UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2017

Commission File No. 1-13653

AMERICAN FINANCIAL GROUP, INC.

Incorporated under the Laws of Ohio	**IRS Employer I.D. No. 31-1544320**

301 East Fourth Street, Cincinnati, Ohio 45202
(513) 579-2121

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of May 1, 2017, there were 87,636,894 shares of the Registrant’s Common Stock outstanding, excluding 14.9 million shares owned by subsidiaries.

AMERICAN FINANCIAL GROUP, INC. 10-Q

TABLE OF CONTENTS

PART I
ITEM I — FINANCIAL STATEMENTS

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (UNAUDITED)
(Dollars in Millions)

	March 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	$ 1,890	$ 2,107
Investments:		
Fixed maturities, available for sale at fair value (amortized cost — $35,445 and $33,735)	36,456	34,544
Fixed maturities, trading at fair value	359	359
Equity securities, available for sale at fair value (cost — $1,356 and $1,351)	1,579	1,502
Equity securities, trading at fair value	58	56
Mortgage loans	1,159	1,147
Policy loans	190	192
Equity index call options	573	492
Real estate and other investments	1,086	1,034
Total cash and investments	43,350	41,433
Recoverables from reinsurers	2,735	2,737
Prepaid reinsurance premiums	533	539
Agents' balances and premiums receivable	989	997
Deferred policy acquisition costs	1,205	1,239
Assets of managed investment entities	5,331	4,765
Other receivables	875	908
Variable annuity assets (separate accounts)	614	600
Other assets	1,633	1,655
Goodwill	199	199
Total assets	$ 57,464	$ 55,072
Liabilities and Equity:		
Unpaid losses and loss adjustment expenses	$ 8,621	$ 8,563
Unearned premiums	2,174	2,171
Annuity benefits accumulated	31,002	29,907
Life, accident and health reserves	687	691
Payable to reinsurers	621	634
Liabilities of managed investment entities	5,101	4,549
Long-term debt	1,283	1,283
Variable annuity liabilities (separate accounts)	614	600
Other liabilities	2,166	1,755
Total liabilities	52,269	50,153
Shareholders' equity:		
Common Stock, no par value — 200,000,000 shares authorized — 87,591,671 and 86,924,399 shares outstanding	88	87
Capital surplus	1,138	1,111
Retained earnings	3,466	3,343
Accumulated other comprehensive income, net of tax	499	375
Total shareholders' equity	5,191	4,916
Noncontrolling interests	4	3
Total equity	5,195	4,919
Total liabilities and equity	$ 57,464	$ 55,072

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)
(In Millions, Except Per Share Data)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenues:		
Property and casualty insurance net earned premiums	$ 1,022	$ 998
Life, accident and health net earned premiums	6	6
Net investment income	435	411
Realized gains (losses) on securities (*)	3	(18)
Income (loss) of managed investment entities:		
Investment income	51	45
Gain (loss) on change in fair value of assets/liabilities	—	(13)
Other income	59	46
Total revenues	1,576	1,475
Costs and Expenses:		
Property and casualty insurance:		
Losses and loss adjustment expenses	609	581
Commissions and other underwriting expenses	339	334
Annuity benefits	196	228
Life, accident and health benefits	9	9
Annuity and supplemental insurance acquisition expenses	53	35
Interest charges on borrowed money	21	18
Expenses of managed investment entities	41	35
Other expenses	85	79
Total costs and expenses	1,353	1,319
Earnings before income taxes	223	156
Provision for income taxes	68	52
Net earnings, including noncontrolling interests	155	104
Less: Net earnings attributable to noncontrolling interests	2	3
Net Earnings Attributable to Shareholders	$ 153	$ 101
Earnings Attributable to Shareholders per Common Share:		
Basic	$ 1.76	$ 1.16
Diluted	$ 1.72	$ 1.14
Average number of Common Shares:		
Basic	87.2	86.9
Diluted	89.3	88.5
Cash dividends per Common Share	$ 0.3125	$ 0.28

(*) Consists of the following:

	2017	2016
Realized gains before impairments	$ 9	$ 34
Losses on securities with impairment	(6)	(51)
Non-credit portion recognized in other comprehensive income (loss)	—	(1)
Impairment charges recognized in earnings	(6)	(52)
Total realized gains (losses) on securities	$ 3	$ (18)

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(In Millions)

	Three months ended March 31,	
	2017	2016
Net earnings, including noncontrolling interests	$ 155	$ 104
Other comprehensive income, net of tax:		
Net unrealized gains on securities:		
Unrealized holding gains on securities arising during the period	125	125
Reclassification adjustment for realized (gains) losses included in net earnings	—	11
Total net unrealized gains on securities	125	136
Net unrealized gains (losses) on cash flow hedges	(1)	3
Foreign currency translation adjustments	—	6
Pension and other postretirement plans adjustments	—	1
Other comprehensive income, net of tax	124	146
Total comprehensive income, net of tax	279	250
Less: Comprehensive income attributable to noncontrolling interests	2	5
Comprehensive income attributable to shareholders	$ 277	$ 245

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(Dollars in Millions)

		Shareholders' Equity					
	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	86,924,399	$ 1,198	$ 3,343	$ 375	$ 4,916	$ 3	$ 4,919
Net earnings	—	—	153	—	153	2	155
Other comprehensive income	—	—	—	124	124	—	124
Dividends on Common Stock	—	—	(27)	—	(27)	—	(27)
Shares issued:							
Exercise of stock options	411,167	15	—	—	15	—	15
Restricted stock awards	232,250	—	—	—	—	—	—
Other benefit plans	54,453	5	—	—	5	—	5
Dividend reinvestment plan	3,277	—	—	—	—	—	—
Stock-based compensation expense	—	8	—	—	8	—	8
Shares exchanged — benefit plans	(32,176)	—	(3)	—	(3)	—	(3)
Forfeitures of restricted stock	(1,699)	—	—	—	—	—	—
Other	—	—	—	—	—	(1)	(1)
Balance at March 31, 2017	87,591,671	$ 1,226	$ 3,466	$ 499	$ 5,191	$ 4	$ 5,195
Balance at December 31, 2015	87,474,452	$ 1,301	$ 2,987	$ 304	$ 4,592	$ 178	$ 4,770
Net earnings	—	—	101	—	101	3	104
Other comprehensive income	—	—	—	144	144	2	146
Dividends on Common Stock	—	—	(24)	—	(24)	—	(24)
Shares issued:							
Exercise of stock options	279,165	10	—	—	10	—	10
Restricted stock awards	317,230	—	—	—	—	—	—
Other benefit plans	47,566	3	—	—	3	—	3
Dividend reinvestment plan	3,736	—	—	—	—	—	—
Stock-based compensation expense	—	7	—	—	7	—	7
Shares acquired and retired	(1,128,128)	(16)	(60)	—	(76)	—	(76)
Shares exchanged — benefit plans	(27,551)	—	(2)	—	(2)	—	(2)
Forfeitures of restricted stock	(180)	—	—	—	—	—	—
Other	—	—	—	—	—	(1)	(1)
Balance at March 31, 2016	86,966,290	$ 1,305	$ 3,002	$ 448	$ 4,755	$ 182	$ 4,937

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(In Millions)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Operating Activities:		
Net earnings, including noncontrolling interests	$ 155	$ 104
Adjustments:		
Depreciation and amortization	38	28
Annuity benefits	196	228
Realized (gains) losses on investing activities	(17)	15
Net sales of trading securities	3	71
Deferred annuity and life policy acquisition costs	(67)	(68)
Change in:		
Reinsurance and other receivables	63	197
Other assets	(58)	2
Insurance claims and reserves	57	(26)
Payable to reinsurers	(13)	(90)
Other liabilities	45	15
Managed investment entities’ assets/liabilities	(487)	(55)
Other operating activities, net	9	(13)
Net cash provided by (used in) operating activities	(76)	408
Investing Activities:		
Purchases of:		
Fixed maturities	(2,879)	(2,125)
Equity securities	(22)	(74)
Mortgage loans	(23)	(131)
Equity index call options and other investments	(181)	(139)
Real estate, property and equipment	(11)	(18)
Proceeds from:		
Maturities and redemptions of fixed maturities	1,511	840
Repayments of mortgage loans	12	101
Sales of fixed maturities	38	225
Sales of equity securities	14	55
Sales and settlements of equity index call options and other investments	174	4
Sales of real estate, property and equipment	24	5
Managed investment entities:		
Purchases of investments	(910)	(239)
Proceeds from sales and redemptions of investments	1,058	290
Other investing activities, net	1	(63)
Net cash used in investing activities	(1,194)	(1,269)
Financing Activities:		
Annuity receipts	1,290	1,435
Annuity surrenders, benefits and withdrawals	(567)	(503)
Net transfers from variable annuity assets	17	9
Issuances of managed investment entities’ liabilities	537	31
Retirements of managed investment entities’ liabilities	(212)	(11)
Issuances of Common Stock	15	13
Repurchases of Common Stock	—	(76)
Cash dividends paid on Common Stock	(27)	(24)
Other financing activities, net	—	(2)
Net cash provided by financing activities	1,053	872
Net Change in Cash and Cash Equivalents	(217)	11
Cash and cash equivalents at beginning of period	2,107	1,220
Cash and cash equivalents at end of period	$ 1,890	$ 1,231

INDEX TO NOTES

A. Accounting Policies

Basis of Presentation The accompanying consolidated financial statements for American Financial Group, Inc. and its subsidiaries ("AFG") are unaudited; however, management believes that all adjustments (consisting only of normal recurring accruals unless otherwise disclosed herein) necessary for fair presentation have been made. The results of operations for interim periods are not necessarily indicative of results to be expected for the year. The financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary to be in conformity with U.S. generally accepted accounting principles ("GAAP").

