



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

Bank of America Securities  
2021 Insurance Conference  
February 10, 2021



# 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.



A history dating back

145+ years

Approximately **50%** of Specialty P&C Group  
gross written premium produced by businesses  
with “top 10” market rankings

**#10** Fixed Annuity provider

**#2** in sales of FIAs through financial institutions

**Specialists** in providing insurance products that **help**  
**businesses** manage their **unique financial risks** and  
exposures and **individuals save** for their **financial futures**.



Great American Insurance Company **1** of only **4** companies  
rated **“A” (Excellent)** or better by A.M. Best for  
**110+ years**



*We provide financial solutions that fulfill today's needs and tomorrow's dreams; a trusted partner in delivering long-term value to our customers, employees and investors.*

## Specialty P&C Insurance

### Property & Transportation



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

### Specialty Casualty



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

### Specialty Financial



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

## Annuity



- Fixed and Indexed Annuities
- Sold in retail, financial institutions, broker-dealer and registered investment advisor markets

Investment Portfolio Managed In-House

# Building Long-Term Value for AFG Shareholders



Culture • Entrepreneurial Business Model • Incentives

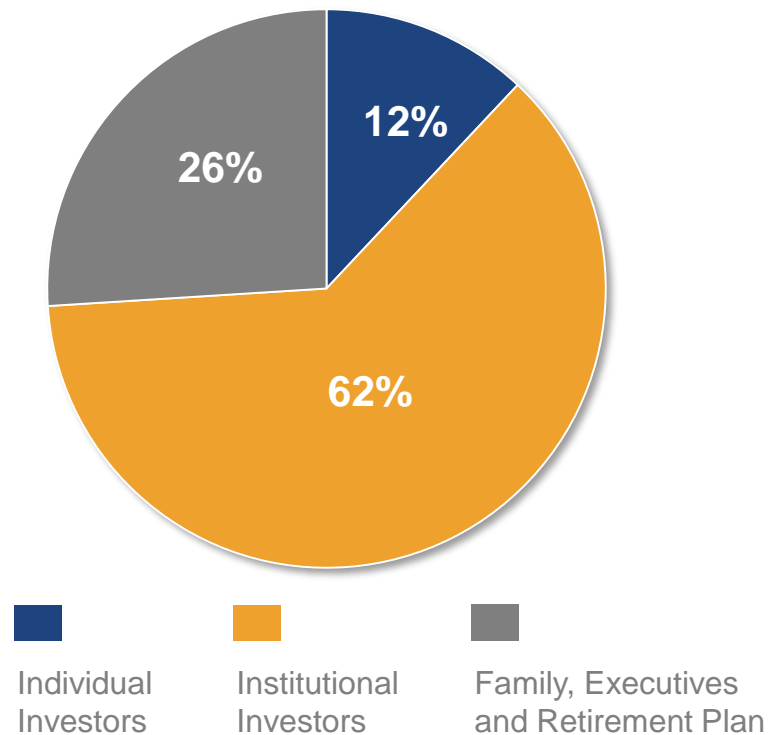


# Our Corporate Values

		
Our Foundation	Our Priorities	Our Expectations
Specialization	Customer Focus	Integrity
Entrepreneurial Spirit	Clear & Open Communications	Self-Discipline
Accountability	Work / Family Balance	Respect for Others
Over 8,100 employees in 120 locations worldwide		

# Significant Insider Ownership

AFG Shareholder Base



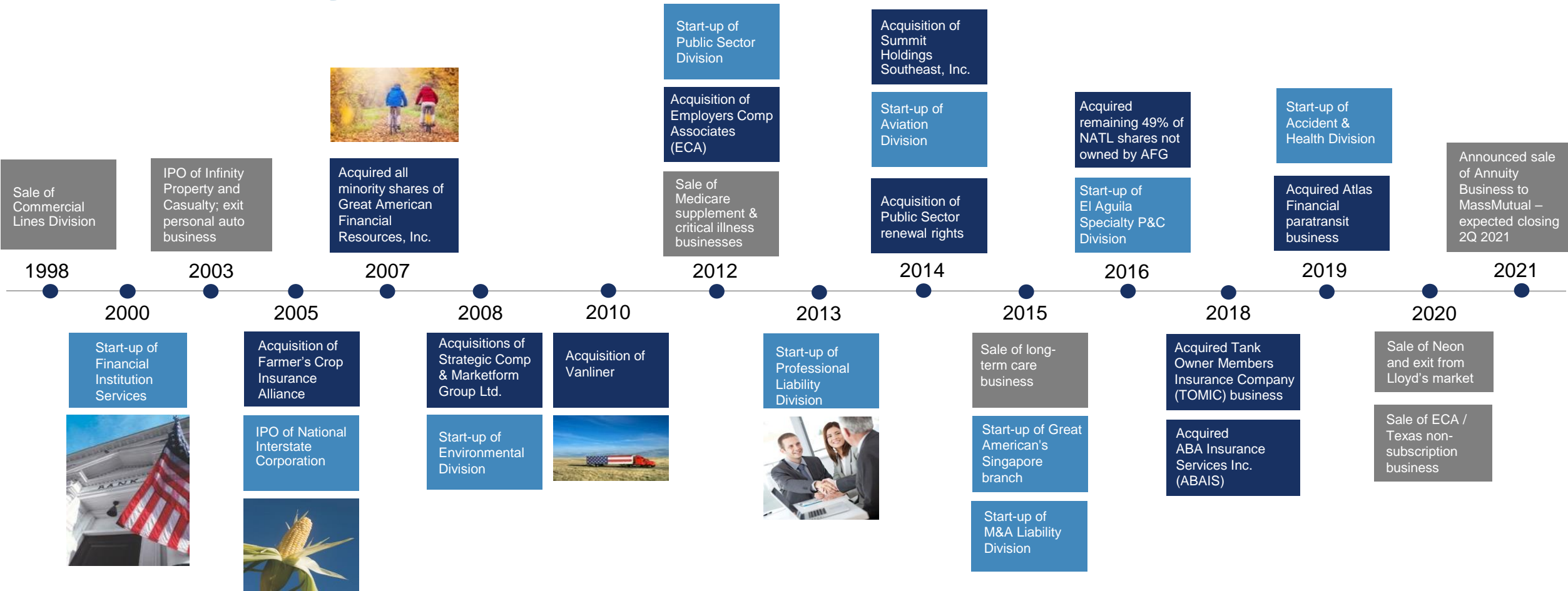
**Significant ownership by management creates strong alignment of interests with shareholders over the long term.**

