



# Review of Third Quarter 2020

## October 29, 2020



# 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, annuity non-core earnings 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 Third Quarter Highlights

- Core net operating earnings per share of \$2.45 compared to \$2.25 in the 2019 third quarter
  - annualized core operating return on equity of 17.1%
- Third quarter 2020 core net operating earnings includes \$0.61 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>	Three Months Ended September 30,					
	2020	2019	2020	2019	2020	2019
	Before Impact of Alternative Investments		Alternative Investments, net of DAC		Core Net Operating Earnings, as reported	
Dollars in millions, except per share amounts						
P&C Pretax Core Operating Earnings	\$ 177	\$ 169	\$ 28	\$ 25	\$ 205	\$ 194
Annuity Pretax Core Operating Earnings	81	75	40	25	121	100
Other Expenses	(28)	(22)	-	-	(28)	(22)
Holding Company Interest Expense	(24)	(17)	-	-	(24)	(17)
Pretax Core Operating Earnings	206	205	68	50	274	255
Related Income Taxes	43	39	14	11	57	50
<b>Core Net Operating Earnings</b>	<b>\$ 163</b>	<b>\$ 166</b>	<b>\$ 54</b>	<b>\$ 39</b>	<b>\$ 217</b>	<b>\$ 205</b>
Core Net Operating Earnings Per Share	\$1.84	\$1.82	\$0.61	\$0.43	\$2.45	\$2.25
Weighted Avg Diluted Shares Outstanding	88.5	91.1	88.5	91.1	88.5	91.1

# 2020 Third Quarter Highlights and 2020 Expectations

Dollars in millions, except per share data

	Three Months Ended September 30, 2020	
		(Per Share)
Core Net Operating Earnings	\$ 217	\$ 2.45
<u>Non-core Items</u>		
After-tax Net Realized Gains on Securities	35	0.40
After-tax Annuity Non-Core Losses	(34)	(0.38)
After-tax A&E Reserve Adjustment	(54)	(0.61)
Neon Exited Lines	3	0.03
Other	(3)	(0.03)
Net Earnings Attributable to Shareholders	<u>\$ 164</u>	<u>\$ 1.86</u>

AFG expects 2020 core net operating earnings per share (excluding alternative investments) to be in the range of \$7.00 to \$7.50, an increase from the range of \$6.60 to \$7.40 estimated previously.

# Property & Casualty Results

Dollars in millions

	Three Months Ended September 30,		
	2020	2019	Change <sup>1</sup>
Specialty Gross Written Premiums	\$ 2,223	\$ 2,351	(5%)
Specialty Net Written Premiums	\$ 1,488	\$ 1,618	(8%)
P&C Insurance Operating Earnings	\$ 205	\$ 194	6%
Specialty P&C Underwriting Profit	\$ 104	\$ 88	18%
Specialty P&C Combined Ratio	92.1%	94.0%	(1.9%)
Adverse (Favorable) Impact of:			
Catastrophe Losses	2.7%	1.6%	1.1%
Prior Year Development	(3.7%)	(3.1%)	(0.6%)

AFG did not record any additional reserve charges for COVID-19 in the third quarter. Approximately 82% of AFG's COVID-19 related reserves from the \$95 million in charges recorded in the first half of 2020 are held as IBNR.

# Specialty P&C Group

Dollars in millions

	Net Written Premiums Three Months Ended September 30,			Combined Ratio Three Months Ended September 30,	
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2020</u>	<u>2019</u>
Property & Transportation	\$ 635	\$ 661	(4%)	91.9%	93.5%
Specialty Casualty	\$ 642	\$ 744	(14%)	90.7%	96.5%
Specialty Financial	\$ 153	\$ 167	(8%)	91.6%	83.7%

