fixed-Indexed	#3 Overall #1 In Financial Institutions	<ul style="list-style-type: none"><li>• Retail</li><li>• Financial Institutions</li><li>• Education (K-12)</li></ul>	<ul style="list-style-type: none"><li>• 60 NMOs directing nearly 1,400 actively producing agents</li><li>• Financial Institutions - Direct</li><li>• Financial Institutions - Indirect</li></ul>
Fixed	#6 Overall #4 In Financial Institutions		
Variable	Never a Significant Issuer of Variable Annuities; Accommodation Product Only		

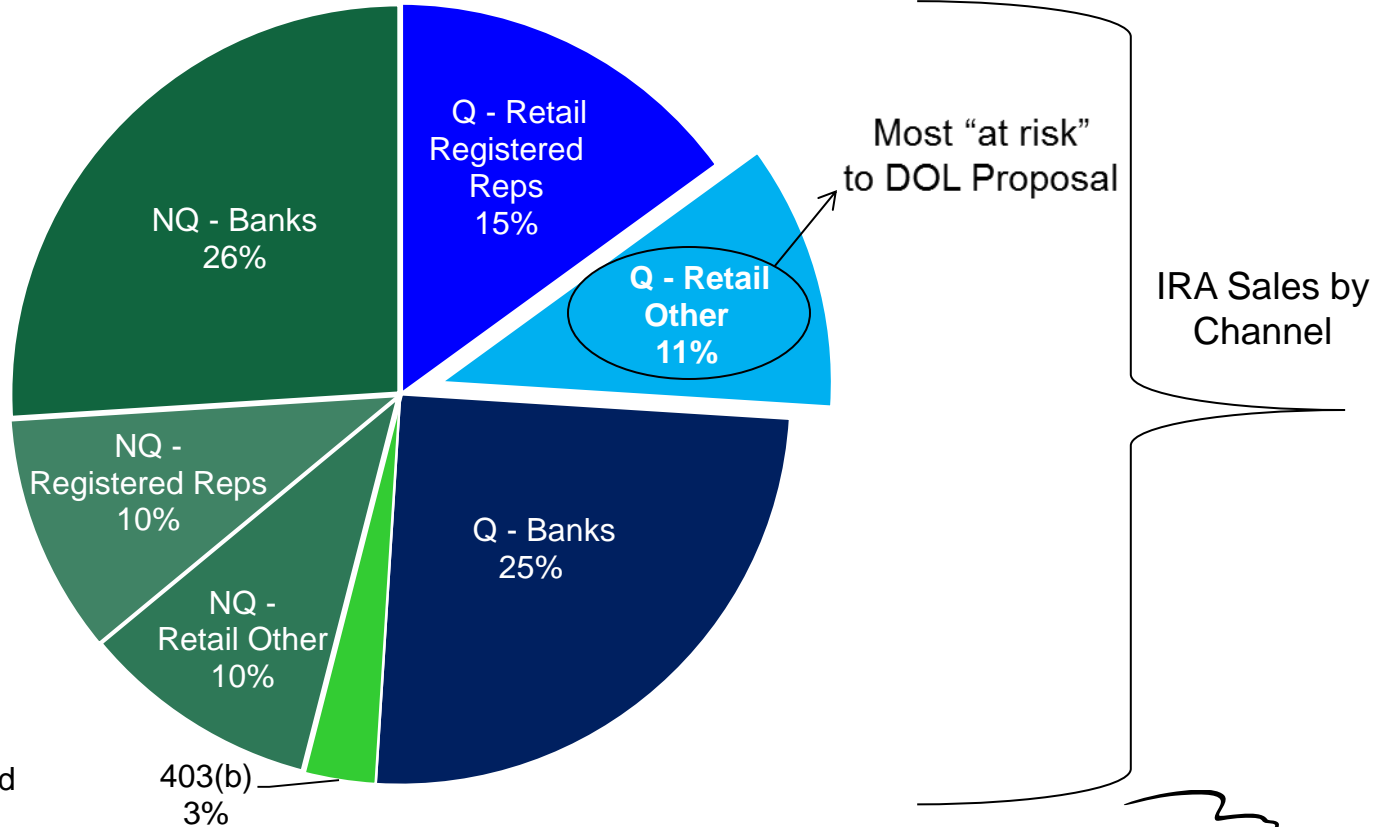
- Focus on fixed and fixed-indexed annuities makes use of core competency in fixed income investing
- Simple, easy to understand products
- Lower up-front commissions and bonuses, shorter surrender charge periods