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

## Ownership Details

- Co-CEOs / family = 22%
- Executives and Retirement Plan = 4%

# Focusing on What We Know Best





# Sale of Annuity Business to MassMutual

As of December 31, 2020

- 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's P&C group will acquire approximately \$400 million in real estate-related partnerships and AFG Parent will acquire \$100 million in directly owned real estate from GALIC**

# Components of Excess Capital

Dollars in millions

## Components of AFG Excess Capital

Cash at Holding Companies	\$ 230
P&C Segment Excess Capital	249
Annuity Segment Excess Capital	294
Borrowing Capacity	<u>422</u>
	<u><b>\$ 1,195</b></u>

AFG had approximately  
**\$1.2 billion** in  
Excess Capital at  
December 31, 2020

December 31, 2020  
Pro Forma:

Sale of Annuity  
Businesses

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Cash  
\$3.6 billion

Excess Capital  
\$4.3 billion

## Insurance Company Excess Capital

*Excess capital amounts shown above are based on the most stringent capital model of any rating agency*

### P&C Segment: Most Stringent Benchmark = S&P

- Statutory Capital exceeds S&P capital requirement for an A+ rating

### Annuity Segment: Most Stringent Benchmark = Moody's (NAIC)

- Capital in Excess of Target 375% RBC = \$119 million
- Moody's has indicated that an NAIC RBC ratio below 350% is a factor that could lead to a downgrade, and indicated that a ratio of 375% or greater is a factor that could lead to an upgrade
- AFG's RBC Threshold takes into account favorable factors cited by Moody's, including: efficient expense structure, ability to lower cost of funds, and relatively simple product designs that provide surrender protection, among others

## Borrowing Capacity

AFG can borrow an additional \$422 million without exceeding its 22% debt leverage target and commitment to rating agencies

# AFG Pro Forma Financial Information

## Sale of Annuity Business to MassMutual

### Pro Forma Excess Capital at December 31, 2020 **\$4.3 billion**

(adjusted as noted below)

	Dec. 31, 2020 Actual	Dec. 31, 2020 Pro Forma
Parent Cash	\$215 million	\$3.6 billion
Excess Capital	\$1.2 billion	\$4.3 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’s P&C Group acquiring approximately \$400 million in real estate-related assets and AFG Parent acquiring approximately \$100 million in directly-owned real estate from GALIC.

# Intelligent Use of Excess Capital

## 2020 Capital Management

- Returned \$649 million of capital to shareholders
- 11% increase in regular annual dividend
  - 15<sup>th</sup> consecutive annual dividend increase
- Paid \$2.00 special dividend in December 2020
- Repurchased \$313 million of AFG common shares at an average price per share of \$69.02
- Excess capital at December 31, 2020 approximately \$1.2 billion
- 5.5 million shares remaining in repurchase authorization as of December 31, 2020

## Capital Returned to Shareholders Five Years Ended 12/31/2020 (in millions)

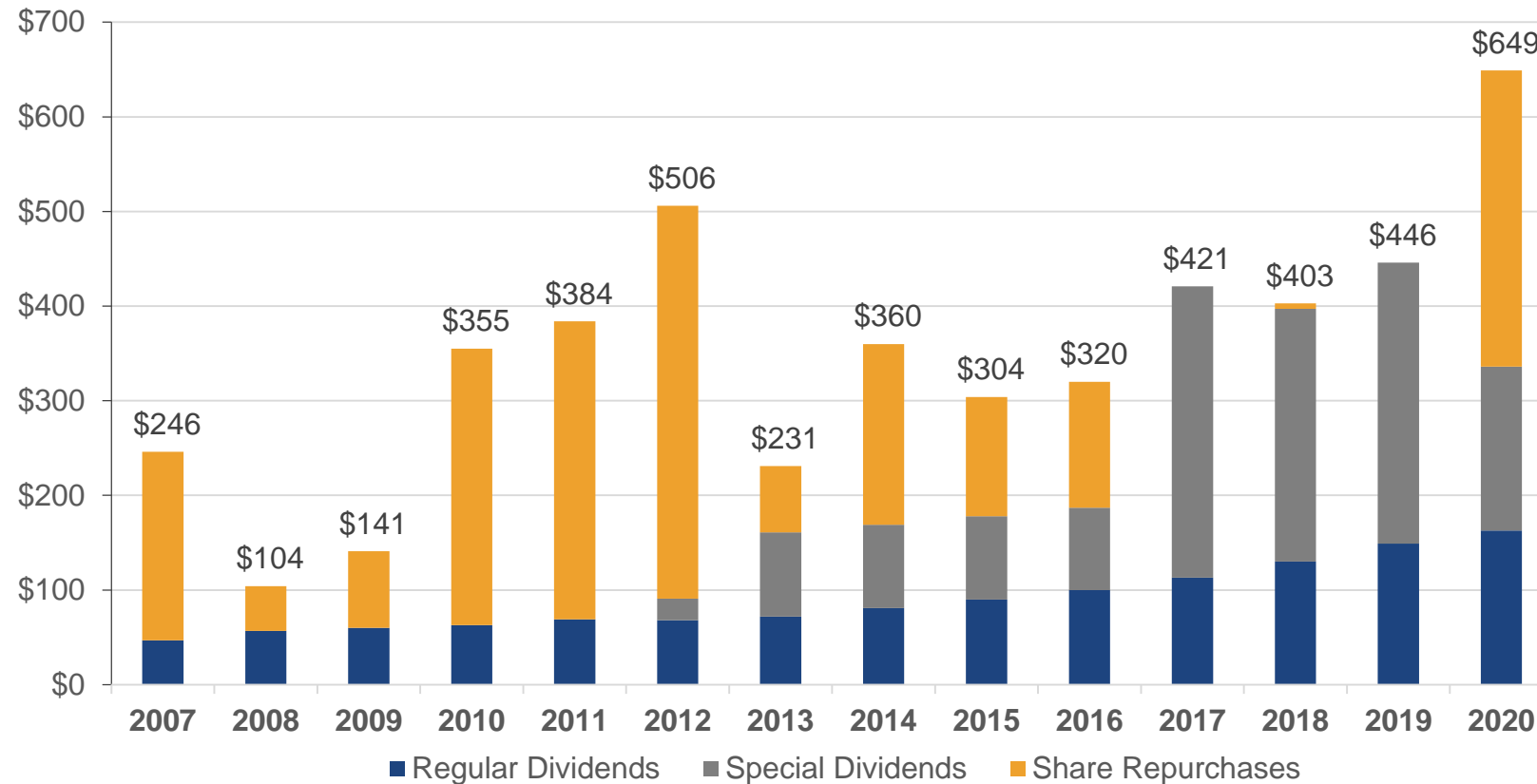
Dividends Paid	\$ 1,787
Repurchases	<u>452</u>
Total	<u><u>\$ 2,239</u></u>