# 2020 Outlook – Specialty P&C

Dollars in millions

	Updated Guidance		August Guidance		2019 Actual
	NWP Growth	Combined Ratio	NWP Growth	Combined Ratio	
<b>Specialty P&amp;C Group Overall</b>	<b>(9%) – (5%)</b>	<b>92% – 94%</b>	<b>(11%) – (5%)</b>	<b>92% – 94%</b>	<b>93.7%</b>
<i>Excluding Neon</i>	<i>(1%) – 3%</i>		<i>(4%) – 2%</i>		
<i>Excluding Neon &amp; Workers' Comp</i>	<i>1% – 5%</i>		<i>(2%) – 4%</i>		
<b>Business Groups:</b>					
<b>Property &amp; Transportation</b>	<b>(1%) – 3%</b>	<b>90% – 93%</b>	<b>(2%) – 4%</b>	<b>90% – 94%</b>	<b>95.7%</b>
<b>Specialty Casualty</b>	<b>(17%) – (13%)</b>	<b>90% – 93%</b>	<b>(20%) – (14%)</b>	<b>91% – 95%</b>	<b>93.3%</b>
<i>Excluding Neon</i>	<i>(2%) – 2%</i>		<i>(5%) – 1%</i>		
<i>Excluding Neon &amp; Workers' Comp</i>	<i>5% – 9%</i>		<i>0% – 6%</i>		
<b>Specialty Financial</b>	<b>(6%) – (2%)</b>	<b>91% – 95%</b>	<b>(8%) – (2%)</b>	<b>91% – 95%</b>	<b>85.0%</b>
<b>P&amp;C average renewal rates</b>	<b>+10% to 12%</b>		<b>+7% to 10%</b>		<b>+3%</b>
<b>Pretax P&amp;C Core Operating Earnings<sup>1</sup></b>	<b>\$650 to \$690</b>		<b>\$615 to \$675</b>		<b>\$679</b>

<sup>1</sup> Excluding the impact of alternative investments marked-to-market through core net operating earnings.

# Gross Statutory Annuity Premiums

Dollars in millions

	Three Months Ended September 30,		
	2020	2019	Change
<b><u>Summary by Distribution Channel</u></b>			
Financial Institutions	\$ 473	\$ 627	(25%)
Retail	151	228	(34%)
Broker Dealer	112	143	(22%)
Other	135	79	71%
<b>Total Gross Annuity Premiums</b>	<b><u>\$ 871</u></b>	<b><u>\$ 1,077</u></b>	<b>(19%)</b>

<b><u>Summary by Product Type</u></b>			
Indexed	\$ 591	\$ 675	(12%)
Fixed	277	397	(30%)
Variable	3	5	(40%)
<b>Total Gross Annuity Premiums</b>	<b><u>\$ 871</u></b>	<b><u>\$ 1,077</u></b>	<b>(19%)</b>



# Annuity Segment

Dollars in millions

	Three Months Ended September 30,		
<u>Pretax Annuity Core Operating Earnings:</u>	<u>2020</u>	<u>2019</u>	<u>Change</u>
Pretax Annuity core operating earnings before alternative investments	\$ 81	\$ 75	8%
Alternative Investments, net of DAC	40	25	
Pretax Annuity core operating earnings – as reported	<u>\$ 121</u>	<u>\$ 100</u>	21%
Annualized core operating return on equity	14.7%	12.2%	
<i>Year over year growth in quarterly average invested assets</i>	<i>6%</i>	<i>11%</i>	
<i>Alternative investments – change in market value during the period (before DAC impact)</i>	<i>3.4%</i>	<i>2.4%</i>	