# Department of Labor Proposal

- Vague and voluminous rules were released in April.
- Impacts sales of variable and fixed indexed annuities into IRAs (including people rolling 401k funds into an IRA via an annuity).
- Treatment with FIAs is different than what was in the original proposal.
- Means more compliance, paperwork, disclosure and costs (primarily for distribution).
- We believe the biggest impact to us will be on qualified sales of FIAs by “insurance only” agents (i.e. – non-registered reps) in our Retail Channel; this segment accounted for 11% of our annuity sales in Q1 2016.
- We also believe the biggest impact to our industry will be on variable annuity companies and on lower-rated FIA providers that sell primarily higher commission/higher surrender charge annuities in the Retail Channel.
- Therefore less impact on us due to our:
  - minimal sales of variable annuities
  - higher ratings
  - consumer-centric model
  - focus on sales through banks, broker-dealers, and registered investment advisors.
- We expect we will continue to focus on the markets we have been successful in over the last several years and are likely to develop new products that target fee-based distribution.
- We will work with our distribution partners to assist them as they adapt to the new rule.

# Annuity Sales by Type

For three months ended March 31, 2016

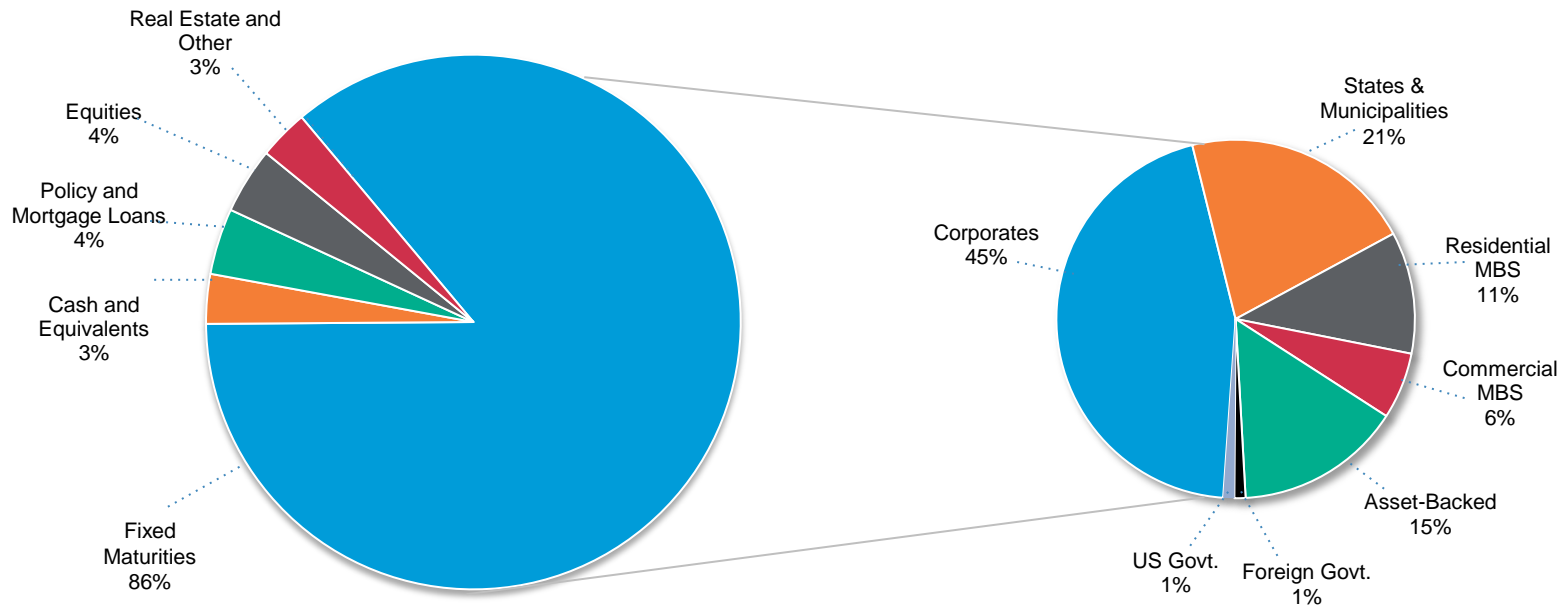


Q = Qualified  
NQ = Non-Qualified

# AFG Investment Portfolio

As of March 31, 2016

## Fixed Maturities Portfolio – 88% investment grade; 97% NAIC 1 & 2



**Carrying Value – \$39.4 Billion**

# Investment Portfolio Information and Outperformance

	Property & Casualty	Annuity & Runoff
Approximate Average Duration – Fixed Maturities as of March 31, 2016	3.5 years	5.5 years
Annualized yield on available for sale fixed maturities		
Quarter ended 12/31/15:		
• Net of investment expenses <sup>(a)</sup>	3.66%	4.69%
• Tax equivalent, net of investment expenses <sup>(b)</sup>	4.23%	4.69%

- (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 12/31/15<sup>1</sup>