Certain reclassifications have been made to prior periods to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated. The results of operations of companies since their formation or acquisition are included in the consolidated financial statements. Events or transactions occurring subsequent to March 31, 2017, and prior to the filing of this Form 10-Q, have been evaluated for potential recognition or disclosure herein.

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect AFG's assumptions about the assumptions market participants would use in pricing the asset or liability. AFG did not have any significant nonrecurring fair value measurements in the first three months of 2017.

Investments Fixed maturity and equity securities classified as "available for sale" are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income ("AOCI") in AFG's Balance Sheet. Fixed maturity and equity securities classified as "trading" are reported at fair value with changes in unrealized holding gains or losses during the period included in net investment income. Mortgage and policy loans are carried primarily at the aggregate unpaid balance.

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, which, among other things, will require all equity securities currently classified as "available for sale" to be reported at fair value, with holding gains and losses recognized in net income, instead of AOCI. AFG will be required to adopt this guidance effective January 1, 2018.

Premiums and discounts on fixed maturity securities are amortized using the interest method. Mortgage-backed securities ("MBS") are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on securities) and the cost basis of that investment is reduced. If management can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion of an other-than-temporary impairment is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. Both components are shown in the statement of earnings. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

Derivatives Derivatives included in AFG's Balance Sheet are recorded at fair value. Changes in fair value of derivatives are included in earnings, unless the derivatives are designated and qualify as highly effective cash flow hedges. Derivatives that do not qualify for hedge accounting under GAAP consist primarily of (i) components of certain fixed maturity securities (primarily interest-only MBS) and (ii) the equity-based component of certain annuity products (included in annuity benefits accumulated) and related equity index call options designed to be consistent with the characteristics of the liabilities and used to mitigate the risk embedded in those annuity products.

To qualify for hedge accounting, at the inception of a derivative contract, AFG formally documents the relationship between the terms of the hedge and the hedged items and its risk management objective. This documentation includes defining how hedge effectiveness and ineffectiveness will be measured on a retrospective and prospective basis.

Changes in the fair value of derivatives that are designated and qualify as highly effective cash flow hedges are recorded in AOCI and are reclassified into earnings when the variability of the cash flows from the hedged items impacts earnings. Any hedge ineffectiveness is immediately recorded in current period earnings. When the change in the fair value of a qualifying cash flow hedge is included in earnings, it is included in the same line item in the statement of earnings as the cash flows from the hedged item. AFG uses interest rate swaps that are designated and qualify as highly effective cash flow hedges to mitigate interest rate risk related to certain floating-rate securities included in AFG's portfolio of fixed maturity securities.

For derivatives that are designated and qualify as highly effective fair value hedges, changes in the fair value of the derivative, along with changes in the fair value of the hedged item attributable to the hedged risk, are recognized in current period earnings. AFG has entered into an interest rate swap that qualifies as a highly effective fair value hedge to mitigate the interest rate risk associated with fixed-rate long-term debt by economically converting certain fixed-rate debt obligations to floating-rate obligations. Since the terms of the swap match the terms of the hedged debt, changes in the fair value of the swap are offset by changes in the fair value of the hedged debt attributable to changes in interest rates. Accordingly, the net impact on AFG's current period earnings is that the interest expense associated with the hedged debt is effectively recorded at the floating rate.

Goodwill Goodwill represents the excess of cost of subsidiaries over AFG's equity in their underlying net assets. Goodwill is not amortized, but is subject to an impairment test at least annually. An entity is not required to complete the quantitative annual goodwill impairment test on a reporting unit if the entity elects to perform a qualitative analysis and determines that it is more likely than not that the reporting unit's fair value exceeds its carrying amount.

Reinsurance Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. AFG's property and casualty insurance subsidiaries report as assets (i) the estimated reinsurance recoverable on paid and unpaid losses, including an estimate for losses incurred but not reported, and (ii) amounts paid or due to reinsurers applicable to the unexpired terms of policies in force. Payable to reinsurers includes ceded premiums due to reinsurers, as well as ceded premiums retained by AFG's property and casualty insurance subsidiaries under contracts to fund ceded losses as they become due. AFG's insurance subsidiaries also assume reinsurance from other companies. Earnings on reinsurance assumed is recognized based on information received from ceding companies.

An AFG subsidiary cedes life insurance policies to a third party on a funds withheld basis whereby the subsidiary retains the assets (securities) associated with the reinsurance contract. Interest is credited to the reinsurer based on the actual investment performance of the retained assets. This reinsurance contract is considered to contain an embedded derivative (that must be adjusted to fair value) because the yield on the payable is based on a specific block of the ceding company's assets, rather than the overall creditworthiness of the ceding company. AFG determined that changes in the fair value of the underlying portfolio of fixed maturity securities is an appropriate measure of the value of the embedded derivative. The securities related to this contract are classified as "trading." The adjustment to fair value on the embedded derivative offsets the investment income recorded on the adjustment to fair value of the related trading portfolio.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions, premium taxes and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred. DPAC also includes capitalized costs associated with sales inducements offered to fixed annuity policyholders such as enhanced interest rates and premium and persistency bonuses.

For the property and casualty companies, DPAC is limited based upon recoverability without any consideration for anticipated investment income and is charged against income ratably over the terms of the related policies. A premium deficiency is recognized if the sum of expected claims costs, claims adjustment expenses and unamortized acquisition costs exceed the related unearned premiums. A premium deficiency is first recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency is greater than unamortized acquisition costs, a liability is accrued for the excess deficiency and reported with unpaid losses and loss adjustment expenses.

DPAC related to annuities is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other life and annuity policy charges, less death, annuitization and guaranteed withdrawal benefits in excess of account balances and estimated future policy administration expenses. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains (losses) on securities.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. See *"Life, Accident and Health Reserves"* below for details on the impact of loss recognition on the accounting for traditional life and health insurance contracts.

DPAC includes the present value of future profits on business in force of annuity and life, accident and health insurance companies acquired ("PVFP"). PVFP represents the portion of the costs to acquire companies that is allocated to the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition. PVFP is amortized with interest in relation to expected gross profits of the acquired policies for annuities and universal life products and in relation to the premium paying period for traditional life and health insurance products.

DPAC and certain other balance sheet amounts related to annuity, long-term care and life businesses are also adjusted, net of tax, for the change in expense that would have been recorded if the unrealized gains (losses) from securities had actually been realized. These adjustments are included in unrealized gains (losses) on marketable securities, a component of AOCI in AFG's Balance Sheet.

Managed Investment Entities A company is considered the primary beneficiary of, and therefore must consolidate, a variable interest entity ("VIE") based primarily on its ability to direct the activities of the VIE that most significantly impact that entity's economic performance and the obligation to absorb losses of, or receive benefits from, the entity that could potentially be significant to the VIE.

AFG manages, and has investments in, collateralized loan obligations ("CLOs") that are VIEs (see *Note H — "Managed Investment Entities"*). AFG has determined that it is the primary beneficiary of the CLOs because (i) its role as asset manager gives it the power to direct the activities that most significantly impact the economic performance of the CLOs and (ii) through its investment in the CLO debt tranches, it has exposure to CLO losses (limited to the amount AFG invested) and the right to receive CLO benefits that could potentially be significant to the CLOs.

Because AFG has no right to use the CLO assets and no obligation to pay the CLO liabilities, the assets and liabilities of the CLOs are shown separately in AFG's Balance Sheet. AFG has elected the fair value option for reporting on the CLO assets and liabilities to improve the transparency of financial reporting related to the CLOs. The net gain or loss from accounting for the CLO assets and liabilities at fair value is presented separately in AFG's Statement of Earnings.

The fair values of a CLO's assets may differ from the separately measured fair values of its liabilities even though the CLO liabilities only have recourse to the CLO assets. AFG has set the carrying value of the CLO liabilities equal to the fair value of the CLO assets (which have more observable fair values) as an alternative to reporting those liabilities at a separately measured fair value. CLO earnings attributable to AFG's shareholders are measured by the change in the fair value of AFG's investments in the CLOs and management fees earned.

Unpaid Losses and Loss Adjustment Expenses The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims represent management's best estimate and are based upon (i) the accumulation of case estimates for losses reported prior to the close of the accounting period on direct business written; (ii) estimates received from ceding reinsurers and insurance pools and associations; (iii) estimates of unreported losses (including possible development on known claims) based on past experience; (iv) estimates based on experience of expenses for investigating and adjusting claims; and (v) the current state of the law and coverage litigation. Establishing reserves for asbestos, environmental and other mass tort claims involves considerably more judgment than other types of claims due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, novel theories of coverage, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage.

Loss reserve liabilities are subject to the impact of changes in claim amounts and frequency and other factors. Changes in estimates of the liabilities for losses and loss adjustment expenses are reflected in the statement of earnings in the period in which determined. Despite the variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate.

Annuity Benefits Accumulated Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability for interest credited are charged to expense and decreases for policy charges are credited to other income.

