



# Review of Second Quarter 2020

## August 5, 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.

# COVID-19 Considerations

**Health and Safety of our Employees and Service to Insureds and Producers**

## **Direct COVID-19 Impact**

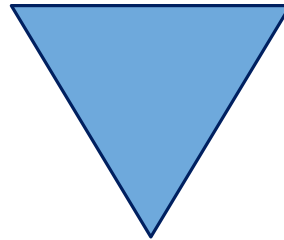
P&C Exposures  
Investment Considerations  
Impact to Premiums / Sales

## **Indirect Implications**

Effects of Economic Downturn  
Volatility in Financial Markets

Merits of Each Claim

Regulatory and Legislative Considerations



We believe AFG is financially strong and well-positioned to respond to the challenges presented by COVID-19

# 2020 Second Quarter Highlights

- Core net operating earnings, excluding impact of alternative investments = \$1.53 per share
- Core net operating earnings per share of \$1.05 compared to \$2.12 in the 2019 second quarter
- Second quarter 2020 core net operating earnings include \$0.75 per share in COVID-19 related losses and the unfavorable impact of adjustments to alternative investments that are marked-to-market through core earnings, as noted below:

<b>Components of Pretax Core Operating Earnings</b>	Three Months Ended June 30,					
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
In millions, except per share amounts	Before Impact of Alternative Investments		Alternative Investments, net of DAC		Core Net Operating Earnings, as reported	
P&C Pretax Core Operating Earnings	\$ 129	\$ 152	\$ (13)	\$ 23	\$ 116	\$ 175
Annuity Pretax Core Operating Earnings	84	75	(42)	29	42	104
Other Expenses	(20)	(25)	-	-	(20)	(25)
Holding Company Interest Expense	(23)	(17)	-	-	(23)	(17)
Pretax Core Operating Earnings	170	185	(55)	52	115	237
Related Income Taxes	31	34	(11)	11	20	45
<b>Core Net Operating Earnings (Loss)</b>	<b>\$ 139</b>	<b>\$ 151</b>	<b>\$ (44)</b>	<b>\$ 41</b>	<b>\$ 95</b>	<b>\$ 192</b>
Core Net Operating Earnings (Loss) Per Share	\$1.53	\$1.66	(\$0.48)	\$0.46	\$1.05	\$2.12
Weighted Avg Diluted Shares Outstanding	90.0	91.0	90.0	91.0	90.0	91.0

# 2020 Second Quarter Highlights and 2020 Expectations, continued

In millions, except per share data

	Three Months Ended June 30, 2020	
		(Per Share)
Core Net Operating Earnings	\$ 95	\$ 1.05
<u>Non-core Items</u>		
After-tax Net Realized Gains on Securities	161	1.80
After-tax Annuity Non-Core Losses	(47)	(0.52)
Neon Exited Lines	<u>(32)</u>	<u>(0.36)</u>
Net Earnings Attributable to Shareholders	<u>\$ 177</u>	<u>\$ 1.97</u>

AFG expects 2020 core net operating earnings per share (excluding alternative investments) to be in the range of \$6.60 to \$7.40, an increase from the range of \$6.45 to \$7.25 estimated previously.

# Property & Casualty Results

Dollars in millions

	Three Months Ended June 30,		
	2020	2019	Change <sup>1</sup>
Specialty Gross Written Premiums	\$ 1,539	\$ 1,664	(8%)
Specialty Net Written Premiums	\$ 1,123	\$ 1,264	(11%)
P&C Insurance Operating Earnings	\$ 116	\$ 175	(34%)
Specialty P&C Underwriting Profit	\$ 54	\$ 60	(10%)
Specialty P&C Combined Ratio	95.2%	95.0%	0.2%
Adverse (Favorable) Impact of:			
Catastrophe Losses	2.3%	0.9%	1.4%
COVID-19 Losses	7.6%	-	7.6%
Prior Year Development	(7.6%)	(3.4%)	(4.2%)

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

# Specialty P&C Group

Dollars in millions

	Net Written Premiums Three Months Ended June 30,			Combined Ratio Three Months Ended June 30,	
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2020</u>	<u>2019</u>
Property & Transportation	\$ 426	\$ 422	1%	91.7%	99.1%
Specialty Casualty	\$ 511	\$ 662	(23%)	94.9%	92.5%
Specialty Financial	\$ 139	\$ 149	(7%)	100.4%	85.6%