***\$2.2 Billion Returned to  
Shareholders***

# Share Repurchases and Common Stock Dividends

Dollars in millions

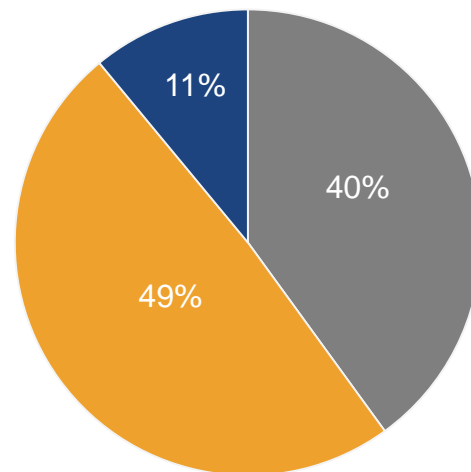


Between years  
2009 – 2012,  
AFG repurchased  
**33.7 million** shares  
at a weighted  
average price of  
**~ 90.5% of adjusted  
book value**  
(book value per share  
excluding unrealized  
gains/losses related to  
fixed maturities).

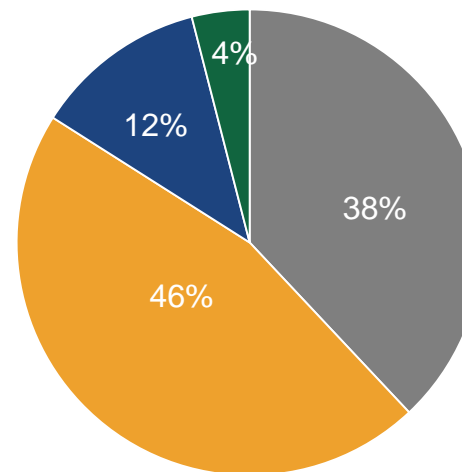
# Specialty Property & Casualty Premium

Low correlation • Lower relative coastal exposure

**Gross Written Premiums**  
**Full Year 2020**  
**\$7.0 Billion**



**Net Written Premiums**  
**Full Year 2020**  
**\$5.0 Billion**

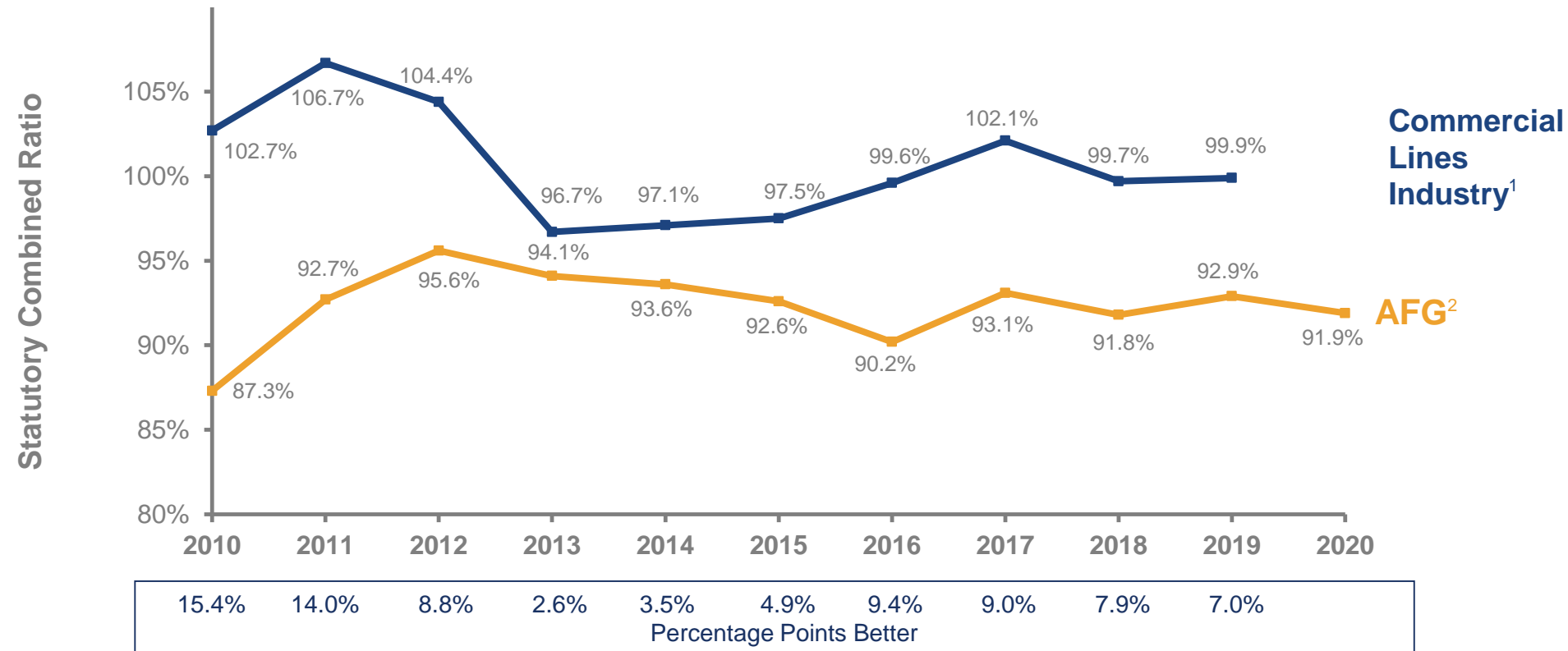


- Property & Transportation
- Specialty Casualty
- Specialty Financial
- Other Specialty<sup>1</sup>