For certain products, annuity benefits accumulated also includes reserves for accrued persistency and premium bonuses, guaranteed withdrawals and excess benefits expected to be paid on future deaths and annuitizations ("EDAR"). The liabilities for EDAR and guaranteed withdrawals are accrued for and modified using assumptions consistent with those used in determining DPAC and DPAC amortization, except that amounts are determined in relation to the present value of total expected assessments. Total expected assessments consist principally of estimated future investment margin, surrender, mortality, and other life and annuity policy charges, and unearned revenues once they are recognized as income.

Annuity benefits accumulated also includes amounts advanced from the Federal Home Loan Bank of Cincinnati.

Unearned Revenue Certain upfront policy charges on annuities are deferred as unearned revenue (included in other liabilities) and recognized in net earnings (included in other income) using the same assumptions and estimated gross profits used to amortize DPAC.

Life, Accident and Health Reserves Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations unless a loss recognition event (premium deficiency) occurs. Claim reserves and liabilities established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

For long-duration contracts (such as traditional life and long-term care policies), loss recognition occurs when, based on current expectations as of the measurement date, existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases) are not expected to cover the present value of future claims payments and related settlement and maintenance costs (excluding overhead) as well as unamortized acquisition costs. If a block of business is determined to be in loss recognition, a charge is recorded in earnings in an amount equal to the excess of the present value of expected future claims costs and unamortized acquisition costs over existing reserves plus the present value of expected future premiums (with no provision for adverse deviation). The charge is recorded first to reduce unamortized acquisition costs and then as an additional reserve (if unamortized acquisition costs have been reduced to zero).

In addition, reserves for traditional life and long-term care policies are subject to adjustment for loss recognition charges that would have been recorded if the unrealized gains from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities, a component of AOCI in AFG's Balance Sheet.

Debt Issuance Costs Debt issuance costs related to AFG's outstanding debt are presented in its Balance Sheet as a direct reduction in the carrying value of long-term debt and are amortized over the life of the related debt using the effective interest method as a component of interest expense. Debt issuance costs related to AFG's revolving credit facilities are included in other assets in AFG's Balance Sheet.

Variable Annuity Assets and Liabilities Separate accounts related to variable annuities represent the fair value of deposits invested in underlying investment funds on which AFG earns a fee. Investment funds are selected and may be changed only by the policyholder, who retains all investment risk.

AFG's variable annuity contracts contain a guaranteed minimum death benefit ("GMDB") to be paid if the policyholder dies before the annuity payout period commences. In periods of declining equity markets, the GMDB may exceed the value of the policyholder's account. A GMDB liability is established for future excess death benefits using assumptions together with a range of reasonably possible scenarios for investment fund performance that are consistent with DPAC capitalization and amortization assumptions.

Premium Recognition Property and casualty premiums are earned generally over the terms of the policies on a pro rata basis. Unearned premiums represent that portion of premiums written, which is applicable to the unexpired terms of policies in force. On reinsurance assumed from other insurance companies or written through various underwriting organizations, unearned premiums are based on information received from such companies and organizations. For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account, which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

Noncontrolling Interests For balance sheet purposes, noncontrolling interests represents the interests of shareholders other than AFG in consolidated entities. In the statement of earnings, net earnings and losses attributable to noncontrolling interests represents such shareholders' interest in the earnings and losses of those entities.

Income Taxes Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized.

AFG recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained under examination by the appropriate taxing authority. Interest and penalties on AFG's reserve for uncertain tax positions are recognized as a component of tax expense.

Stock-Based Compensation All share-based grants are recognized as compensation expense on a straight-line basis over their vesting periods based on their calculated fair value at the date of grant. AFG uses the Black Scholes pricing model to measure the fair value of employee stock options. See *Note K — "Shareholders' Equity"* for further information.

In the fourth quarter of 2016, AFG adopted ASU 2016-09, which, among other things, requires excess tax benefits or deficiencies for share-based payments to be recorded through income tax expense in the statement of earnings instead of directly to capital surplus (as required under the previous guidance). In addition, under the new guidance, AFG elected to account for forfeitures of awards when they occur rather than accruing expense based on an estimate of expected forfeitures (as required under the previous guidance). The resulting cumulative effect of accounting change of less than $1 million was recorded directly to retained earnings on January 1, 2016.

Benefit Plans AFG provides retirement benefits to qualified employees of participating companies through the AFG 401(k) Retirement and Savings Plan, a defined contribution plan. AFG makes all contributions to the retirement fund portion of the plan and matches a percentage of employee contributions to the savings fund. Company contributions are expensed in the year for which they are declared. AFG and many of its subsidiaries provide health care and life insurance benefits to eligible retirees. AFG also provides postemployment benefits to former or inactive employees (primarily those on disability) who were not deemed retired under other company plans. The projected future cost of providing these benefits is expensed over the period employees earn such benefits.

Earnings Per Share Although basic earnings per share only considers shares of common stock outstanding during the period, the calculation of diluted earnings per share includes the following adjustments to weighted average common shares related to stock-based compensation plans: first three months of 2017 and 2016 — 2.1 million and 1.6 million, respectively.

AFG's weighted average diluted shares outstanding for the first three months of 2016 excludes 0.8 million anti-dilutive potential common shares related to stock compensation plans. There were no anti-dilutive potential common shares for the first three months of 2017.

Statement of Cash Flows For cash flow purposes, “investing activities” are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. “Financing activities” include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, surrenders, benefits and withdrawals are also reflected as financing activities. All other activities are considered “operating.” Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

Effective October 1, 2016, AFG early adopted (on a retrospective basis) ASU 2016-15, which addresses the diversity in practice in how certain cash receipts and cash payments are presented in the statement of cash flows. Among other things, this guidance requires proceeds received from the settlement of corporate-owned life insurance policies to be classified as cash inflows from investing activities and allows premiums paid for policies to be reported as cash outflows either from investing activities or operating activities. AFG has elected to show all corporate-owned life insurance activity in investing activities. Prior to adoption of this guidance, AFG accounted for these transactions as operating activities. In addition, ASU 2016-15 clarifies when distributions received from investees accounted under the equity method should be accounted for as a cash inflow from operating activities or as a cash inflow from investing activities. AFG had previously accounted for all distributions from investments accounted for under the equity method as investing activities. The new guidance solely related to the presentation of certain transactions in the statement of cash flows. Accordingly, adoption of this guidance did not impact AFG’s results of operations or financial position.

Revenue Recognition Guidance Effective in 2018 In May 2014, the FASB issued ASU 2014-09, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when (or as) the entity satisfies a performance obligation under the contract. The new guidance also updates the accounting for certain costs associated with obtaining and fulfilling contracts with customers and requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue recognition for insurance contracts and financial instruments, which are AFG’s primary sources of revenue, is excluded from the scope of the new guidance. AFG will adopt the new guidance effective January 1, 2018. Because the new guidance does not apply to the vast majority of AFG’s business, management does not expect the adoption of this guidance to have a material impact on AFG’s results of operations or financial position. Based on implementation efforts to date, management believes that the new standard would only have applied to 2% of AFG’s 2016 consolidated revenues.

B. Acquisition of Business

Acquisition of Noncontrolling Interest in National Interstate Corporation In November 2016, AFG acquired the 49% of National Interstate Corporation (“NATL”) not previously owned by AFG’s wholly-owned subsidiary, Great American Insurance Company, for $315 million ($32.00 per share) in a merger transaction. In addition, NATL paid a one-time special cash dividend of $0.50 per share to its shareholders immediately prior to the merger closing. Because NATL was already a consolidated subsidiary of AFG prior to the merger, the acquisition was accounted for as an equity transaction.

C. Segments of Operations

AFG manages its business as four segments: (i) Property and casualty insurance, (ii) Annuity, (iii) Run-off long-term care and life and (iv) Other, which includes holding company costs.

AFG reports its property and casualty insurance business in the following Specialty sub-segments: (i) Property and transportation, which includes physical damage and liability coverage for buses, trucks and recreational vehicles, inland and ocean marine, agricultural-related products and other property coverages, (ii) Specialty casualty, which includes primarily excess and surplus, general liability, executive liability, professional liability, umbrella and excess liability, specialty coverage in targeted markets, customized programs for small to mid-sized businesses and workers’ compensation insurance, and (iii) Specialty financial, which includes risk management insurance programs for leasing and financing institutions (including collateral and lender-placed mortgage property insurance), surety and fidelity products and trade credit insurance. Premiums and underwriting profit included under Other specialty represent business assumed by AFG’s internal reinsurance program from the operations that make up AFG’s other Specialty sub-segments and amortization of deferred gains on retroactive reinsurance transactions related to the sales of businesses in prior years. AFG’s annuity business markets traditional fixed and fixed-indexed annuities in the retail, financial institutions and education markets. AFG’s reportable segments and their components were determined based primarily upon similar economic characteristics, products and services.

The following tables (in millions) show AFG’s revenues and earnings before income taxes by segment and sub-segment.