# Fixed Annuities

Dollars in millions

	Three Months Ended September 30,		
	<u>2020</u>	<u>2019</u>	<u>Change<sup>1</sup></u>
Average Fixed Annuity Investments	\$ 40,859	\$ 38,650	6%
Average Fixed Annuity Reserves	\$ 41,158	\$ 38,946	6%
<hr/>			
Core Net Interest Spread - before alternative investments	1.51%	1.65%	(0.14%)
Alternative Investments, before DAC	<u>0.45%</u>	<u>0.28%</u>	<u>0.17%</u>
<b>Core Net Interest Spread</b>	<b><u>1.96%</u></b>	<b><u>1.93%</u></b>	<b><u>0.03%</u></b>
 <b><u>Net Spread Earned:</u></b>			
Core Operating - before alternative investments	0.80%	0.80%	- %
Alternative Investments, net of DAC	<u>0.39%</u>	<u>0.26%</u>	<u>0.13%</u>
<b>Core Operating Net Spread Earned</b>	<b><u>1.19%</u></b>	<b><u>1.06%</u></b>	<b><u>0.13%</u></b>

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

# Annuity Reinsurance Strategy

## Block Reinsurance Agreement (effective October 1, 2020)

GAAP Carrying Value of Ceded Reserves	\$6.0 billion
GAAP book value (amortized cost) of assets transferred	\$5.7 billion
Book Yield on Bonds Transferred	3.13%
Statutory Capital Released in our Annuity Operations	\$300 – \$325 million
Excess Capital Created for AFG	\$375 – \$400 million

## *AFG will recognize the following after-tax non-core items in the periods indicated (in millions):*

	<u>After-tax Non-Core</u>	<u>Recognition Period Under GAAP</u>
Realized Gains <sup>1</sup>	\$275 – \$300	Upon execution of transaction in Q4 2020
Deferred Loss <sup>2</sup>	(\$80) – (\$70)	Over lifetime of ceded reserves <sup>3</sup>
Negative Ceding Commission	(\$40) – (\$35)	Over lifetime of ceded reserves <sup>3</sup>
Unamortized DAC	(\$35) – (\$30)	Over lifetime of ceded reserves <sup>3</sup>
Deferred Loss on Options	(\$65) – (\$60)	Over next 12 months as options expire
<b>Block Reinsurance Non-Core Impact</b>	<b><u>\$55 – \$105</u></b>	

<sup>1</sup> Difference between market value and amortized cost of investments transferred, net of DAC.

<sup>2</sup> Difference between market value of investments transferred and carrying value of reserves transferred.

<sup>3</sup> Expected to be 7 - 10 years.

# Annuity Reinsurance Strategy (continued)

## Flow Reinsurance Agreement (effective May 7, 2020)

Up to 50% of premiums for select annuity products, the equivalent of approximately 20% - 25% of gross annuity premiums

In the third quarter of 2020, the Annuity Segment ceded new premiums of \$168 million, or nearly 20% of 3Q 2020 gross statutory premiums

Ceded premiums YTD since inception = \$246 million

Ability to reinsure up to \$2 billion of premiums through November 7, 2021

---

*Both the block reinsurance agreement and the flow reinsurance agreement*

- ✓ *Reduce statutory capital committed to AFG's annuity business*
- ✓ *Enhance returns on inforce and new annuity business*



# 2020 Outlook – Annuity Segment

	<u>Updated Guidance<sup>1</sup></u>	<u>August Guidance</u>	<u>2019 Actual</u>
Pretax Annuity Core Operating Earnings, excluding alternative investments	\$310 to \$325 million	\$300 to \$320 million	\$298 million
Pretax Annuity Core Operating Earnings, as reported	NA	NA	\$398 million
<hr/>			
Average Fixed Annuity Reserves	+5% to 7%	+5% to 7%	+11%
Gross Annuity Premiums	\$3.7 to \$4.0 billion	\$3.4 to \$3.9 billion	\$5.0 billion
<hr/>			
Core Net Spread Earned, excluding alternative investments	0.75% to 0.80%	0.75% to 0.80%	0.79%
Core Net Spread Earned, as reported	NA	NA	1.05%

