



# Review of Fourth Quarter and Full Year 2020

February 4, 2021



# Forward Looking Statements

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

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

Core net operating earnings is a non-GAAP financial measure which sets aside items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, 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.

# 2020 Full Year Highlights

- Core net operating earnings per share of \$8.44
  - core ROE 14.4% for 2020
  - net earnings of \$8.20 per share; ROE 14.0%
- Returned \$649 million of capital to shareholders
  - \$163 million in regular common stock dividends; 11.1% increase in ordinary dividend in October 2020
  - \$173 million special dividend paid in December 2020
  - \$313 million in share repurchases (average price per share = \$69.02)
- Growth in adjusted BVPS plus dividends of 13.0%
- AFG 10-year total shareholder return through 2020 = 287.0%
  - By comparison:
    - S&P 500 = 266.7%
    - S&P Property and Casualty Index = 279.4%
    - S&P Life & Health Insurance Index = 82.2%

# 2020 Fourth Quarter Highlights

- Record core net operating earnings per share of \$3.09 compared to \$2.22 in the 2019 fourth quarter
  - annualized core operating return on equity of 20.3%
- Fourth quarter 2020 core net operating earnings includes \$0.84 per share in earnings from alternative investments that are marked-to-market through core earnings, as noted below:

| <b>Components of Pretax Core Operating Earnings</b><br>Dollars in millions, except per share amounts | Three Months Ended December 31, |               |                                |              |                              |               |
|--|---------------------------------|---------------|--------------------------------|--------------|------------------------------|---------------|
|  | <u>2020</u>                     | <u>2019</u>   | <u>2020</u>                    | <u>2019</u>  | <u>2020</u>                  | <u>2019</u>   |
|  | <u>Before Impact of</u>         |               | <u>Alternative</u>             |              | <u>Core Net Operating</u>    |               |
|  | <u>Alternative Investments</u>  |               | <u>Investments, net of DAC</u> |              | <u>Earnings, as reported</u> |               |
| P&C Pretax Core Operating Earnings   | \$ 233                          | \$ 181        | \$ 41                          | \$ 18        | \$ 274                       | \$ 199        |
| Annuity Pretax Core Operating Earnings   | 77                              | 84            | 52                             | 20           | 129                          | 104           |
| Other Expenses   | (33)                            | (32)          | -                              | -            | (33)                         | (32)          |
| Holding Company Interest Expense   | (24)                            | (18)          | -                              | -            | (24)                         | (18)          |
| Pretax Core Operating Earnings   | 253                             | 215           | 93                             | 38           | 346                          | 253           |
| Related Income Taxes   | 57                              | 42            | 20                             | 8            | 77                           | 50            |
| <b>Core Net Operating Earnings</b>   | <b>\$ 196</b>                   | <b>\$ 173</b> | <b>\$ 73</b>                   | <b>\$ 30</b> | <b>\$ 269</b>                | <b>\$ 203</b> |
| Core Net Operating Earnings Per Share  | \$2.25                          | \$1.90        | \$0.84                         | \$0.32       | \$3.09                       | \$2.22        |
| Weighted Avg Diluted Shares Outstanding  | 87.2                            | 91.3          | 87.2                           | 91.3         | 87.2                         | 91.3          |

# 2020 Fourth Quarter Highlights

Dollars in millions, except per share data

|   | Three Months Ended<br>December 31, 2020 |                |
|---|---|----------------|
|   |   | (Per Share)    |
| Core Net Operating Earnings                             | \$ 269                                  | \$ 3.09        |
| <u>Non-core Items</u>                                   |   |                |
| After-tax Net Realized Gains on Securities <sup>1</sup> | 468                                     | 5.36           |
| After-tax Annuity Non-Core Losses                       | (38)                                    | (0.44)         |
| Neon Exited Lines                                       | (3)                                     | (0.04)         |
| Other   | (4)                                     | (0.04)         |
| Net Earnings Attributable to Shareholders               | <u>\$ 692</u>                           | <u>\$ 7.93</u> |

<sup>1</sup> Included in this amount is \$292 million (\$3.35 per share) in after-tax, after-DAC net gains related to investments transferred in connection with the annuity block reinsurance transaction and \$123 million (\$1.41 per share) in after-tax, after-DAC net gains to adjust equity securities that the Company continued to own at December 31, 2020, to fair value.