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenues		
Property and casualty insurance:		
Premiums earned:		
Specialty		
Property and transportation	$ 342	$ 339
Specialty casualty	508	502
Specialty financial	147	132
Other specialty	25	25
Total premiums earned	1,022	998
Net investment income	86	83
Other income (a)	16	3
Total property and casualty insurance	1,124	1,084
Annuity:		
Net investment income	347	315
Other income	27	26
Total annuity	374	341
Run-off long-term care and life	12	12
Other	63	56
Total revenues before realized gains (losses)	1,573	1,493
Realized gains (losses) on securities	3	(18)
Total revenues	$ 1,576	$ 1,475
Earnings Before Income Taxes		
Property and casualty insurance:		
Underwriting:		
Specialty		
Property and transportation	$ 43	$ 32
Specialty casualty	15	29
Specialty financial	22	23
Other specialty	(1)	2
Other lines	(1)	1
Total underwriting	78	87
Investment and other income, net (a)	93	75
Total property and casualty insurance	171	162
Annuity	96	53
Run-off long-term care and life	—	(1)
Other (b)	(47)	(40)
Total earnings before realized gains (losses) and income taxes	220	174
Realized gains (losses) on securities	3	(18)
Total earnings before income taxes	$ 223	$ 156

(a) Includes pretax income of $13 million (before noncontrolling interest) from the sale of a hotel in the first quarter of 2017.
(b) Includes holding company interest and expenses.

D. Fair Value Measurements

Accounting standards for measuring fair value are based on inputs used in estimating fair value. The three levels of the hierarchy are as follows:

Level 1 — Quoted prices for identical assets or liabilities in active markets (markets in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis). AFG's Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available and short-term investments of managed investment entities.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (markets in which there are few transactions, the prices are not current, price quotations vary substantially over time or among market makers, or in which little information is released publicly); and valuations based on other significant inputs that are observable in active markets. AFG's Level 2 financial instruments include separate account assets, corporate and municipal fixed maturity securities, mortgage-backed securities ("MBS") and investments of managed investment entities priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 — Valuations derived from market valuation techniques generally consistent with those used to estimate the fair values of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management's own assumptions about the assumptions market participants would use based on the best information available in the circumstances. AFG's Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information.

As discussed in *Note A — "Accounting Policies — Managed Investment Entities,"* AFG has set the carrying value of the CLO liabilities equal to the fair value of the CLO assets (which have more observable fair values) as an alternative to reporting those liabilities at a separately measured fair value. As a result, the CLO liabilities are categorized within the fair value hierarchy on the same basis (proportionally) as the related CLO assets. Since the portion of the CLO liabilities allocated to Level 3 is derived from the fair value of the CLO assets, these amounts are excluded from the progression of Level 3 financial instruments.

AFG's management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. AFG's internal investment professionals are a group of approximately 25 analysts whose primary responsibility is to manage AFG's investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG's chief investment officer, who reports directly to one of AFG's Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG's internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, the Company communicates directly with the pricing services regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

Assets and liabilities measured and carried at fair value in the financial statements are summarized below (in millions):

	Level 1	Level 2	Level 3	Total
March 31, 2017				
Assets:				
Available for sale (“AFS”) fixed maturities:				
U.S. Government and government agencies	$ 122	$ 158	$ 8	$ 288
States, municipalities and political subdivisions	—	6,758	143	6,901
Foreign government	—	138	—	138
Residential MBS	—	3,541	175	3,716
Commercial MBS	—	1,224	29	1,253
Asset-backed securities (“ABS”)	—	5,998	594	6,592
Corporate and other	30	16,710	828	17,568
Total AFS fixed maturities	152	34,527	1,777	36,456
Trading fixed maturities	26	333	—	359
Equity securities — AFS and trading	1,383	81	173	1,637
Assets of managed investment entities (“MIE”)	896	4,409	26	5,331
Variable annuity assets (separate accounts) (*)	—	614	—	614
Equity index call options	—	573	—	573
Other assets — derivatives	—	—	—	—
Total assets accounted for at fair value	$ 2,457	$ 40,537	$ 1,976	$ 44,970
Liabilities:				
Liabilities of managed investment entities	$ 857	$ 4,219	$ 25	$ 5,101
Derivatives in annuity benefits accumulated	—	—	1,963	1,963
Derivatives in long-term debt	—	—	—	—
Other liabilities — derivatives	—	32	—	32
Total liabilities accounted for at fair value	$ 857	$ 4,251	$ 1,988	$ 7,096
December 31, 2016				
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	$ 133	$ 174	$ 8	$ 315
States, municipalities and political subdivisions	—	6,641	140	6,781
Foreign government	—	136	—	136
Residential MBS	—	3,445	190	3,635
Commercial MBS	—	1,468	25	1,493
Asset-backed securities	—	5,475	484	5,959
Corporate and other	29	15,484	712	16,225
Total AFS fixed maturities	162	32,823	1,559	34,544
Trading fixed maturities	30	329	—	359
Equity securities — AFS and trading	1,305	79	174	1,558
Assets of managed investment entities	380	4,356	29	4,765
Variable annuity assets (separate accounts) (*)	—	600	—	600
Equity index call options	—	492	—	492
Other assets — derivatives	—	1	—	1
Total assets accounted for at fair value	$ 1,877	$ 38,680	$ 1,762	$ 42,319
Liabilities:				
Liabilities of managed investment entities	$ 363	$ 4,158	$ 28	$ 4,549
Derivatives in annuity benefits accumulated	—	—	1,759	1,759
Derivatives in long-term debt	—	(1)	—	(1)
Other liabilities — derivatives	—	30	—	30
Total liabilities accounted for at fair value	$ 363	$ 4,187	$ 1,787	$ 6,337

(*) Variable annuity liabilities equal the fair value of variable annuity assets.

Transfers between Level 1 and Level 2 for all periods presented were a result of increases or decreases in observable trade activity.

During the first three months of 2017, there were no transfers between Level 1 and Level 2. During the first three months of 2016, there was one perpetual preferred stock with a fair value of $8 million transferred from Level 2 to Level 1 and three perpetual preferred stocks with an aggregate fair value of $6 million transferred from Level 1 to Level 2.

Approximately 4% of the total assets carried at fair value on March 31, 2017, were Level 3 assets. Approximately 75% ($1.49 billion) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by AFG. Since internally developed Level 3 asset fair values represent less than 10% of AFG's Shareholders' Equity, any justifiable changes in unobservable inputs used to determine internally developed fair values would not have a material impact on AFG's financial position.

The only significant Level 3 assets or liabilities carried at fair value in the financial statements that were not measured using broker quotes are the derivatives embedded in AFG's fixed-indexed annuity liabilities, which are measured using a discounted cash flow approach and had a fair value of $1.96 billion at March 31, 2017. The following table presents information about the unobservable inputs used by management in determining fair value of these embedded derivatives. See *Note F — "Derivatives."*

Unobservable Input	Range
Adjustment for insurance subsidiary's credit risk	0.2% – 2.8% over the risk free rate
Risk margin for uncertainty in cash flows	0.68% reduction in the discount rate
Surrenders	3% – 21% of indexed account value
Partial surrenders	2% – 10% of indexed account value
Annuitizations	0.1% – 1% of indexed account value
Deaths	1.5% – 8.0% of indexed account value
Budgeted option costs	2.4% – 3.6% of indexed account value

The range of adjustments for insurance subsidiary's credit risk reflects credit spread variations across the yield curve. The range of projected surrender rates reflects the specific surrender charges and other features of AFG's individual fixed-indexed annuity products with an expected range of 6% to 10% in the majority of future calendar years (3% to 21% over all periods). Increasing the budgeted option cost or risk margin for uncertainty in cash flows assumptions in the table above would increase the fair value of the fixed-indexed annuity embedded derivatives, while increasing any of the other unobservable inputs in the table above would decrease the fair value of the embedded derivatives.

Changes in balances of Level 3 financial assets and liabilities carried at fair value during the first three months of 2017 and 2016 are presented below (in millions). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Balance at December 31, 2016	Total realized/unrealized gains (losses) included in Net income	Total realized/unrealized gains (losses) included in Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at March 31, 2017
AFS fixed maturities:								
U.S. government agency	$ 8	$ —	$ —	$ —	$ —	$ —	$ —	$ 8
State and municipal	140	—	3	—	—	—	—	143
Residential MBS	190	1	—	1	(8)	7	(16)	175
Commercial MBS	25	—	—	—	—	4	—	29
Asset-backed securities	484	—	—	104	(11)	17	—	594
Corporate and other	712	1	4	120	(38)	29	—	828
Total AFS fixed maturities	1,559	2	7	225	(57)	57	(16)	1,777
Equity securities	174	(6)	7	12	—	—	(14)	173
Assets of MIE	29	(1)	—	2	—	—	(4)	26
Total Level 3 assets	$ 1,762	$ (5)	$ 14	$ 239	$ (57)	$ 57	$ (34)	$ 1,976
Embedded derivatives	$ (1,759)	$ (147)	$ —	$ (79)	$ 22	$ —	$ —	$ (1,963)
Total Level 3 liabilities (*)	$ (1,759)	$ (147)	$ —	$ (79)	$ 22	$ —	$ —	$ (1,963)

	Balance at December 31, 2015	Total realized/unrealized gains (losses) included in Net income	Total realized/unrealized gains (losses) included in Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at March 31, 2016
AFS fixed maturities:								
U.S. government agency	$ 15	$ —	$ —	$ —	$ —	$ —	$ —	$ 15
State and municipal	89	—	3	—	—	—	—	92
Residential MBS	224	1	—	—	(7)	11	(16)	213
Commercial MBS	39	—	—	—	(1)	—	—	38
Asset-backed securities	470	—	(6)	4	(8)	41	—	501
Corporate and other	633	(2)	15	86	(7)	5	—	730
Total AFS fixed maturities	1,470	(1)	12	90	(23)	57	(16)	1,589
Equity securities	140	(17)	8	12	—	15	—	158
Assets of MIE	26	(2)	—	—	—	—	—	24
Total Level 3 assets	$ 1,636	$ (20)	$ 20	$ 102	$ (23)	$ 72	$ (16)	$ 1,771
Embedded derivatives	$ (1,369)	$ (17)	$ —	$ (82)	$ 18	$ —	$ —	$ (1,450)
Total Level 3 liabilities (*)	$ (1,369)	$ (17)	$ —	$ (82)	$ 18	$ —	$ —	$ (1,450)

(*) As discussed previously, these tables exclude the portion of MIE liabilities allocated to Level 3, which are derived from the fair value of the MIE assets.