**AFG** **6.6%**

Benchmark:  
Blended Insurance Industry<sup>2</sup> 5.4%

Outperformance 1.2%

≈ \$2.0 Billion Total Return  
Outperformance

<sup>1</sup> 2008-2015 time period captures the beginning of the global financial crisis.

<sup>2</sup> 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.

# Appendix



# Financial Highlights

Dollars in millions, except per share amounts

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
• Results of Operations:		
– Core net operating earnings	\$ 111	\$ 112
– Core net operating earnings per share	\$ 1.25	\$ 1.25
– Average number of diluted shares	88.5	89.4
	March 31,	Dec. 31,
	<u>2016</u>	<u>2015</u>
• Book Value per Share:		
– Excluding unrealized gains (losses) on fixed maturities	\$ 49.77	\$ 49.33
– Tangible, unrealized gains (losses) on fixed maturities	\$ 46.94	\$ 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 \$900 million at March 31, 2016, including parent cash of approximately \$160 million.		

# Specialty Property & Casualty Businesses

Dollars in millions

	<b>Net Written Premiums</b>			
	<u>2014</u>	<u>2015</u>	<u>3/31/16 YTD</u>	<u>2016E</u>
Specialty Property & Transportation	\$ 1,566	\$ 1,636	\$ 311	4% – 8%
Specialty Casualty	\$ 1,864 <sup>1</sup>	\$ 2,052	\$ 519	1% – 5%
Specialty Financial	\$ 488	\$ 540	\$ 125	3% – 7%
Other Specialty	<u>\$ 102</u>	<u>\$ 99</u>	<u>\$ 24</u>	n/a
<b>Total Specialty</b>	<b><u>\$ 4,020</u></b> <sup>1</sup>	<b><u>\$ 4,327</u></b>	<b><u>\$ 979</u></b>	<b>2% – 6%</b>

<sup>1</sup> Includes nine months of Summit premiums.

# Specialty Property & Casualty Businesses

	GAAP Combined Ratio			
	<u>2014</u>	<u>2015</u>	<u>3/31/16 YTD</u>	<u>2016E</u>
Specialty Property & Transportation	98.7%	96.9%	90.6%	93% – 97%
Specialty Casualty	92.3% <sup>1</sup>	92.7%	94.3%	92% – 94%
Specialty Financial	86.5%	83.1%	82.6%	84% – 88%
Other Specialty	83.4%	85.5%	89.7%	n/a
<b>Total Specialty</b>	<b>93.9%<sup>1</sup></b>	<b>93.1%</b>	<b>91.3%</b>	<b>92% – 94%</b>

<sup>1</sup> 2014 includes nine months of Summit results.