# 2021 Expectations

**AFG's core net operating earnings guidance for 2021 established at \$6.25 to \$7.25 per share**

- Excludes earnings from the annuity subsidiaries, which are expected to be classified as discontinued operations effective January 1, 2021.
- Assumes zero earnings on the cash proceeds from the sale of the annuity operations. Accordingly, AFG's ultimate results for 2021 will be impacted by any earnings impact of the deployment of this capital.
- AFG parent is expected to have \$37.00 per share in cash and \$6.00 per share in real estate-related investments immediately following the closing of the sale of the annuity business.

# Property & Casualty Results

Dollars in millions

|                                   | Three Months Ended<br>December 31, |          |                     |
|-----------------------------------|------------------------------------|----------|---------------------|
|                                   | 2020                               | 2019     | Change <sup>1</sup> |
| Specialty Gross Written Premiums  | \$ 1,707                           | \$ 1,749 | (2%)                |
| Specialty Net Written Premiums    | \$ 1,216                           | \$ 1,313 | (7%)                |
| P&C Insurance Operating Earnings  | \$ 274                             | \$ 199   | 38%                 |
| Specialty P&C Underwriting Profit | \$ 179                             | \$ 89    | 101%                |
| Specialty P&C Combined Ratio      | 86.2%                              | 93.5%    | (7.3%)              |
| Adverse (Favorable) Impact of:    |                                    |          |                     |
| Catastrophe Losses                | 1.5%                               | 1.0%     | 0.5%                |
| Prior Year Development            | (2.4%)                             | (3.8%)   | 1.4%                |

*AFG did not record any additional reserve charges for COVID-19 in the fourth quarter. Approximately 72% of AFG's COVID-19 related reserves from the \$95 million in charges recorded in the first half of 2020 were held as IBNR at December 31, 2020.*

# Specialty P&C Group

Dollars in millions

|                           | Net Written Premiums<br>Three Months Ended<br>December 31, |             |               | Combined Ratio<br>Three Months Ended<br>December 31, |             |
|---------------------------|--|-------------|---------------|--|-------------|
|                           | <u>2020</u>  | <u>2019</u> | <u>Change</u> | <u>2020</u>  | <u>2019</u> |
| Property & Transportation | \$ 440   | \$ 449      | (2%)          | 85.8%  | 100.4%      |
| Specialty Casualty        | \$ 565   | \$ 669      | (16%)         | 84.0%  | 89.7%       |
| Specialty Financial       | \$ 163   | \$ 156      | 4%            | 86.8%  | 79.6%       |



# 2021 Outlook – Specialty P&C

|  | 2020<br>Combined<br>Ratio | 2021 Outlook  |                   |
|--|---------------------------|---------------|-------------------|
|  |                           | NWP<br>Growth | Combined<br>Ratio |
| Specialty P&C Group Overall                  | 91.3%                     | 5% – 9%       | 89% – 91%         |
| <b><u>Business Groups:</u></b>               |                           |               |                   |
| Property & Transportation                    | 90.4%                     | 9% – 13%      | 88% – 92%         |
| Specialty Casualty                           | 90.0%                     | 3% – 7%       | 87% – 91%         |
| <i>Specialty Casualty Excl Workers' Comp</i> |                           | 5% – 9%       |                   |
| Specialty Financial                          | 91.8%                     | 4% – 8%       | 88% – 92%         |

P&C average renewal rates up 6% to 8% when compared to 2020

P&C investment income down 1% to up 3% when compared to 2020<sup>1</sup>

# Annuity Segment

Dollars in millions

|   | Three Months Ended<br>December 31, |               |               |
|---|------------------------------------|---------------|---------------|
| <u>Pretax Annuity Core Operating Earnings:</u>  | <u>2020</u>                        | <u>2019</u>   | <u>Change</u> |
| Pretax Annuity core operating earnings before<br>alternative investments                          | \$ 77                              | \$ 84         | (8%)          |
| Alternative Investments, net of DAC   | 52                                 | 20            |               |
| Pretax Annuity core operating earnings – as reported  | <u>\$ 129</u>                      | <u>\$ 104</u> | 24%           |
| Annualized core operating return on equity  | 14.9%                              | 12.5%         |               |
| <i>Year over year change in quarterly average invested assets<sup>1</sup></i>                     | <i>(10%)</i>                       | <i>9%</i>     |               |
| <i>Alternative investments – change in market value<br/>during the period (before DAC impact)</i> | <i>4.4%</i>                        | <i>1.9%</i>   |               |