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements are summarized below (in millions):

	Carrying	Fair Value			
	Value	Total	Level 1	Level 2	Level 3
March 31, 2017					
Financial assets:					
Cash and cash equivalents	$ 1,890	$ 1,890	$ 1,890	$ —	$ —
Mortgage loans	1,159	1,158	—	—	1,158
Policy loans	190	190	—	—	190
Total financial assets not accounted for at fair value	$ 3,239	$ 3,238	$ 1,890	$ —	$ 1,348
Financial liabilities:					
Annuity benefits accumulated (*)	$ 30,799	$ 29,997	$ —	$ —	$ 29,997
Long-term debt	1,283	1,382	—	1,379	3
Total financial liabilities not accounted for at fair value	$ 32,082	$ 31,379	$ —	$ 1,379	$ 30,000
December 31, 2016					
Financial assets:					
Cash and cash equivalents	$ 2,107	$ 2,107	$ 2,107	$ —	$ —
Mortgage loans	1,147	1,146	—	—	1,146
Policy loans	192	192	—	—	192
Total financial assets not accounted for at fair value	$ 3,446	$ 3,445	$ 2,107	$ —	$ 1,338
Financial liabilities:					
Annuity benefits accumulated (*)	$ 29,703	$ 28,932	$ —	$ —	$ 28,932
Long-term debt	1,284	1,356	—	1,353	3
Total financial liabilities not accounted for at fair value	$ 30,987	$ 30,288	$ —	$ 1,353	$ 28,935

(*) Excludes $203 million and $204 million of life contingent annuities in the payout phase at March 31, 2017 and December 31, 2016, respectively.

The carrying amount of cash and cash equivalents approximates fair value. Fair values for mortgage loans are estimated by discounting the future contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. The fair value of policy loans is estimated to approximate carrying value; policy loans have no defined maturity dates and are inseparable from insurance contracts. The fair value of annuity benefits was estimated based on expected cash flows discounted using forward interest rates adjusted for the Company's credit risk and includes the impact of maintenance expenses and capital costs. Fair values of long-term debt are based primarily on quoted market prices.

E. Investments

Available for sale fixed maturities and equity securities at March 31, 2017 and December 31, 2016, consisted of the following (in millions):

	March 31, 2017					December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized	Fair Value
Fixed maturities:										
U.S. Government and government agencies	$ 289	$ 2	$ (3)	$ (1)	$ 288	$ 315	$ 3	$ (3)	$ —	$ 315
States, municipalities and political subdivisions	6,736	213	(48)	165	6,901	6,650	200	(69)	131	6,781
Foreign government	133	5	—	5	138	131	5	—	5	136
Residential MBS	3,432	295	(11)	284	3,716	3,367	281	(13)	268	3,635
Commercial MBS	1,211	43	(1)	42	1,253	1,446	49	(2)	47	1,493
Asset-backed securities	6,548	74	(30)	44	6,592	5,962	43	(46)	(3)	5,959
Corporate and other	17,096	544	(72)	472	17,568	15,864	473	(112)	361	16,225
Total fixed maturities	$ 35,445	$ 1,176	$ (165)	$ 1,011	$ 36,456	$ 33,735	$ 1,054	$ (245)	$ 809	$ 34,544
Equity Securities:										
Common stocks	$ 884	$ 216	$ (21)	$ 195	$ 1,079	$ 879	$ 160	$ (23)	$ 137	$ 1,016
Perpetual preferred stocks	472	31	(3)	28	500	472	21	(7)	14	486
Total equity securities	$ 1,356	$ 247	$ (24)	$ 223	$ 1,579	$ 1,351	$ 181	$ (30)	$ 151	$ 1,502

The non-credit related portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned at March 31, 2017 and December 31, 2016, respectively, were $170 million and $189 million. Gross unrealized gains on such securities at March 31, 2017 and December 31, 2016 were $128 million and $130 million, respectively. Gross unrealized losses on such securities at March 31, 2017 and December 31, 2016 were $2 million and $3 million, respectively. These amounts represent the non-credit other-than-temporary impairment charges recorded in AOCI adjusted for subsequent changes in fair values and relate to residential MBS.

The following tables show gross unrealized losses (dollars in millions) on fixed maturities and equity securities by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2017 and December 31, 2016.

	Less Than Twelve Months			Twelve Months or More		
	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
March 31, 2017						
Fixed maturities:						
U.S. Government and government agencies	$ (1)	$ 152	99%	$ (2)	$ 8	80%
States, municipalities and political subdivisions	(44)	1,925	98%	(4)	37	90%
Foreign government	—	4	100%	—	—	—%
Residential MBS	(6)	455	99%	(5)	188	97%
Commercial MBS	(1)	71	99%	—	—	—%
Asset-backed securities	(14)	1,313	99%	(16)	512	97%
Corporate and other	(57)	2,799	98%	(15)	298	95%
Total fixed maturities	$ (123)	$ 6,719	98%	$ (42)	$ 1,043	96%
Equity securities:						
Common stocks	$ (21)	$ 138	87%	$ —	$ —	—%
Perpetual preferred stocks	(2)	85	98%	(1)	6	86%
Total equity securities	$ (23)	$ 223	91%	$ (1)	$ 6	86%
December 31, 2016						
Fixed maturities:						
U.S. Government and government agencies	$ (1)	$ 153	99%	$ (2)	$ 8	80%
States, municipalities and political subdivisions	(64)	2,289	97%	(5)	44	90%
Residential MBS	(7)	502	99%	(6)	162	96%
Commercial MBS	(2)	121	98%	—	—	—%
Asset-backed securities	(29)	1,737	98%	(17)	634	97%
Corporate and other	(93)	3,849	98%	(19)	312	94%
Total fixed maturities	$ (196)	$ 8,651	98%	$ (49)	$ 1,160	96%
Equity securities:						
Common stocks	$ (23)	$ 215	90%	$ —	$ —	—%
Perpetual preferred stocks	(6)	135	96%	(1)	6	86%
Total equity securities	$ (29)	$ 350	92%	$ (1)	$ 6	86%

At March 31, 2017, the gross unrealized losses on fixed maturities of $165 million relate to 1,048 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 84% of the gross unrealized loss and 89% of the fair value.

AFG analyzes its MBS securities for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data. In the first three months of 2017, AFG recorded less than $1 million in other-than-temporary impairment charges related to its residential MBS.

In the first three months of 2017, AFG recorded less than $1 million in other-than-temporary impairment charges related to corporate bonds and other fixed maturities.

AFG recorded $3 million in other-than-temporary impairment charges on common stocks in the first three months of 2017. At March 31, 2017, the gross unrealized losses on common stocks of $21 million relate to 17 securities, none of which has been in an unrealized loss position for more than 12 months.

AFG recorded $6 million in other-than-temporary impairment charges on preferred stocks in the first three months of 2017. At March 31, 2017, the gross unrealized losses on preferred stocks of $3 million relate to 13 securities. The one preferred stock that has been in an unrealized loss position for 12 months or more is rated investment grade.

Management believes AFG will recover its cost basis in the securities with unrealized losses and that AFG has the ability to hold the securities until they recover in value and had no intent to sell them at March 31, 2017.

A progression of the credit portion of other-than-temporary impairments on fixed maturity securities for which the non-credit portion of an impairment has been recognized in other comprehensive income is shown below (in millions):

	2017	2016
Balance at January 1	$ 153	$ 160
Additional credit impairments on:		
Previously impaired securities	—	2
Securities without prior impairments	—	—
Reductions due to sales or redemptions	(7)	(2)
Balance at March 31	$ 146	$ 160

The table below sets forth the scheduled maturities of available for sale fixed maturities as of March 31, 2017 (dollars in millions). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized	Fair Value	
	Cost	Amount	%
Maturity			
One year or less	$ 1,038	$ 1,051	3%
After one year through five years	6,034	6,300	17%
After five years through ten years	12,717	12,990	36%
After ten years	4,465	4,554	12%
	24,254	24,895	68%
ABS (average life of approximately 5 years)	6,548	6,592	18%
MBS (average life of approximately 4-1/2 years)	4,643	4,969	14%
Total	$ 35,445	$ 36,456	100%

Certain risks are inherent in fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

There were no investments in individual issuers that exceeded 10% of shareholders’ equity at March 31, 2017 or December 31, 2016.

Net Unrealized Gain on Marketable Securities In addition to adjusting equity securities and fixed maturity securities classified as "available for sale" to fair value, GAAP requires that deferred policy acquisition costs and certain other balance sheet amounts related to annuity, long-term care and life businesses be adjusted to the extent that unrealized gains and losses from securities would result in adjustments to those balances had the unrealized gains or losses actually been realized. The following table shows (in millions) the components of the net unrealized gain on securities that is included in AOCI in AFG's Balance Sheet.