Approximately 50% of P&C Group GWP produced by businesses with “Top 10” market rankings including:  
Crop • Equine • Fidelity/Crime • Financial Institution Services • FL Workers Comp •  
Non-Profit/Social Services • Passenger Transportation • Trade Credit • Trucking



# Superior Underwriting Talent



**8.3%**  
Points  
Better  
Over 10  
Years

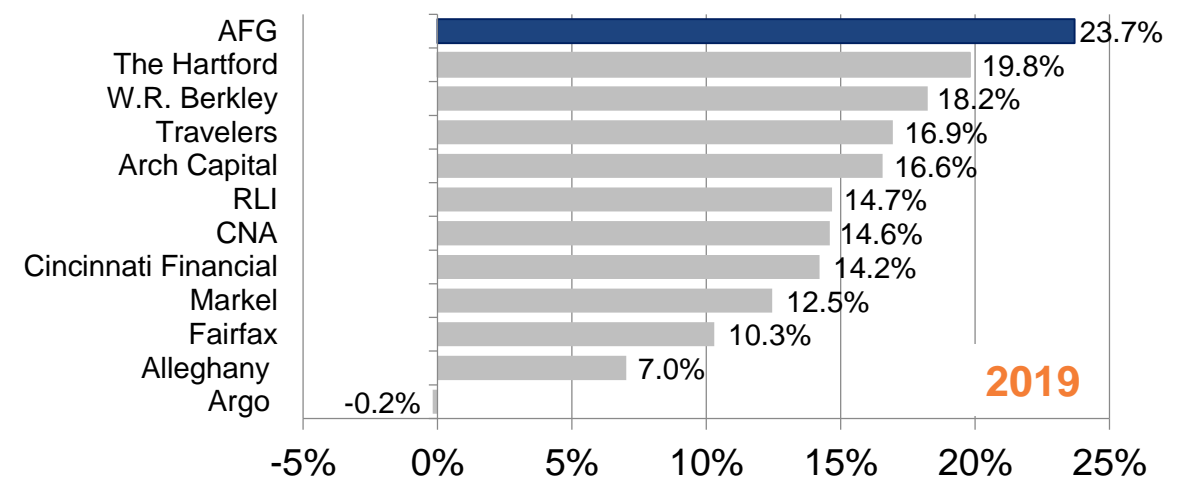
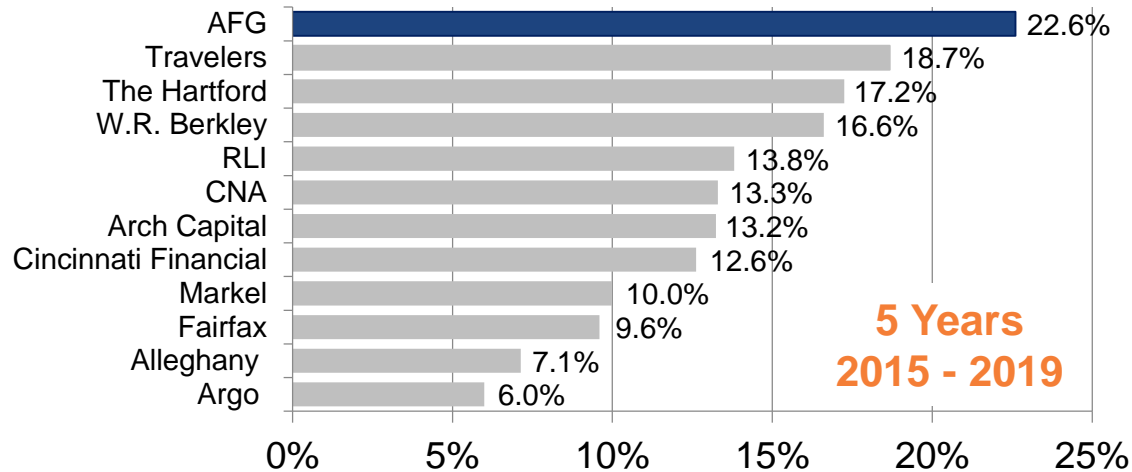
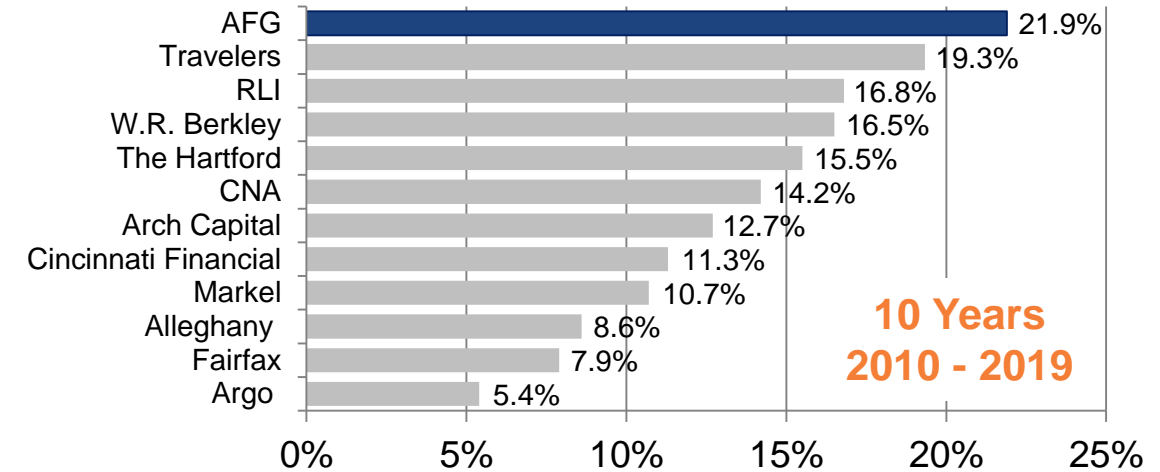
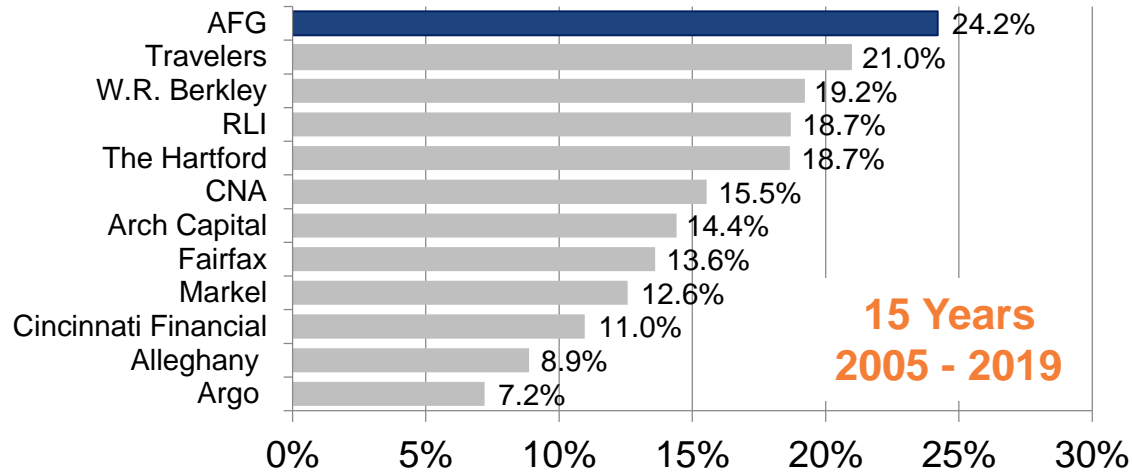
<sup>1</sup> Commercial Lines Industry based on data from A.M. Best's U.S. Property/Casualty Review & Preview – March 2, 2020.