<sup>1</sup> The year-over-year decrease in the fourth quarter of 2020 is the result of the October 2020 block reinsurance transaction. In the absence of this transaction, quarterly average invested assets would have increased by 5% year-over-year.

# Fixed Annuities

Dollars in millions

|   | Three Months Ended<br>December 31, |                     |                           |
|---|------------------------------------|---------------------|---------------------------|
|   | <u>2020</u>                        | <u>2019</u>         | <u>Change<sup>1</sup></u> |
| Average Fixed Annuity Investments <sup>2</sup>            | \$ 35,538                          | \$ 39,316           | (10%)                     |
| Average Fixed Annuity Reserves <sup>2</sup>               | \$ 35,414                          | \$ 39,615           | (11%)                     |
| <hr/>   |                                    |                     |                           |
| Core Net Interest Spread - before alternative investments | 1.59%                              | 1.71%               | (0.12%)                   |
| Alternative Investments, before DAC                       | <u>0.69%</u>                       | <u>0.23%</u>        | <u>0.46%</u>              |
| <b>Core Net Interest Spread</b>                           | <b><u>2.28%</u></b>                | <b><u>1.94%</u></b> | <b><u>0.34%</u></b>       |
| <br><b><u>Net Spread Earned:</u></b>                      |                                    |                     |                           |
| Core Operating - before alternative investments           | 0.83%                              | 0.87%               | (0.04%)                   |
| Alternative Investments, net of DAC                       | <u>0.59%</u>                       | <u>0.20%</u>        | <u>0.39%</u>              |
| <b>Core Operating Net Spread Earned</b>                   | <b><u>1.42%</u></b>                | <b><u>1.07%</u></b> | <b><u>0.35%</u></b>       |

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

<sup>2</sup> The year-over-year decrease is the result of the October 2020 block reinsurance transaction. In the absence of this transaction, average fixed annuity investments and average annuity reserves would have each increased by 5%.

# Gross Statutory Annuity Premiums

Dollars in millions

|   | Three Months Ended<br>December 31, |                        |            |
|---|------------------------------------|------------------------|------------|
|   | 2020                               | 2019                   | Change     |
| <b><u>Summary by Distribution Channel</u></b> |                                    |                        |            |
| Financial Institutions                        | \$ 728                             | \$ 629                 | 16%        |
| Retail  | 173                                | 195                    | (11%)      |
| Broker Dealer                                 | 115                                | 116                    | (1%)       |
| Pension Risk Transfer                         | 274                                | 158                    | 73%        |
| Other   | 29                                 | 41                     | (29%)      |
| <b>Total Gross Annuity Premiums</b>           | <b><u>\$ 1,319</u></b>             | <b><u>\$ 1,139</u></b> | <b>16%</b> |

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|                                       |                        |                        |            |
|---------------------------------------|------------------------|------------------------|------------|
| <b><u>Summary by Product Type</u></b> |                        |                        |            |
| Indexed                               | \$ 627                 | \$ 655                 | (4%)       |
| Fixed                                 | 688                    | 479                    | 44%        |
| Variable                              | 4                      | 5                      | (20%)      |
| <b>Total Gross Annuity Premiums</b>   | <b><u>\$ 1,319</u></b> | <b><u>\$ 1,139</u></b> | <b>16%</b> |