	Pretax	Deferred Tax	Net
March 31, 2017			
Net unrealized gain on:			
Fixed maturities — annuity segment (*)	$ 800	$ (280)	$ 520
Fixed maturities — all other	211	(74)	137
Total fixed maturities	1,011	(354)	657
Equity securities	223	(78)	145
Total investments	1,234	(432)	802
Deferred policy acquisition costs — annuity segment	(333)	117	(216)
Annuity benefits accumulated	(103)	36	(67)
Unearned revenue	15	(5)	10
Total net unrealized gain on marketable securities	$ 813	$ (284)	$ 529
December 31, 2016			
Net unrealized gain on:			
Fixed maturities — annuity segment (*)	$ 640	$ (224)	$ 416
Fixed maturities — all other	169	(59)	110
Total fixed maturities	809	(283)	526
Equity securities	151	(53)	98
Total investments	960	(336)	624
Deferred policy acquisition costs — annuity segment	(273)	96	(177)
Annuity benefits accumulated	(78)	27	(51)
Unearned revenue	13	(5)	8
Total net unrealized gain on marketable securities	$ 622	$ (218)	$ 404

(*) Net unrealized gains on fixed maturity investments supporting AFG's annuity benefits accumulated.

Net Investment Income The following table shows (in millions) investment income earned and investment expenses incurred.

	Three months ended March 31, 2017	Three months ended March 31, 2016
Investment income:		
Fixed maturities	$ 389	$ 367
Equity securities	21	19
Equity in earnings of partnerships and similar investments	10	11
Other	20	19
Gross investment income	440	416
Investment expenses	(5)	(5)
Net investment income	$ 435	$ 411

Realized gains (losses) and changes in unrealized appreciation (depreciation) related to fixed maturity and equity security investments are summarized as follows (in millions):

	Three months ended March 31, 2017				Three months ended March 31, 2016			
	Realized gains (losses)				Realized gains (losses)			
	Before Impairments	Impairments	Total	Change in Unrealized	Before Impairments	Impairments	Total	Change in Unrealized
Fixed maturities	$ 5	$ —	$ 5	$ 202	$ 14	$ (16)	$ (2)	$ 453
Equity securities	2	(9)	(7)	72	23	(41)	(18)	(23)
Mortgage loans and other investments	3	—	3	—	—	—	—	—
Other (*)	(1)	3	2	(83)	(3)	5	2	(220)
Total pretax	9	(6)	3	191	34	(52)	(18)	210
Tax effects	(3)	2	(1)	(66)	(12)	19	7	(74)
Noncontrolling interests	—	—	—	—	—	1	1	(2)
Net of tax and noncontrolling interests	$ 6	$ (4)	$ 2	$ 125	$ 22	$ (32)	$ (10)	$ 134

(*) Primarily adjustments to deferred policy acquisition costs and reserves related to the annuity business.

Gross realized gains and losses (excluding impairment write-downs and mark-to-market of derivatives) on available for sale fixed maturity and equity security investment transactions included in the statement of cash flows consisted of the following (in millions):

	Three months ended March 31,	
	2017	2016
Fixed maturities:		
Gross gains	$ 5	$ 14
Gross losses	—	(1)
Equity securities:		
Gross gains	4	25
Gross losses	(2)	—

F. Derivatives

As discussed under *"Derivatives"* in *Note A — "Accounting Policies"* to the financial statements, AFG uses derivatives in certain areas of its operations.

Derivatives That Do Not Qualify for Hedge Accounting The following derivatives that do not qualify for hedge accounting under GAAP are included in AFG's Balance Sheet at fair value (in millions):

		March 31, 2017		December 31, 2016	
Derivative	Balance Sheet Line	Asset	Liability	Asset	Liability
MBS with embedded derivatives	Fixed maturities	$ 104	$ —	$ 107	$ —
Public company warrants	Equity securities	4	—	4	—
Fixed-indexed annuities (embedded derivative)	Annuity benefits accumulated	—	1,963	—	1,759
Equity index call options	Equity index call options	573	—	492	—
Reinsurance contracts (embedded derivative)	Other liabilities	—	8	—	8
		$ 681	$ 1,971	$ 603	$ 1,767

The MBS with embedded derivatives consist primarily of interest-only MBS with interest rates that float inversely with short-term rates. AFG records the entire change in the fair value of these securities in earnings. These investments are part of AFG's overall investment strategy and represent a small component of AFG's overall investment portfolio.

Warrants to purchase shares of publicly traded companies, which represent a small component of AFG's overall investment portfolio, are considered to be derivatives that are required to be carried at fair value through earnings.

AFG's fixed-indexed annuities provide policyholders with a crediting rate tied, in part, to the performance of an existing stock market index. AFG attempts to mitigate the risk in the index-based component of these products through the purchase of call options on the appropriate index. AFG receives collateral from its counterparties to support its purchased call option assets. This collateral ($387 million at March 31, 2017 and $380 million at December 31, 2016) is included in other assets in AFG's Balance Sheet with an offsetting liability to return the collateral, which is included in other liabilities. AFG's strategy is designed so that the change in the fair value of the call option assets will generally offset the economic change in the liabilities from the index participation. Both the index-based component of the annuities and the related call options are considered derivatives. Fluctuations in interest rates and the stock market, among other factors, can cause volatility in the periodic measurement of fair value of the embedded derivative that management believes can be inconsistent with the long-term economics of these products.

As discussed under *"Reinsurance"* in *Note A* to the financial statements, certain reinsurance contracts are considered to contain embedded derivatives.

The following table summarizes the gain (loss) included in AFG's Statement of Earnings for changes in the fair value of derivatives that do not qualify for hedge accounting for the first three months of 2017 and 2016 (in millions):

		Three months ended March 31,	
Derivative	Statement of Earnings Line	2017	2016
MBS with embedded derivatives	Realized gains on securities	$ —	$ 1
Public company warrants	Realized gains on securities	—	(2)
Fixed-indexed annuities (embedded derivative)	Annuity benefits	(147)	(17)
Equity index call options	Annuity benefits	141	(40)
Reinsurance contracts (embedded derivative)	Net investment income	(1)	(3)
		$ (7)	$ (61)

Derivatives Designated and Qualifying as Cash Flow Hedges As of March 31, 2017, AFG has entered into seven interest rate swaps that are designated and qualify as highly effective cash flow hedges to mitigate interest rate risk related to certain floating-rate securities included in AFG's portfolio of fixed maturity securities. The purpose of each of these swaps is to effectively convert a portion of AFG's floating-rate fixed maturity securities to fixed rates by offsetting the variability in cash flows attributable to changes in short-term LIBOR.

Under the terms of the swaps, AFG receives fixed-rate interest payments in exchange for variable interest payments based on short-term LIBOR. The notional amounts of the interest rate swaps amortize down over each swap's respective life (the swaps expire between August 2019 and June 2030) in anticipation of the expected decline in AFG's portfolio of fixed maturity securities with floating interest rates based on short-term LIBOR. The total outstanding notional amount of AFG's interest rate swaps was $1.03 billion at March 31, 2017 compared to $1.08 billion at December 31, 2016, reflecting the scheduled amortization discussed above. The fair value of the effective portion of the interest rate swaps in an asset position and included in other assets was less than $1 million at March 31, 2017 and $1 million at December 31, 2016. The fair value of the effective portion of the interest rate swaps in a liability position and included in other liabilities was $24 million at March 31, 2017 and $22 million at December 31, 2016. The net unrealized gain or loss on cash flow hedges is included in AOCI, net of DPAC and deferred taxes. Amounts reclassified from AOCI (before DPAC and taxes) to net investment income were $2 million in both the first three months of 2017 and 2016. There was no ineffectiveness recorded in net earnings during these periods. A collateral receivable supporting these swaps of $60 million at both March 31, 2017 and December 31, 2016 is included in other assets in AFG's Balance Sheet.

Derivative Designated and Qualifying as a Fair Value Hedge In June 2015, AFG entered into an interest rate swap to mitigate the interest rate risk associated with its fixed-rate 9-7/8% Senior Notes due June 2019 by effectively converting the interest rate on those notes to a floating rate of three-month LIBOR plus 8.099% (9.2302% at March 31, 2017). Since the terms of the interest rate swap match the terms of the hedged debt, changes in the fair value of the interest rate swap are offset by changes in the fair value of the hedged debt attributable to changes in interest rates. The fair value of the interest rate swap (asset of less than $1 million at March 31, 2017 and $1 million at December 31, 2016) and the offsetting adjustment to the carrying value of the 9-7/8% Senior Notes are both included in long-term debt on AFG's Balance Sheet. Accordingly, the net impact on AFG's current period earnings is that the interest expense associated with the hedged debt is effectively recorded at the floating rate. The net reduction in interest expense from the swap was $1 million for both the first three months of 2017 and 2016.