# 2020 Outlook – Specialty P&C

Dollars in millions

	Updated Guidance		May Guidance		2019 Actual
	NWP Growth	Combined Ratio	NWP Growth	Combined Ratio	
<b>Specialty P&amp;C Group Overall</b>	<b>(11%) – (5%)</b>	<b>92% – 94%</b>	<b>(14%) – (8%)</b>	<b>92% – 94%</b>	<b>93.7%</b>
<i>Excluding Neon</i>	<i>(4%) – 2%</i>		<i>(7%) – (1%)</i>		
<i>Excluding Neon &amp; Workers' Comp</i>	<i>(2%) – 4%</i>		<i>(4%) – 2%</i>		
<b>Business Groups:</b>					
<b>Property &amp; Transportation</b>	<b>(2%) – 4%</b>	<b>90% – 94%</b>	<b>(5%) – 1%</b>	<b>92% – 96%</b>	<b>95.7%</b>
<b>Specialty Casualty</b>	<b>(20%) – (14%)</b>	<b>91% – 95%</b>	<b>(23%) – (17%)</b>	<b>90% – 94%</b>	<b>93.3%</b>
<i>Excluding Neon</i>	<i>(5%) – 1%</i>		<i>(8%) – (2%)</i>		
<i>Excluding Neon &amp; Workers' Comp</i>	<i>0% – 6%</i>		<i>(3%) – 3%</i>		
<b>Specialty Financial</b>	<b>(8%) – (2%)</b>	<b>91% – 95%</b>	<b>(12%) – (6%)</b>	<b>87% – 91%</b>	<b>85.0%</b>
<b>P&amp;C average renewal rates</b>	<b>+ 7% to 10%</b>		<b>+ 5% to 8%</b>		<b>+3%</b>
<b>Pretax P&amp;C Core Operating Earnings<sup>1</sup></b>	<b>\$615 to \$675</b>		<b>\$630 to \$690</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 June 30,		
	2020	2019	Change
<b><u>Summary by Distribution Channel</u></b>			
Financial Institutions	\$ 356	\$ 742	(52%)
Retail	169	310	(45%)
Broker Dealer	102	197	(48%)
Other	60	100	(40%)
<b>Total Gross Annuity Premiums</b>	<b>\$ 687</b>	<b>\$ 1,349</b>	<b>(49%)</b>

<b><u>Summary by Product Type</u></b>			
Indexed	\$ 512	\$ 917	(44%)
Fixed	170	426	(60%)
Variable	5	6	(17%)
<b>Total Gross Annuity Premiums</b>	<b><u>\$ 687</u></b>	<b><u>\$ 1,349</u></b>	<b>(49%)</b>

# Annuity Segment

Dollars in millions

	Three Months Ended June 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	\$ 84	\$ 75	12%
Alternative Investments, net of DAC	(42)	29	
Pretax Annuity core operating earnings – as reported	<u>\$ 42</u>	<u>\$ 104</u>	(60%)
<i>Year over year growth in quarterly average invested assets</i>	<i>7%</i>	<i>12%</i>	
<i>Alternative investments – change in market value during the period</i>	<i>(2.8%)</i>	<i>2.8%</i>	

# Fixed Annuities

Dollars in millions

	Three Months Ended June 30,		
	<u>2020</u>	<u>2019</u>	<u>Change<sup>1</sup></u>
Average Fixed Annuity Investments	\$ 40,570	\$ 37,907	7%
Average Fixed Annuity Reserves	\$ 40,601	\$ 38,202	6%
<hr/>			
Net Interest Spread - before alternative investments	1.60%	1.72%	(0.12%)
Alternative Investments	<u>(0.36%)</u>	<u>0.33%</u>	<u>(0.69%)</u>
<b>Net Interest Spread</b>	<b><u>1.24%</u></b>	<b><u>2.05%</u></b>	<b><u>(0.81%)</u></b>
 <b><u>Net Spread Earned:</u></b>			
Core Operating - before alternative investments	0.80%	0.80%	- %
Alternative Investments, net of DAC	<u>(0.41%)</u>	<u>0.31%</u>	<u>(0.72%)</u>
<b>Core Operating Net Spread Earned</b>	<b><u>0.39%</u></b>	<b><u>1.11%</u></b>	<b><u>(0.72%)</u></b>