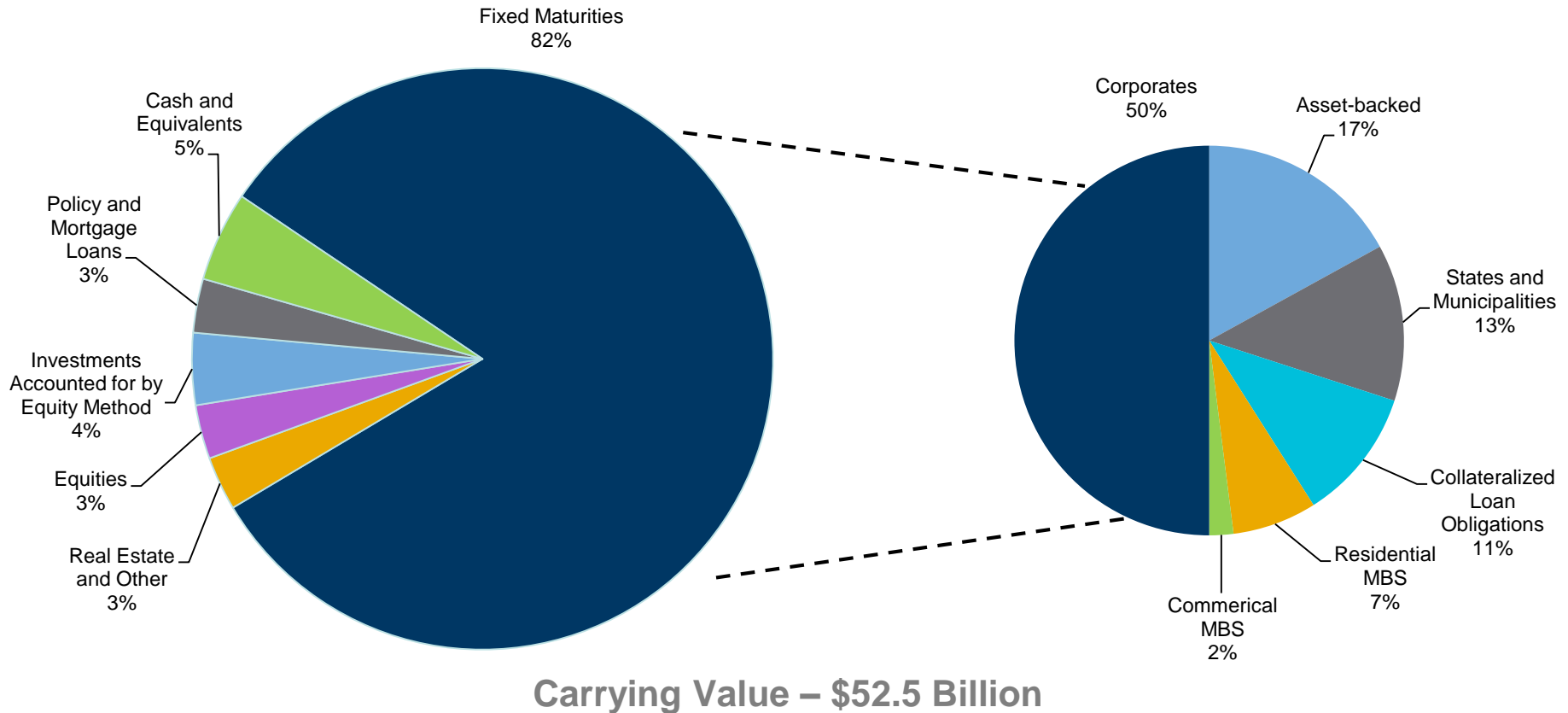
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# Investments

- Total carrying value of investment portfolio at December 31, 2020 = \$52.5 billion
- Fourth quarter after-tax, after-DAC net realized gains on securities of \$468 million includes the following items:
  - \$292 million in after-tax, after-DAC net gains related to the transfer of investments in connection with the annuity block reinsurance transaction announced in October 2020
  - \$123 million in after-tax, after-DAC net realized gains to adjust equity securities the company continued to own at December 31, 2020 to fair value through earnings
- Pretax, pre-DAC unrealized gains on fixed maturities were \$2.8 billion at December 31, 2020