G. Deferred Policy Acquisition Costs

A progression of deferred policy acquisition costs is presented below (in millions):

	P&C	Annuity and Run-off Long-term Care and Life						
	Deferred Costs	Deferred Costs	Sales Inducements	PVFP	Subtotal	Unrealized	Total	Consolidated Total
Balance at December 31, 2016	$ 238	$ 1,110	$ 110	$ 46	$ 1,266	$ (265)	$ 1,001	$ 1,239
Additions	139	67	1	—	68	—	68	207
Amortization:								
Periodic amortization	(135)	(42)	(6)	(2)	(50)	—	(50)	(185)
Included in realized gains	—	2	—	—	2	—	2	2
Foreign currency translation	1	—	—	—	—	—	—	1
Change in unrealized	—	—	—	—	—	(59)	(59)	(59)
Balance at March 31, 2017	$ 243	$ 1,137	$ 105	$ 44	$ 1,286	$ (324)	$ 962	$ 1,205
Balance at December 31, 2015	$ 226	$ 1,018	$ 119	$ 55	$ 1,192	$ (234)	$ 958	$ 1,184
Additions	132	68	5	—	73	—	73	205
Amortization:								
Periodic amortization	(134)	(25)	(5)	(2)	(32)	—	(32)	(166)
Included in realized gains	—	2	—	—	2	—	2	2
Change in unrealized	—	—	—	—	—	(170)	(170)	(170)
Balance at March 31, 2016	$ 224	$ 1,063	$ 119	$ 53	$ 1,235	$ (404)	$ 831	$ 1,055

The present value of future profits ("PVFP") amounts in the table above are net of $136 million and $134 million of accumulated amortization at March 31, 2017 and December 31, 2016, respectively.

H. Managed Investment Entities

AFG is the investment manager and its subsidiaries have investments ranging from 15.0% to 64.4% of the most subordinate debt tranche of sixteen collateralized loan obligation entities or "CLOs," which are considered variable interest entities. AFG's subsidiaries also own portions of the senior debt tranches of certain of these CLOs. Upon formation between 2004 and 2017, these entities issued securities in various senior and subordinate classes and invested the proceeds primarily in secured bank loans, which serve as collateral for the debt securities issued by each particular CLO. None of the collateral was purchased from AFG. AFG's investments in the subordinate debt tranches of these entities receive residual income from the CLOs only after the CLOs pay expenses (including management fees to AFG) and interest on and returns of capital to senior levels of debt securities. There are no contractual requirements for AFG to provide additional funding for these entities. AFG has not provided and does not intend to provide any financial support to these entities.

AFG's maximum exposure to economic loss on its CLOs is limited to its investment in the CLOs, which had an aggregate fair value of $230 million (including $160 million invested in the most subordinate tranches) at March 31, 2017, and $216 million at December 31, 2016.

In March 2017, AFG formed a new CLO, which issued $408 million face amount of liabilities (including $24 million face amount purchased by subsidiaries of AFG). During the first three months of 2016, AFG subsidiaries purchased $11 million face amount of senior debt and subordinate tranches of existing CLOs for $10 million. During the first three months of 2017 and 2016, AFG subsidiaries received $4 million and $23 million, respectively, in sale and redemption proceeds from its CLO investments.

The revenues and expenses of the CLOs are separately identified in AFG's Statement of Earnings, after the elimination of management fees and earnings attributable to shareholders of AFG as measured by the change in the fair value of AFG's investments in the CLOs. Selected financial information related to the CLOs is shown below (in millions):

	Three months ended March 31,	
	2017	2016
Investment in CLO tranches at end of period	$ 230	$ 250
Gains (losses) on change in fair value of assets/liabilities (a):		
Assets	5	(1)
Liabilities	(5)	(12)
Management fees paid to AFG	4	4
CLO earnings (losses) attributable to AFG shareholders (b)	6	(7)

(a) Included in revenues in AFG's Statement of Earnings.
(b) Included in earnings before income taxes in AFG's Statement of Earnings.

The aggregate unpaid principal balance of the CLOs' fixed maturity investments exceeded the fair value of the investments by $59 million and $75 million at March 31, 2017 and December 31, 2016. The aggregate unpaid principal balance of the CLOs' debt exceeded its carrying value by $140 million and $159 million at those dates. The CLO assets include $1 million in loans at both March 31, 2017 and December 31, 2016, for which the CLOs are not accruing interest because the loans are in default (aggregate unpaid principal balance of $8 million and $10 million at those dates, respectively).

I. Goodwill and Other Intangibles

There were no changes in the goodwill balance of $199 million during the first three months of 2017. Included in other assets in AFG's Balance Sheet is $32 million at March 31, 2017 and $34 million at December 31, 2016 in amortizable intangible assets related to property and casualty insurance acquisitions. These amounts are net of accumulated amortization of $24 million and $25 million, respectively. Amortization of intangibles was $2 million in both the first three months of 2017 and 2016.

J. Long-Term Debt

Long-term debt consisted of the following (in millions):

	March 31, 2017			December 31, 2016		
	Principal	Discount and Issue Costs	Carrying Value	Principal	Discount and Issue Costs	Carrying Value
Direct Senior Obligations of AFG:						
9-7/8% Senior Notes due June 2019	$ 350	$ (1)	$ 349	$ 350	$ (1)	$ 349
3.50% Senior Notes due August 2026	300	(3)	297	300	(3)	297
6-3/8% Senior Notes due June 2042	230	(7)	223	230	(7)	223
5-3/4% Senior Notes due August 2042	125	(4)	121	125	(4)	121
Other	3	—	3	3	—	3
	1,008	(15)	993	1,008	(15)	993
Direct Subordinated Obligations of AFG:						
6-1/4% Subordinated Debentures due September 2054	150	(5)	145	150	(5)	145
6% Subordinated Debentures due November 2055	150	(5)	145	150	(5)	145
	300	(10)	290	300	(10)	290
	$ 1,308	$ (25)	$ 1,283	$ 1,308	$ (25)	$ 1,283

To achieve a desired balance between fixed and variable rate debt, AFG entered into an interest rate swap in June 2015, which effectively converts its 9-7/8% Senior Notes to a floating rate of three-month LIBOR plus 8.099% (9.2302% at March 31, 2017 and 9.0624% at December 31, 2016). The fair value of the interest rate swap (asset of less than $1 million and $1 million at March 31, 2017 and December 31, 2016, respectively) and the offsetting adjustment to the carrying value of the notes are both included in the carrying value of the 9-7/8% Senior Notes in the table above.

Scheduled principal payments on debt for the balance of 2017, the subsequent five years and thereafter were as follows: 2017 — none; 2018 — none; 2019 — $350 million; 2020 — none; 2021 — none; 2022 — none and thereafter — $958 million.

AFG can borrow up to $500 million under its revolving credit facility, which expires in June 2021. Amounts borrowed under this agreement bear interest at rates ranging from 1.00% to 1.875% (currently 1.375%) over LIBOR based on AFG's credit rating. No amounts were borrowed under this facility at March 31, 2017 or December 31, 2016.

K. Shareholders' Equity

AFG is authorized to issue 12.5 million shares of Voting Preferred Stock and 12.5 million shares of Nonvoting Preferred Stock, each without par value.

Accumulated Other Comprehensive Income, Net of Tax ("AOCI") Comprehensive income is defined as all changes in shareholders' equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income, which consists primarily of changes in net unrealized gains or losses on available for sale securities.

The progression of the components of accumulated other comprehensive income follows (in millions):

		Other Comprehensive Income					
	AOCI Beginning Balance	Pretax	Tax	Net of tax	Attributable to noncontrolling interests	Attributable to shareholders	AOCI Ending Balance
Three months ended March 31, 2017							
Net unrealized gains on securities:							
Unrealized holding gains on securities arising during the period		$ 191	$ (66)	$ 125	$ —	$ 125	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		—	—	—	—	—	
Total net unrealized gains on securities (b)	$ 404	191	(66)	125	—	125	$ 529
Net unrealized losses on cash flow hedges	(7)	(2)	1	(1)	—	(1)	(8)
Foreign currency translation adjustments	(15)	—	—	—	—	—	(15)
Pension and other postretirement plans adjustments	(7)	—	—	—	—	—	(7)
Total	$ 375	$ 189	$ (65)	$ 124	$ —	$ 124	$ 499
Three months ended March 31, 2016							
Net unrealized gains on securities:							
Unrealized holding gains on securities arising during the period		$ 192	$ (67)	$ 125	$ (1)	$ 124	
Reclassification adjustment for realized (gains) losses included in net earnings (a)		18	(7)	11	(1)	10	
Total net unrealized gains on securities	$ 332	210	(74)	136	(2)	134	$ 466
Net unrealized gains on cash flow hedges	1	5	(2)	3	—	3	4
Foreign currency translation adjustments	(22)	3	3	6	—	6	(16)
Pension and other postretirement plans adjustments	(7)	1	—	1	—	1	(6)
Total	$ 304	$ 219	$ (73)	$ 146	$ (2)	$ 144	$ 448

(a) The reclassification adjustment out of net unrealized gains on securities affected the following lines in AFG's Statement of Earnings:

OCI component	Affected line in the statement of earnings
Pretax	Realized gains (losses) on securities
Tax	Provision for income taxes
Attributable to noncontrolling interests	Net earnings (loss) attributable to noncontrolling interests

(b) Includes net unrealized gains of $52 million at both March 31, 2017 and December 31, 2016 related to securities for which only the credit portion of an other-than-temporary impairment has been recorded in earnings.

Stock Incentive Plans Under AFG's stock incentive plans, employees of AFG and its subsidiaries are eligible to receive equity awards in the form of stock options, stock appreciation rights, restricted stock awards, restricted stock units and stock awards. In the first three months of 2017, AFG issued 232,250 shares of restricted Common Stock (fair value of $94.44 per share) under the Stock Incentive Plan. In addition, AFG issued 47,826 shares of Common Stock (fair value of $96.13 per share) in the first quarter of 2017 under the Equity Bonus Plan. AFG did not grant any stock options in the first three months of 2017.