<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 executives are held accountable for COR performance, not investment performance
- Attract, retain and reward key operating executives & officers

# Pretax Property & Casualty Returns

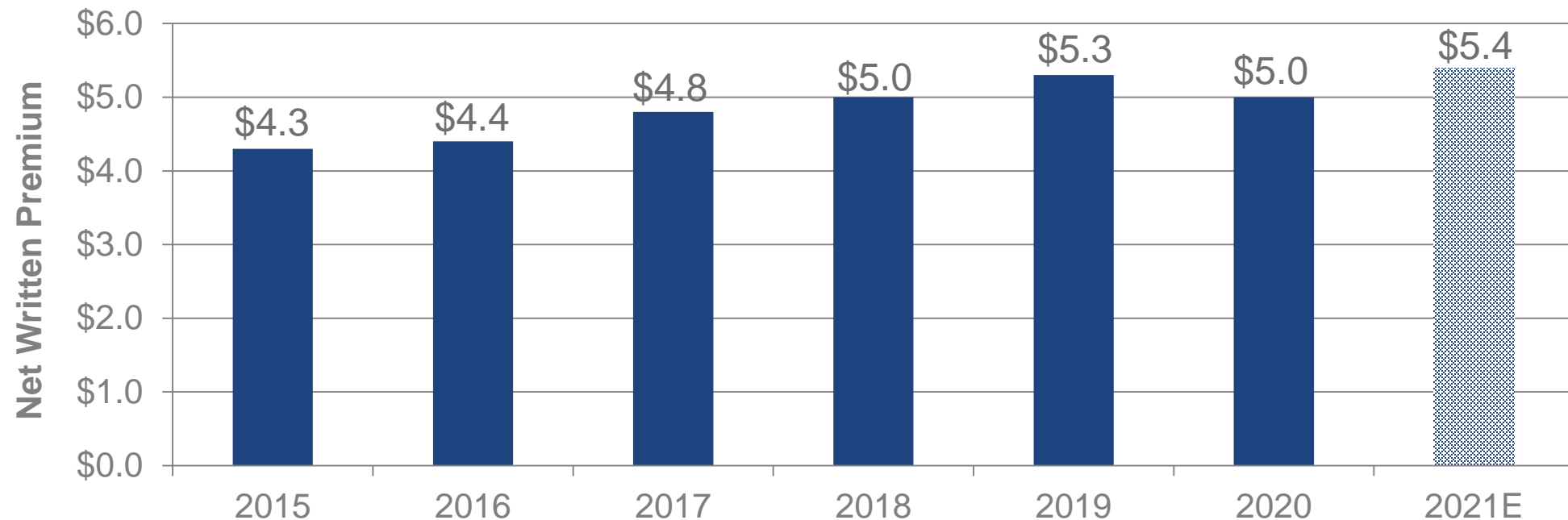


Source: Dowling & Partners

# Specialty Property & Casualty Premium Growth

Dollars in billions

P&C Net Written Premium and Renewal Rates



Rate Increases	1%	1%	1%	1%	3%	11%	6% - 8% <sup>1</sup>
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- Overall Specialty P&C renewal rates increased approximately 13% in 4Q20. Excluding workers' compensation, renewal rates increased approximately 17%.

<sup>1</sup> Excluding the impact of workers' compensation, overall Specialty P&C renewal rates are expected to increase in the range of 8% to 10%.

# A View of our Annuity Segment



Channel	Market Rank	Distribution	Product Focus	2020 Gross Premiums
Financial Institutions	#2 FIAs #5 in Total Fixed and FIAs	~35 Financial Institutions; ~ 4,500 agents – Direct through Financial Institutions – Independent Agents and Brokers	<ul style="list-style-type: none"> <li>Fixed Annuities</li> <li>Indexed Annuities</li> </ul>	\$2.3B
Retail and Other (Independent Producers)	#15 FIAs #14 in Total Fixed and FIAs	Over 3,100 Retail Agents – Independent Marketing Organizations (IMOs) – Independent Broker Dealers – Registered Investment Advisors		\$1.8B
All Channels	#9 FIAs #10 in Total Fixed and FIAs			\$4.1B