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

# 2020 Outlook – Annuity Segment

	<u>Updated Guidance<sup>1</sup></u>	<u>May Guidance</u>	<u>2019 Actual</u>
Pretax Annuity Core Operating Earnings, excluding alternative investments	\$300 to \$320 million	\$280 to \$310 million	\$298 million
Pretax Annuity Core Operating Earnings, as reported	NA	NA	\$398 million
<hr/>			
Average Fixed Annuity Investments	+5% to 7%	+ 5% to 7%	+11%
Average Fixed Annuity Reserves	+5% to 7%	+ 5% to 7%	+11%
Gross Annuity Premiums	\$3.4 to \$3.9 billion	\$3.3 to \$4.0 billion	\$5.0 billion
<hr/>			
Core Net Spread Earned, excluding alternative investments	0.75% to 0.80%	0.68% to 0.74%	0.79%
Core Net Spread Earned, as reported	NA	NA	1.05%

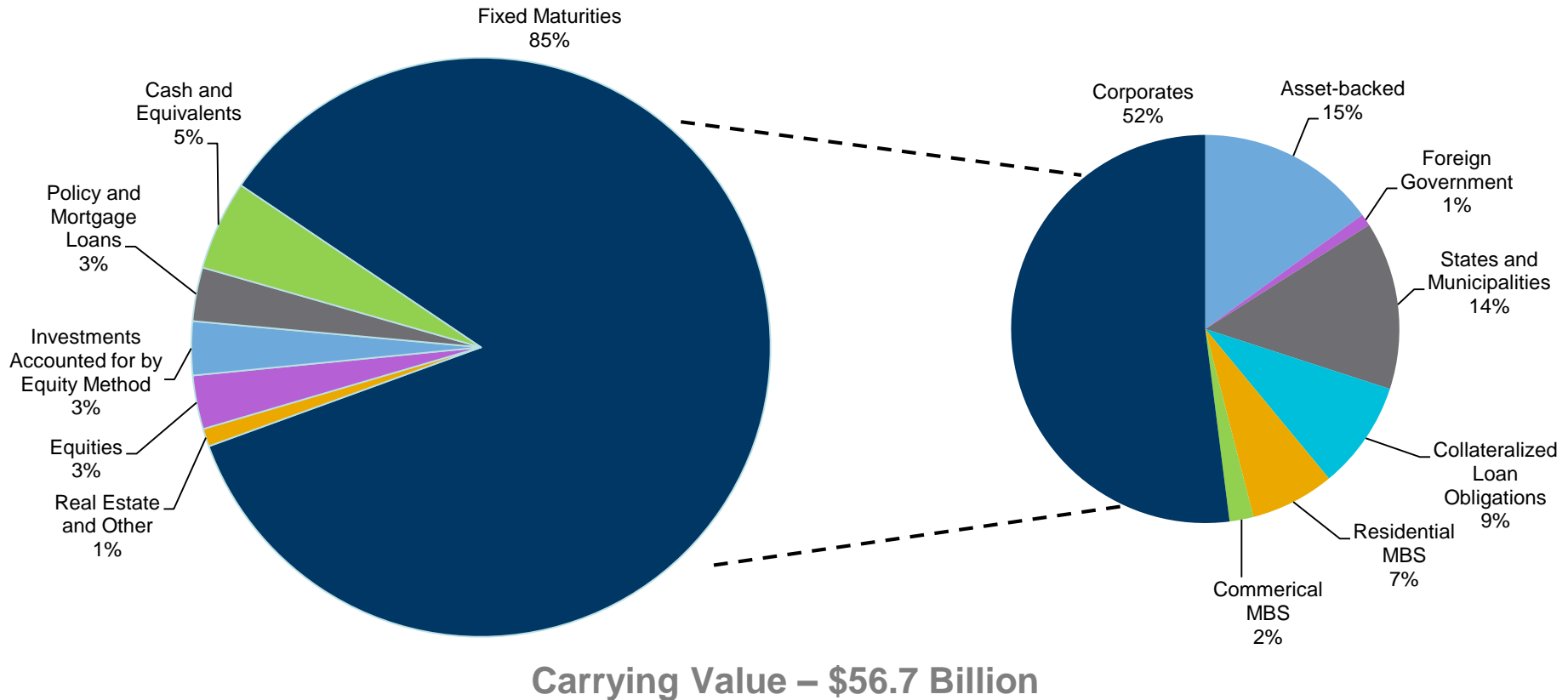
<sup>1</sup> Updated guidance reflects the impacts of (i) the continued negative impact of low short-term interest rates on the Annuity Segment's approximately \$4.9 billion net investment in cash and floating rate securities, (ii) the favorable impact of more aggressive renewal rate actions taken on annuity policies near or after the end of their surrender charge period, and (iii) the stock market and longer-term interest rates than remain relatively flat.