# Annuity Segment

Dollars in millions, unless otherwise noted

	<u>2014</u>	<u>2015</u>	<u>3/31/16 YTD</u>	<u>2016E</u>
Annuity Premiums	\$ 3,696	\$ 4,140	\$ 1,285	\$4.3 to \$4.5 billion
Average Fixed Annuity Investments	\$ 22,391	\$ 25,174	\$ 27,186	+10% to +12%
Average Fixed Annuity Reserves	\$ 22,119	\$ 24,898	\$ 26,935	+10% to +12%
Core Pretax Operating Earnings (before impact of fair value accounting)	\$ 362 <sup>2</sup>	\$ 354	\$ 84	\$350 to \$370
Core Pretax Operating Earnings, As Reported <sup>1</sup>	\$ 328 <sup>2, 3</sup>	\$ 331 <sup>5</sup>	\$ 53 <sup>6</sup>	\$315 to \$360
Net Spread Earned <sup>4</sup> (before impact of fair value accounting)	1.56%	1.35%	1.20%	1.20% – 1.30%
Net Spread Earned <sup>1</sup>	1.41%	1.26%	0.74%	1.10% – 1.25%

<sup>1</sup> After the impact of changes in the fair value accounting related to FIAs.

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

<sup>3</sup> The decrease in interest rates in 2014 had an unfavorable impact on earnings due to fair value accounting for FIAs.

<sup>4</sup> Calculated as Net Spread Earned excluding the change in the fair value of derivatives, offset by the estimated related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs.

<sup>5</sup> The decrease in the stock market and interest rates had an unfavorable impact on earnings due to fair value accounting for FIAs.

<sup>6</sup> The decrease in interest rates had an unfavorable impact on earnings due to fair value accounting for FIAs.

# 2016 Outlook – AFG

## AFG Core Earnings Guidance \$5.35 – \$5.75 per share

	<u>NWP Growth</u>	<u>Combined Ratio</u>
<b>Specialty P&amp;C Group Overall</b>	2% – 6%	92% – 94%
<b><u>Business Groups:</u></b>		
Property & Transportation	4% – 8%	93% – 97%
Specialty Casualty	1% – 5%	92% – 94%
Specialty Financial	3% – 7%	84% – 88%

P&C average renewal rates flat to up 1%

P&C investment income approximately 4% higher than 2015

### **Annuity Segment:**

- Full year core pretax operating earnings before impact of fair value accounting for FIAs, \$350 million to \$370 million
- Full year core pretax operating earnings, as reported, \$315 million to \$360 million
- Full year annuity premiums \$4.3 billion to \$4.5 billion

## 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
- Over 90% of 2015 sales are FIA
- About 50% of 2015 sales are qualified / IRA
- Almost 25% of new FIA premiums have riders
- More than 30% of sales have some form of "non-heaped" commissions
- Each product is priced to its own risk-adjusted return target. Our target return is approximately 11% - 13%.