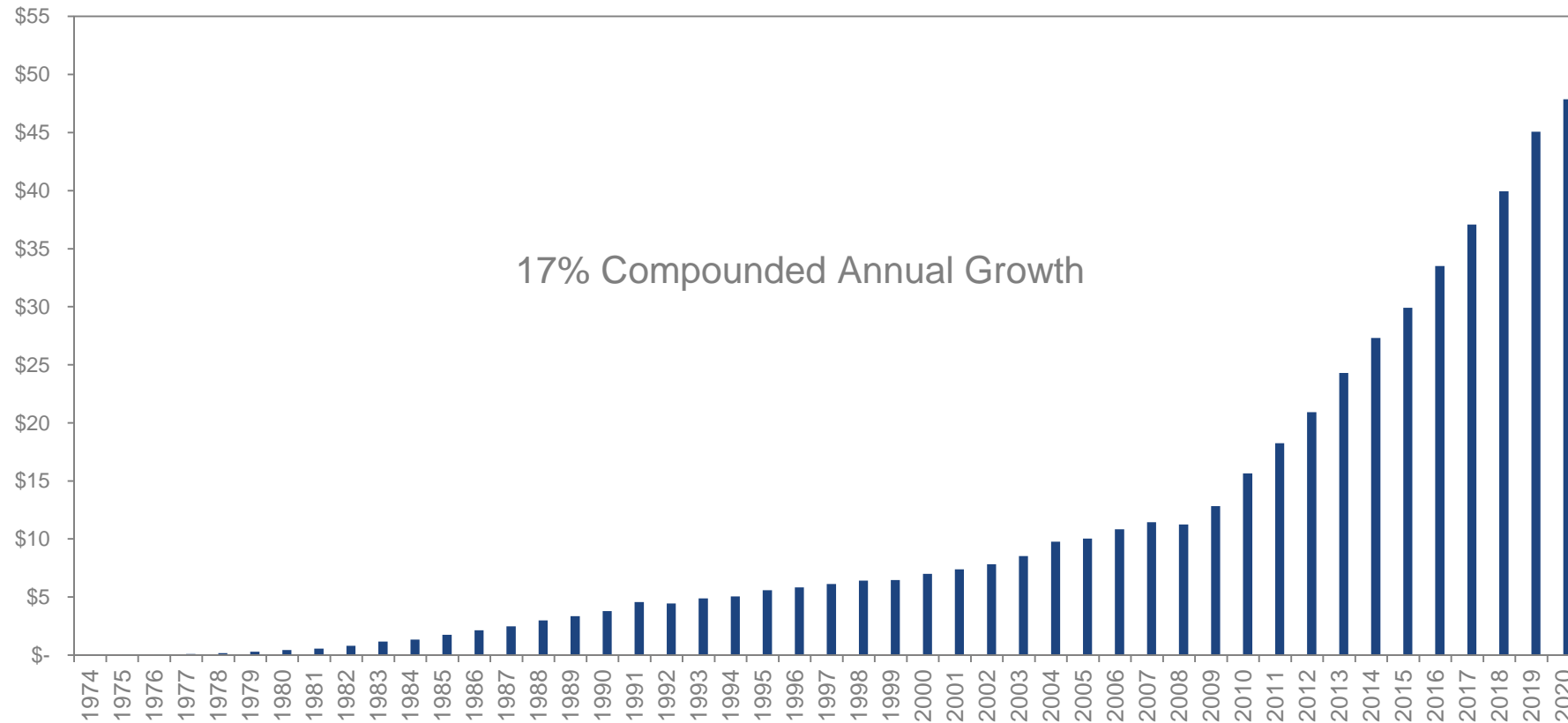
- Focus on fixed and indexed annuities makes use of core competency in fixed income investing
- Simple, easy to understand products
- Lower up-front commissions and bonuses, shorter surrender charge periods
- Not a significant issuer of variable annuities.

## An Industry Leader

- Focus on fixed and indexed annuities
- Strong financial strength ratings and ALIRT score
- Long history in the industry and long-term agent relationships
- Consistent crediting rate strategy
- Reputation for simple, consumer-centric products
- Low cost structure

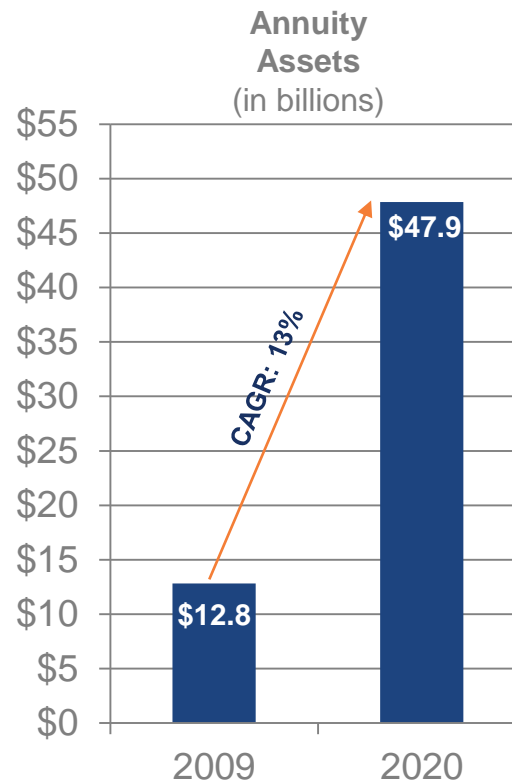
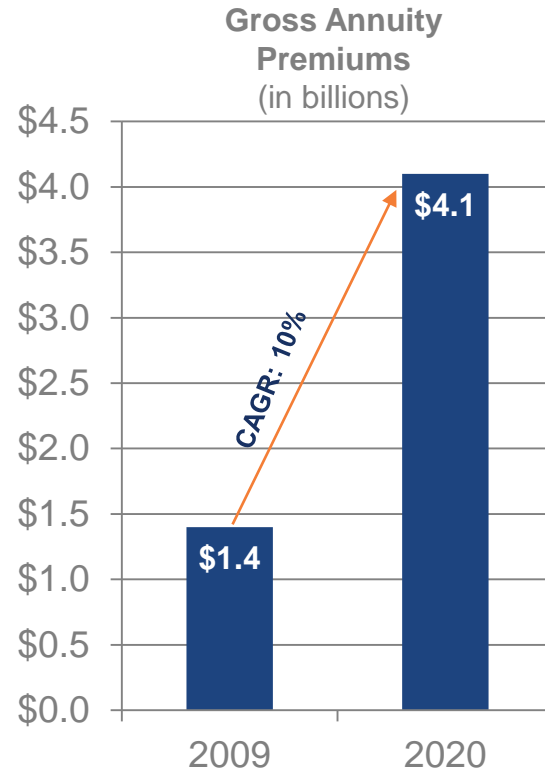
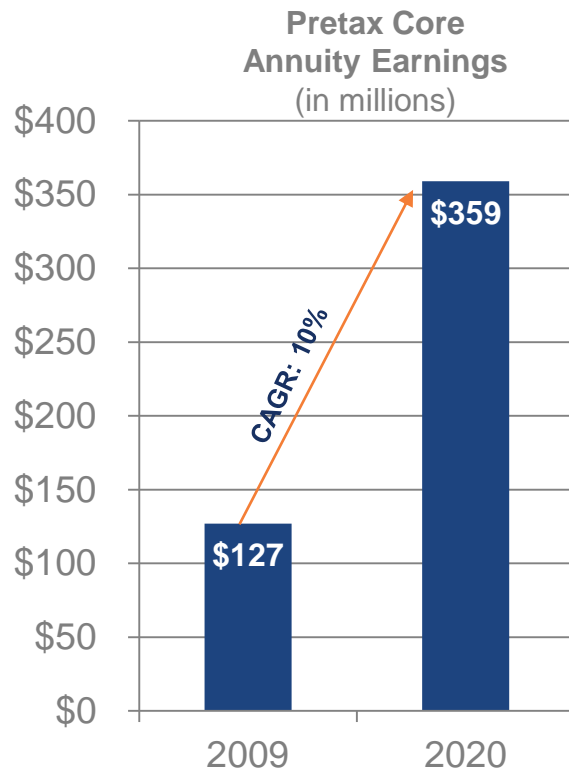
# Growth in Annuity Segment Assets (GAAP)