# Investment Portfolio – December 31, 2020

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



# Strong Financial Position

In millions, except per share data

|  | <u>Dec 31, 2020</u> | <u>Dec 31, 2019</u> |
|--|---------------------|---------------------|
| Principal Amount of Long-Term Debt                   | \$ 1,993            | \$ 1,493            |
| Adjusted shareholders' equity <sup>1</sup>           | <u>5,493</u>        | <u>5,390</u>        |
| Total adjusted capital                               | <u>\$ 7,486</u>     | <u>\$ 6,883</u>     |
| Ratio of debt to total adjusted capital <sup>2</sup> |                     |                     |
| Including subordinated debt                          | 26.6%               | 21.7%               |
| Excluding subordinated debt                          | 17.6%               | 14.8%               |
| Common shares outstanding                            | 86.345              | 90.304              |
| <u>Book value per share:</u>                         |                     |                     |
| Book value per share                                 | \$ 78.62            | \$ 69.43            |
| Adjusted <sup>3</sup>                                | 63.61               | 59.70               |
| Tangible, adjusted <sup>4</sup>                      | 60.82               | 56.93               |
| Parent Company Cash                                  | \$ 215              | \$ 166              |

## Capital

- Above target levels for all rating agencies
- Excess capital approximately \$1.2 billion
- Repurchased 1.06 million shares during 4Q 2020 for \$80 million (avg. price per share \$74.98)
- Fourth quarter regular dividends = \$43 million
- December special dividend = \$173 million

## Long-Term Debt at December 31, 2020

- In November, redeemed \$150 million 6% Sub Debs due 2055
- No debt maturities until 2026
- No borrowings under \$500 million credit line

## Financial Strength Ratings – U.S. Based P&C Insurers

- A.M. Best: GAI, Mid-Continent, National Interstate, Republic = A+
- Standard & Poor's: = A+
- Moody's: GAI = A1, Republic = A3

1 Excludes net unrealized gains related to fixed maturity investments.

2 The ratio is calculated by dividing the principal amount of AFG's long-term debt by its total capital, which includes long-term debt, noncontrolling interests and shareholders' equity (excluding unrealized gains (losses) related to fixed maturity investments).

3 Excludes net unrealized gains related to fixed maturity investments.

4 Excludes net unrealized gains related to fixed maturity investments, goodwill and intangibles.

# Sale of Annuity Business to MassMutual

- On January 27, 2021, AFG announced that it had entered into a definitive agreement to sell its Annuity business to MassMutual
- MassMutual will acquire Great American Life Insurance Company (GALIC) and its two insurance subsidiaries, Annuity Investors Life Insurance Company and Manhattan National Life Insurance Company
- Transaction will result in AFG's exit from the fixed and indexed annuity market



## Transaction Summary

- **Purchase Price = \$3.5 billion in cash, subject to final closing adjustments. Closing expected in 2Q 2021.**
- **Proceeds will be adjusted to the extent that GAAP shareholders' equity excluding AOCI of the entities sold varies from \$2.8 billion**
  - *GAAP shareholders' equity excluding AOCI of the entities to be sold was \$2.9 billion at December 31, 2020*
- **Estimated after-tax gain on the sale of \$620 million to \$690 million (\$7.10 to \$7.90 per AFG share)**
- **Prior to completion of the transaction, AFG will acquire approximately \$500 million in real estate-related partnerships and directly owned real estate from GALIC**



# AFG Pro Forma Financial Information

## Sale of Annuity Business to MassMutual

|  | Dec. 31, 2020<br>Actual | Dec. 31, 2020<br>Pro Forma |
|--|-------------------------|----------------------------|
| Parent Cash                              | \$215 million           | \$3.2 billion              |
| Excess Capital                           | \$1.2 billion           | \$4.4 billion              |
| Debt to Capital – Incl Subordinated Debt | 26.6%                   | 24.5%                      |
| Debt to Capital – Excl Subordinated Debt | 17.6%                   | 16.2%                      |

The pro forma information above is shown “as if” the transaction closed on December 31, 2020, and assumes an after-tax gain on the sale of the annuity business of \$655 million (midpoint of estimated range).

These numbers have been adjusted for the cash proceeds expected to be received at closing, as well as other impacts of the sale, including AFG Parent acquiring approximately \$500 million in real estate-related assets from GALIC.



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