# Investments

- Total carrying value of investment portfolio at June 30, 2020 = \$56.7 billion
- Second quarter after-tax, after-DAC net realized gains on securities of \$161 million
  - includes \$124 million in after-tax, after-DAC net realized gains to adjust equity securities the company continued to own at June 30, 2020 to fair value through earnings
- Pretax, pre-DAC unrealized gains on fixed maturities were \$2.4 billion at June 30, 2020, the highest in AFG's history, and an increase of \$2.3 billion since March 31, 2020

# Investment Portfolio – June 30, 2020

Fixed Maturities Portfolio – 91% investment grade; 97% NAIC 1 & 2



# Strong Financial Position

In millions, except per share data

	<u>Jun 30, 2020</u>	<u>Dec 31, 2019</u>
Principal Amount of Long-Term Debt	\$ 1,943	\$ 1,493
Adjusted shareholders' equity <sup>(a)</sup>	<u>5,049</u>	<u>5,390</u>
Total adjusted capital	<u>\$ 6,992</u>	<u>\$ 6,883</u>
Ratio of debt to total adjusted capital <sup>(b)</sup>		
Including subordinated debt	27.8%	21.7%
Excluding subordinated debt	18.9%	14.8%
Common shares outstanding	88.659	90.304
<u>Book value per share:</u>		
Book value per share	\$ 69.10	\$ 69.43
Adjusted <sup>(c)</sup>	56.95	59.70
Tangible, adjusted <sup>(d)</sup>	54.20	56.93
Parent Company Cash	\$ 496	\$ 166

## Capital

- Above target levels for all rating agencies
- Excess capital ~ \$850 million
- Repurchased 1.2 million shares during 2Q 2020 for \$76 million (avg. price per share \$63.71)
- Second quarter regular dividends = \$41 million

## Long-Term Debt at June 30, 2020

- In April, issued \$300 million 5.25% Sr. Notes due 2030
- In May, issued \$150 million 5.625% Sub Debs 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 and National Interstate = A+, Republic and Annuity = A
- S&P: = A+
- Moody's: GAI = A1, Republic = A3, and Annuity = A2

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

(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.

# Components of Excess Capital

Dollars in millions

## Components of AFG Excess Capital

Cash at Holding Companies	\$ 501
P&C Segment Excess Capital	35
Annuity Segment Excess Capital	31
Borrowing Capacity	<u>282</u>
	<u><b>\$ 849</b></u>

AFG had approximately  
**\$850 million** in  
Excess Capital at  
June 30, 2020

## 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 by \$35 million

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

- Capital in Excess of Target 375% RBC = \$31 million
- Moody's has indicated that an NAIC RBC ratio below 325% 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 \$282 million without exceeding its 22% debt leverage target and commitment to rating agencies



# 2020 Outlook – AFG

## AFG Core Operating Earnings Guidance \$6.60 - \$7.40 per share

*(excluding the impact of alternative investments marked-to-market through core operating earnings)*

	NWP Growth	Combined Ratio
Specialty P&C Group Overall	(11%) – (5%)	92% – 94%
<i>Excluding Neon</i>	(4%) – 2%	
<i>Excluding Neon &amp; Workers' Comp</i>	(2%) – 4%	
<b><u>Business Groups:</u></b>		
Property & Transportation	(2%) – 4%	90% – 94%
Specialty Casualty	(20%) – (14%)	91% – 95%
<i>Excluding Neon</i>	(5%) – 1%	
<i>Excluding Neon &amp; Workers' Comp</i>	0% – 6%	
Specialty Financial	(8%) – (2%)	91% – 95%

P&C average renewal rates up 7% to 10%

Pretax P&C Core Operating Earnings, excluding alternative investments, in the range of \$615 million to \$675 million

### Annuity Segment:

- Pretax Annuity Core Operating Earnings, excl. alternative investments, in the range of \$300 million to \$320 million
- Gross annuity premiums in the range of \$3.4 billion to \$3.9 billion



# Review of Second Quarter 2020

## August 5, 2020