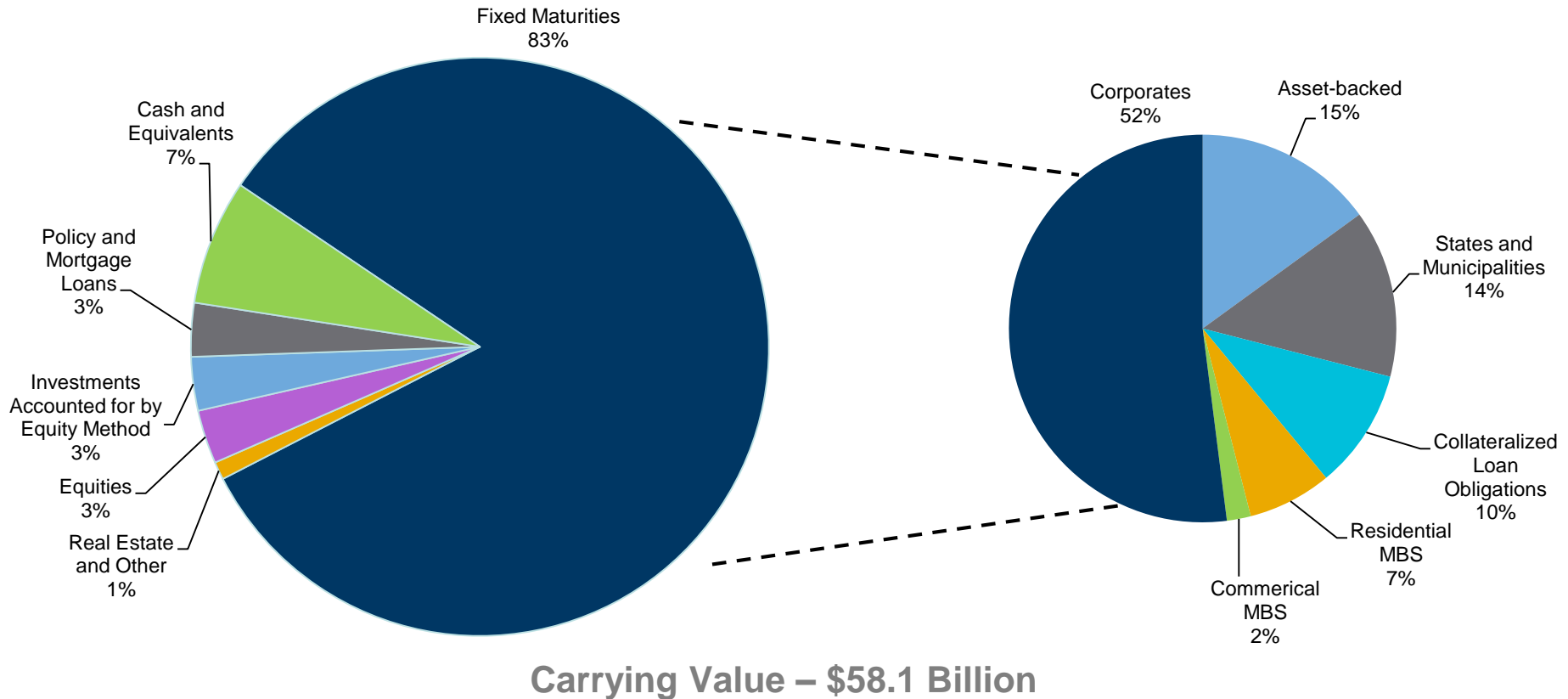
<sup>1</sup> Updated guidance reflects (i) the continued negative impact of low short-term interest rates on the Annuity Segment's approximately \$5 billion net investment in cash and floating rate securities, (ii) the favorable impact of more aggressive renewal rate actions taken on annuity policies near or after the end of their surrender charge period, and (iii) the assumption that the stock market and longer-term interest rates remain relatively flat for the remainder of 2020.