# Annuity Product Snapshot

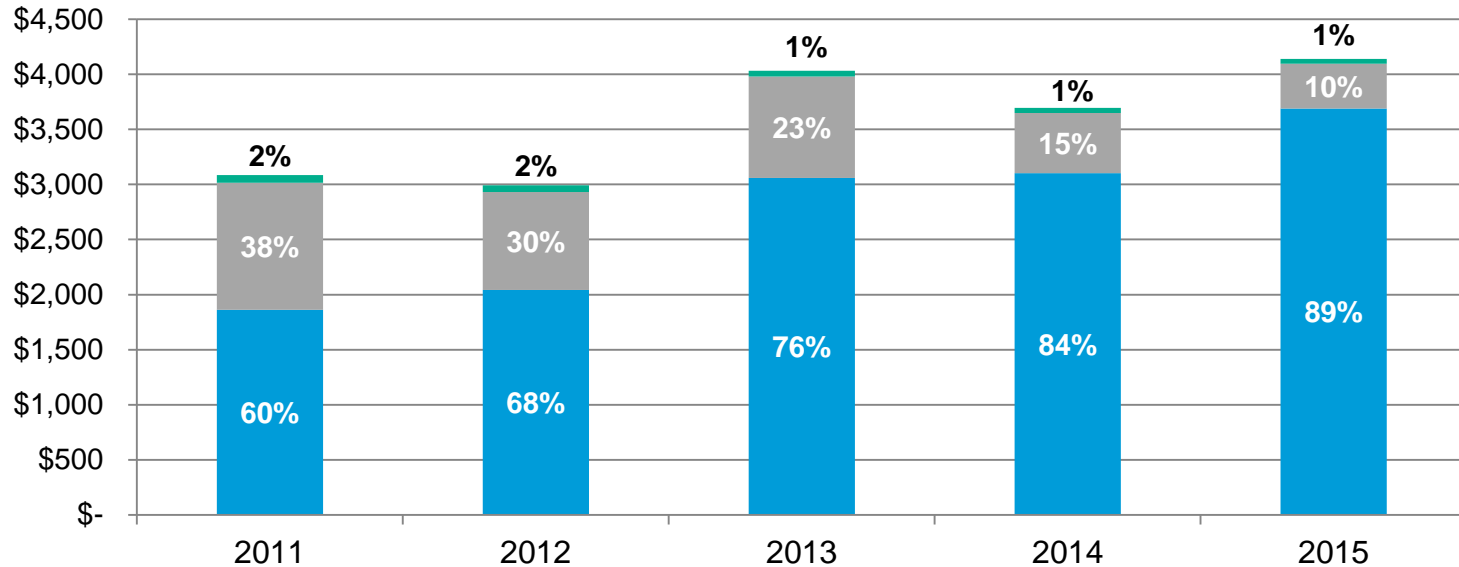
Dollars in millions

## Premiums by Product Line

FIA

Traditional Fixed

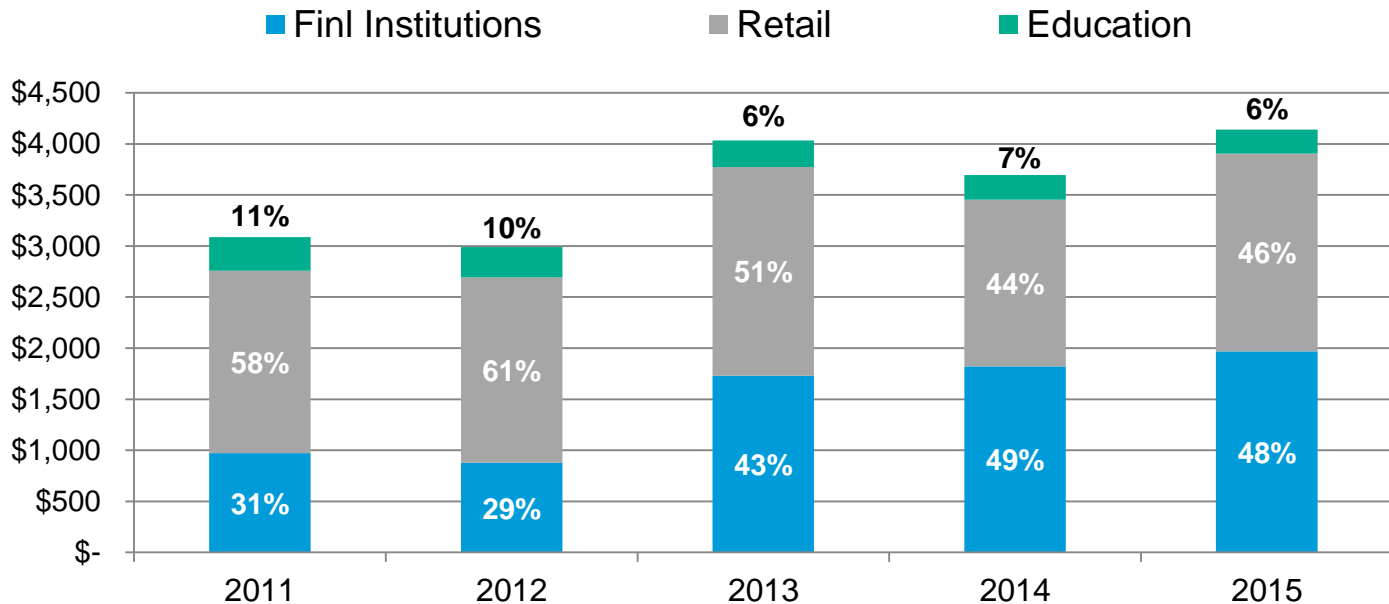
Variable



# Annuity Product Snapshot (continued)

Dollars in millions

## Premiums by Distribution Channel

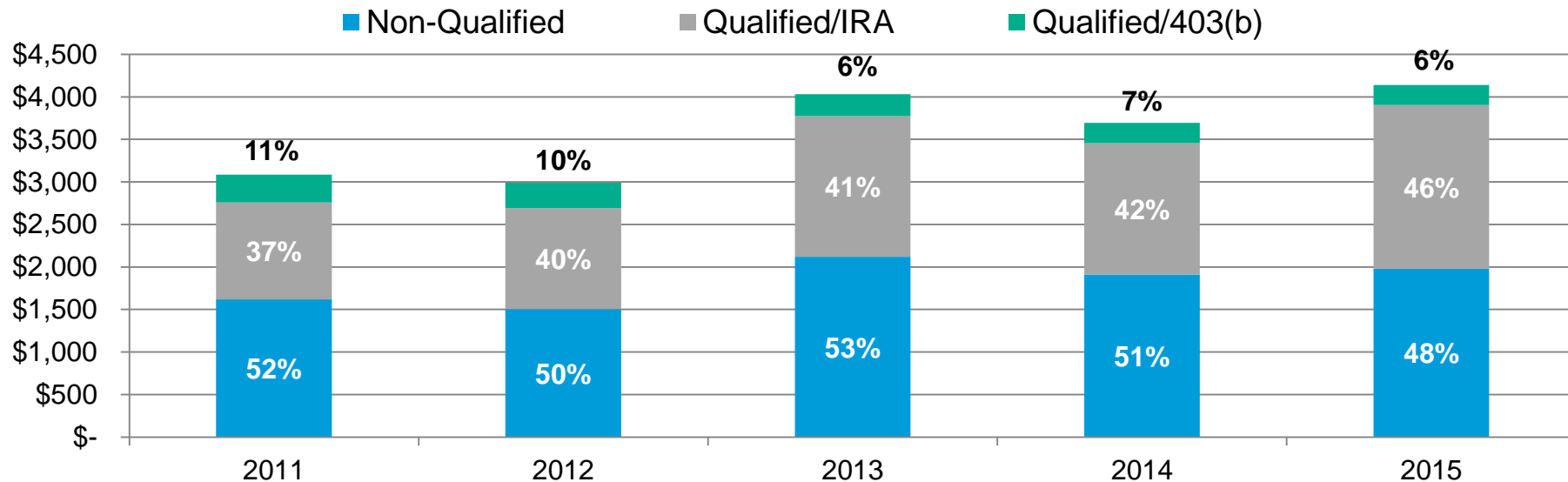




# Annuity Product Snapshot (continued)

Dollars in millions

## Premiums by Tax Qualification Type



# Fixed Maturity Investments in Energy & Commodity-Related Industries Below Investment Grade (NAIC 3 – 6)

Dollars in millions

	<b>March 31, 2016</b>		
	<b>Energy</b>	<b>Commodity-Related Industries<sup>1</sup></b>	<b>Total</b>
Market Value	\$ 249	\$ 130	\$ 379
Book Value	<u>295</u>	<u>147</u>	<u>442</u>
Unrealized Gain / (Loss)	<u>(\$ 46)</u>	<u>(\$ 17)</u>	<u>(\$ 63)</u>

<sup>1</sup> Commodity-related industries include metals, mining, steel, paper and forestry.