Dollars in billions





# Growth in Annuity Earnings, Premiums and Assets



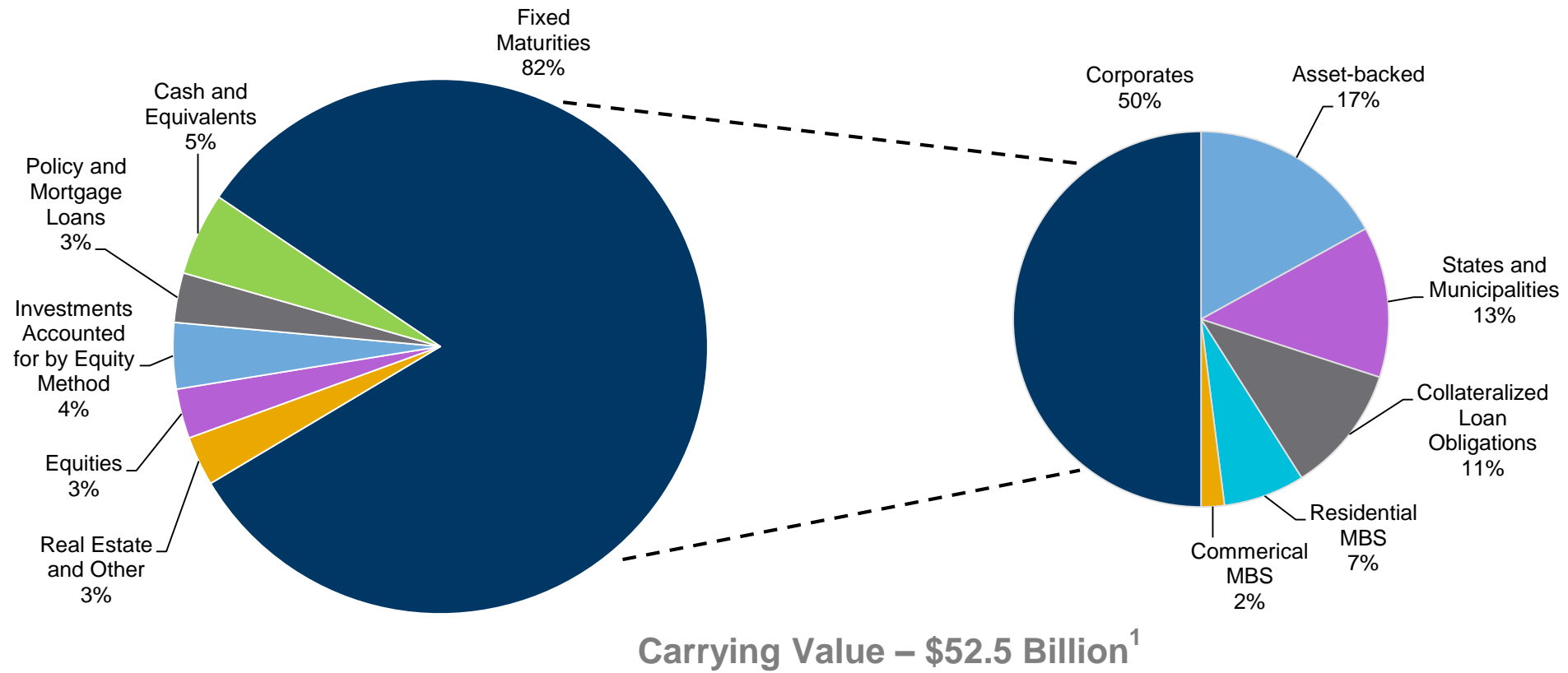
## ***Annuity Transformation***

- Focus on core competency of fixed and indexed annuities; focus where we have critical mass and competitive advantage
- Significantly improved ROEs
  - appropriate pricing
  - expense discipline
- Ratings
  - no downgrades during recession
  - upgrades by S&P, A.M. Best and Moody's since recession

# AFG Investment Portfolio

As of December 31, 2020

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



<sup>1</sup> The carrying value of AFG's investment portfolio as of December 31, 2020 on a pro forma basis with consideration to the proposed sale of the annuity business was approximately \$12.5 billion.

# Investment Portfolio Information and Outperformance

	Property & Casualty	Annuity
Approximate Average Duration – Fixed Maturities as of December 31, 2020	3.0 years	4.0 years
Annualized yield on available for sale fixed maturities		
Quarter ended 12/31/20:		
• Net of investment expenses <sup>(a)</sup>	3.24%	4.41%
• Tax equivalent, net of investment expenses <sup>(b)</sup>	3.38%	4.41%

<sup>(a)</sup> 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.

<sup>(b)</sup> Adjusts the yield on tax-exempt bonds to the fully taxable equivalent yield.

## Fixed Income Annualized Total Return 12 Years Ended 12/31/2019<sup>1</sup>

AFG 6.1%

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

Outperformance 0.7%

≈ \$1.3 Billion Total Return Outperformance

<sup>1</sup> 2008-2019 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.

# Strong Financial Position

Dollars 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>(a)</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>(b)</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>(c)</sup>	63.61	59.70
Tangible, adjusted <sup>(d)</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 Insurers

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

See slide 11 for December 31, 2020 pro forma financial information that includes the impact of the proposed sale of AFG's annuity business.

(a) Excludes net unrealized gains related to fixed maturity investments.

(b) 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).

(c) Excludes unrealized gains related to fixed maturity investments.