# Investments

- Total carrying value of investment portfolio at September 30, 2020 was \$58.1 billion
- Third quarter after-tax, after-DAC net realized gains on securities of \$35 million
  - includes \$17 million in after-tax, after-DAC net realized gains to adjust equity securities the company continued to own at September 30, 2020 to fair value through earnings
- Pretax, pre-DAC unrealized gains on fixed maturities were \$3 billion at September 30, 2020

# Investment Portfolio – September 30, 2020

Fixed Maturities Portfolio – 90% investment grade; 97% NAIC 1 & 2



# Strong Financial Position

In millions, except per share data

	<u>Sept 30, 2020</u>	<u>Dec 31, 2019</u>
Principal Amount of Long-Term Debt	\$ 2,143	\$ 1,493
Adjusted shareholders' equity <sup>1</sup>	<u>5,087</u>	<u>5,390</u>
Total adjusted capital	<u>\$ 7,230</u>	<u>\$ 6,883</u>
Ratio of debt to total adjusted capital <sup>2</sup>		
Including subordinated debt	29.6%	21.7%
Excluding subordinated debt	18.2%	14.8%
Common shares outstanding	87.267	90.304
<u>Book value per share:</u>		
Book value per share	\$ 72.65	\$ 69.43
Adjusted <sup>3</sup>	58.29	59.70
Tangible, adjusted <sup>4</sup>	55.53	56.93
Parent Company Cash	\$ 577	\$ 166

## Capital

- Above target levels for all rating agencies
- Excess capital approximately \$1 billion
- Repurchased 1.45 million shares during 3Q 2020 for \$96 million (avg. price per share \$66.01)
- Third quarter regular dividends = \$40 million

## Long-Term Debt at September 30, 2020

- In September, issued \$200 million 4.50% Sub Debts due 2060
- 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+, Annuity = A+
- Standard & Poor's: = A+
- Moody's: GAI = A1, Republic = A3, Annuity = A2

1 Excludes net unrealized gains (losses) related to fixed maturity securities.

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 unrealized gains related to fixed maturity investments.

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



# Components of Excess Capital

Dollars in millions

## Components of AFG Excess Capital at 9/30/2020

Cash at Holding Companies	\$ 580
P&C Segment Excess Capital	-
Annuity Segment Excess Capital	119
Borrowing Capacity	344
	<u><u>\$ 1,043</u></u>

## Pro Forma Excess Capital at September 30, 2020

**\$1.2 billion**

(Adjusted as noted below)

		Pro Forma Impacts		
<i>Dollars in millions</i>	Sept 30, 2020 <b>Actual</b>	Impact of Annuity Block Reinsurance Agreement	November Redemption of 6% Subordinated Debentures Due 2055	Sept 30, 2020 <b>Adjusted</b>
Holding Co Cash	\$580	\$200*	(\$150)	\$630
Excess Capital	\$1,043	\$375	(\$192)	\$1,226

\* Dividend to be paid by GALIC to AFG parent on November 2, 2020.

# 2020 Outlook – AFG

## AFG Core Operating Earnings Guidance \$7.00 – \$7.50 per share (excluding the impact of alternative investments marked-to-market through core operating earnings)

	NWP Growth	Combined Ratio
Specialty P&C Group Overall	(9%) – (5%)	92% – 94%
<i>Excluding Neon</i>	(1%) – 3%	
<i>Excluding Neon &amp; Workers' Comp</i>	1% – 5%	
<b><u>Business Groups:</u></b>		
Property & Transportation	(1%) – 3%	90% – 93%
Specialty Casualty	(17%) – (13%)	90% – 93%
<i>Excluding Neon</i>	(2%) – 2%	
<i>Excluding Neon &amp; Workers' Comp</i>	5% – 9%	
Specialty Financial	(6%) – (2%)	91% – 95%

P&C average renewal rates up 10% to 12%

Pretax P&C Core Operating Earnings, excluding alternative investments, in the range of \$650 million to \$690 million

### Annuity Segment:

- Pretax Annuity Core Operating Earnings, excl. alternative investments, in the range of \$310 million to \$325 million
- Gross annuity premiums in the range of \$3.7 billion to \$4.0 billion



# Review of Third Quarter 2020

## October 29, 2020