(d) Excludes unrealized gains related to fixed maturity investments, goodwill and intangibles.

# 2021 Outlook – AFG Specialty P&C Group Outlook

	<u>NWP Growth</u>	<u>Combined Ratio</u>
Specialty P&C Group Overall	5% – 9%	89% – 91%
<u>Business Groups:</u>		
Property & Transportation	9% – 13%	88% – 92%
Specialty Casualty	3% – 7%	87% – 91%
<i>Specialty Casualty Excluding Workers' Comp</i>	5% – 9%	
Specialty Financial	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>

<sup>1</sup> This guidance reflects an assumed annualized return of 8% on investments required to be marked to market through operating earnings.

# 2021 Outlook – AFG

## AFG Core Net Operating Earnings Guidance \$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*

	Core earnings per share guidance			Assumptions
	Point in range			
	<u>Low</u>	<u>Mid</u>	<u>High</u>	
P&C Operations, including parent company interest and expenses	\$ 5.90	\$ 6.40	\$ 6.90	
Real estate-related investments to be acquired by the P&C Group	0.31	0.31	0.31	8% pretax yield on \$430 million invested
Directly owned real estate to be acquired by AFG Parent	0.04	0.04	0.04	4% yield on \$100 million invested
Parent cash, including cash received at close of the Annuity sale	—	—	—	0% yield on \$3.6 billion in parent cash
Core earnings per share guidance	<u>\$ 6.25</u>	<u>\$ 6.75</u>	<u>\$ 7.25</u>	

*AFG parent is expected to have \$42.00 per share in cash immediately following the closing of the sale of the annuity business.*



# Appendix

# Financial Highlights – Fourth Quarter and Full Year 2020

Dollars in millions, except per share amounts

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
• Results of Operations:				
– Core net operating earnings	\$ 269	\$ 203	\$ 752	\$ 784
– Core net operating earnings per share	\$ 3.09	\$ 2.22	\$ 8.44	\$ 8.62
– Average number of diluted shares	87.2	91.3	89.2	91.0
	<b>Dec. 31,</b>	<b>Dec. 31,</b>		
	<b><u>2020</u></b>	<b><u>2019</u></b>		
• Book Value per Share:				
– Excluding unrealized gains (losses) related to fixed maturities	\$ 63.61	\$ 59.70		
– Tangible, excluding unrealized gains (losses) related to fixed maturities	\$ 60.82	\$ 56.93		
• 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 \$1.2 billion at December 31, 2020, including parent cash of approximately \$215 million				

# Financial Highlights – 2020

Dollars in millions, except per share amounts

- Results of Operations:

- Core net operating earnings
- Core net operating earnings per share
- Average number of diluted shares

- Core Operating Return on Equity:<sup>1</sup>

AFG Consolidated<sup>2</sup>

- Specialty Property & Casualty
- Annuity, as reported

- Book Value per Share:

- Excluding unrealized gains (losses) related to fixed maturities
- Tangible, excluding unrealized gains (losses) related to fixed maturities

Twelve Months Ended  
December 31,

2020

2019

\$ 752

\$ 784

\$ 8.44

\$ 8.62

89.2

91.0

2020

2019

14.4%

14.9%

15.0%

15.4%

10.8%

12.3%

Dec 31,  
2020

Dec 31,  
2019

\$ 63.61

\$ 59.70

\$ 60.82

\$ 56.93

**13.0%**  
Growth in Adj  
BVPS + Dividends

<sup>1</sup> Equity excludes AOCI.

<sup>2</sup> Includes the impact of holding company and other operations not reported in AFG's operating segments.

# Specialty Property & Casualty Businesses

Dollars in millions

	Net Written Premium				2021E excl. Workers' Comp
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021E<sup>1</sup></u>	
Specialty Property & Transportation	\$ 1,754	\$ 1,876	\$ 1,887	9% – 13%	
Specialty Casualty	\$ 2,509	\$ 2,701	\$ 2,304	3% – 7%	5% – 9%
Specialty Financial	\$ 602	\$ 617	\$ 604	4% – 8%	
Other Specialty	<u>\$ 158</u>	<u>\$ 148</u>	<u>\$ 197</u>	n/a	
<b>Total Specialty</b>	<b><u>\$ 5,023</u></b>	<b><u>\$ 5,342</u></b>	<b><u>\$ 4,992</u></b>	<b>5% – 9%</b>	<b>6% – 10%</b>

<sup>1</sup> 2021E based on guidance issued February 4, 2021.

# Specialty Property & Casualty Businesses

	GAAP Combined Ratio			
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021E<sup>1</sup></u>
Specialty Property & Transportation	93.1%	95.7%	90.4%	88% – 92%
Specialty Casualty	94.2%	93.3%	90.0%	87% – 91%
Specialty Financial	88.9%	85.0%	91.8%	88% – 92%
Other Specialty	103.7%	113.3%	116.1%	n/a
<b>Total Specialty</b>	<b>93.4%</b>	<b>93.7%</b>	<b>91.3%</b>	<b>89% – 91%</b>

<sup>1</sup> 2021E based on guidance issued February 4, 2021.

# Annuity Segment

Dollars in millions, unless otherwise noted

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Gross Annuity Premiums	\$ 5,407	\$ 4,960	\$ 4,087
Average Fixed Annuity Reserves	\$ 34,706	\$ 38,460	\$ 39,328
<hr/>			
Pretax Annuity Core Earnings, excl. Alternative Investments	\$ 257	\$ 298	\$ 321
Pretax Annuity Core Operating Earnings, as reported	\$ 361	\$ 398	\$ 359
<u>Net Spread Earned:</u>			
<b>Core Net Spread Earned, excl. Alternative Investments</b>	<b>0.90%</b>	<b>0.82%</b>	<b>0.81%</b>
<b>Core Net Spread Earned on Fixed Annuities</b>	<b>1.20%</b>	<b>1.08%</b>	<b>0.91%</b>
Items Previously Reported as Core Operating	<u>(0.13%)</u>	<u>(0.03%)</u>	<u>n/a</u>
<b>Core Net Spread Earned, as reported<sup>1</sup></b>	<b><u>1.07%</u></b>	<b><u>1.05%</u></b>	<b><u>0.91%</u></b>

<sup>1</sup> Amounts for 2019 and 2020 are calculated using the new definition of core operating earnings. Amounts for 2018 are shown as originally reported.