Total compensation expense related to stock incentive plans of AFG and its subsidiaries was $11 million and $8 million in the first three months of 2017 and 2016, respectively.

L. Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 35% to the provision for income taxes as shown in AFG's Statement of Earnings (dollars in millions):

	Three months ended March 31,			
	2017		2016	
	Amount	% of EBT	Amount	% of EBT
Earnings before income taxes ("EBT")	$ 223		$ 156	
Income taxes at statutory rate	$ 78	35%	$ 55	35%
Effect of:				
Tax exempt interest	(6)	(3%)	(7)	(4%)
Stock-based compensation	(6)	(3%)	—	—%
Change in valuation allowance	(2)	(1%)	1	1%
Subsidiaries not in AFG's tax return	—	—%	1	—%
Other	4	2%	2	1%
Provision for income taxes as shown in the statement of earnings	$ 68	30%	$ 52	33%

The favorable impact of stock-based compensation on AFG's effective tax rate in the first three months of 2017 reflects the high volume of employee stock option exercises during that period, including the impact of the increase in the market price of AFG Common Stock.

During the first three months of 2017, there were no material changes to AFG's liability for uncertain tax positions.

M. Contingencies

There have been no significant changes to the matters discussed and referred to in *Note M — "Contingencies"* of AFG's 2016 Form 10-K, which covers property and casualty insurance reserves for claims related to environmental exposures, asbestos and other mass tort claims and environmental and occupational injury and disease claims of former subsidiary railroad and manufacturing operations, as well as contingencies related to the sale of substantially all of AFG's run-off long-term care insurance business.

N. Insurance

Property and Casualty Insurance Reserves The following table provides an analysis of changes in the liability for losses and loss adjustment expenses during the first three months of 2017 and 2016 (in millions):

	Three months ended March 31, 2017	Three months ended March 31, 2016
Balance at beginning of year	$ 8,563	$ 8,127
Less reinsurance recoverables, net of allowance	2,302	2,201
Net liability at beginning of year	6,261	5,926
Provision for losses and LAE occurring in the current period	637	609
Net increase (decrease) in the provision for claims of prior years	(28)	(28)
Total losses and LAE incurred	609	581
Payments for losses and LAE of:		
Current year	(84)	(80)
Prior years	(470)	(467)
Total payments	(554)	(547)
Foreign currency translation and other	8	11
Net liability at end of period	6,324	5,971
Add back reinsurance recoverables, net of allowance	2,297	2,137
Gross unpaid losses and LAE included in the balance sheet at end of period	$ 8,621	$ 8,108

The net decrease in the provision for claims of prior years during the first three months of 2017 reflects (i) lower than expected losses in the crop and equine operations and lower than expected claim severity in the property and inland marine business (all within the Property and transportation sub-segment), (ii) lower than anticipated claim severity and frequency in the workers' compensation businesses and lower than anticipated claim severity at Neon (all within the Specialty casualty sub-segment) and (iii) lower than anticipated claim severity in the fidelity business and lower than expected claim frequency and severity in the surety business (all within the Specialty financial sub-segment). This favorable development was partially offset by (i) higher than anticipated claim severity in the ocean marine business (within the Property and transportation sub-segment), (ii) higher than anticipated claim severity in the targeted markets business and higher than anticipated claim severity and frequency in the excess and surplus lines business (all within the Specialty casualty sub-segment) and (iii) an adjustment to the deferred gain on the retroactive reinsurance transaction entered into in connection with the sale of businesses in 1998 (included in Other specialty sub-segment).

The net decrease in the provision for claims of prior years during the first three months of 2016 reflects (i) lower than expected losses in the crop operations and lower than expected claim severity in the property and inland marine and trucking businesses (all within the Property and transportation sub-segment), (ii) lower than anticipated claim severity in workers' compensation business and in directors and officers liability insurance (all within the Specialty casualty sub-segment) and (iii) lower than anticipated claim severity in the fidelity business and lower than expected claim frequency and severity in the surety business (all within the Specialty financial sub-segment). This favorable development was partially offset by (i) higher than anticipated claim frequency in the ocean marine business (within the Property and transportation sub-segment), (ii) adverse reserve development at Neon and higher than anticipated severity in contractor claims (all within the Specialty casualty sub-segment) and (iii) higher than anticipated claim frequency in the financial institutions business (within the Specialty financial sub-segment).

O. Subsequent Event

On May 3, 2017, AFG announced that its Board of Directors declared a special cash dividend of $1.50 per share of American Financial Group Common Stock. The dividend is payable on May 25, 2017 to shareholders of record on May 15, 2017. The aggregate amount of this special dividend will be approximately $132 million.

ITEM 2

Management’s Discussion and Analysis of Financial Condition and Results of Operations

INDEX TO MD&A

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of words such as “anticipates”, “believes”, “expects”, “projects”, “estimates”, “intends”, “plans”, “seeks”, “could”, “may”, “should”, “will” or the negative version of those words or other comparable terminology. Such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings, investment activities, and the amount and timing of share repurchases; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate changes; and improved loss experience.

Actual results and/or financial condition could differ materially from those contained in or implied by such forward-looking statements for a variety of reasons including but not limited to:

- changes in financial, political and economic conditions, including changes in interest and inflation rates, currency fluctuations and extended economic recessions or expansions in the U.S. and/or abroad;
- performance of securities markets;
- new legislation or declines in credit quality or credit ratings that could have a material impact on the valuation of securities in AFG’s investment portfolio;
- the availability of capital;
- regulatory actions (including changes in statutory accounting rules);
- changes in the legal environment affecting AFG or its customers;
- tax law and accounting changes;
- levels of natural catastrophes and severe weather, terrorist activities (including any nuclear, biological, chemical or radiological events), incidents of war or losses resulting from civil unrest and other major losses;
- development of insurance loss reserves and establishment of other reserves, particularly with respect to amounts associated with asbestos and environmental claims;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- trends in persistency and mortality;
- competitive pressures;
- the ability to obtain adequate rates and policy terms;
- changes in AFG’s credit ratings or the financial strength ratings assigned by major ratings agencies to AFG’s operating subsidiaries; and
- the impact of the conditions in the international financial markets and the global economy (including those associated with the United Kingdom’s expected withdrawal from the European Union, or “Brexit”) relating to AFG’s international operations.

The forward-looking statements herein are made only as of the date of this report. The Company assumes no obligation to publicly update any forward-looking statements.

OVERVIEW

Financial Condition

AFG is organized as a holding company with almost all of its operations being conducted by subsidiaries. AFG, however, has continuing cash needs for administrative expenses, the payment of principal and interest on borrowings, shareholder dividends, and taxes. Therefore, certain analyses are most meaningfully presented on a parent only basis while others are best done on a total enterprise basis. In addition, because most of its businesses are financial in nature, AFG does not prepare its consolidated financial statements using a current-noncurrent format. Consequently, certain traditional ratios and financial analysis tests are not meaningful.

Results of Operations

Through the operations of its subsidiaries, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of fixed and fixed-indexed annuities in the retail, financial institutions and education markets.

Net earnings attributable to AFG’s shareholders for the first three months of 2017 were $153 million ($1.72 per share, diluted) compared to $101 million ($1.14 per share, diluted) reported in the same period of 2016, reflecting:
- higher earnings in the annuity segment,
- realized gains on securities in the first three months of 2017 compared to realized losses in the first three months of 2016,
- higher net investment income in the property and casualty insurance segment,
- higher income from the sale of real estate,
- lower underwriting profit in the property and casualty insurance segment, and
- higher holding company expenses.

CRITICAL ACCOUNTING POLICIES

Significant accounting policies are summarized in *Note A — “Accounting Policies”* to the financial statements. The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that can have a significant effect on amounts reported in the financial statements. As more information becomes known, these estimates and assumptions change and, thus, impact amounts reported in the future. The areas where management believes the degree of judgment required to determine amounts recorded in the financial statements is most significant are as follows:
- the establishment of insurance reserves, especially asbestos and environmental-related reserves,
- the recoverability of reinsurance,
- the recoverability of deferred acquisition costs,
- the establishment of asbestos and environmental reserves of former railroad and manufacturing operations, and
- the valuation of investments, including the determination of other-than-temporary impairments.

For a discussion of these policies, see *Management’s Discussion and Analysis — “Critical Accounting Policies”* in AFG’s 2016 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Ratios AFG’s debt to total capital ratio on a consolidated basis is shown below (dollars in millions):

	March 31, 2017	December 31, 2016	December 31, 2015
Principal amount of long-term debt	$ 1,308	$ 1,308	$ 1,020
Total capital	6,119	5,921	5,512
Ratio of debt to total capital:			
Including subordinated debt	21.4%	22.1%	18.5%
Excluding subordinated debt	16.5%	17.0%	13.1%

The ratio of debt to total capital is a non-GAAP measure that management believes is useful for investors, analysts and independent ratings agencies to evaluate AFG's financial strength and liquidity and to provide insight into how AFG finances its operations. In addition, maintaining a ratio of debt, excluding subordinated debt and debt secured by real estate (if any), to total capital of 35% or lower is a financial covenant in AFG's bank credit facility. 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) on fixed maturity investments).

AFG's ratio of earnings to fixed charges, including annuity benefits as a fixed charge, was 2.01 for the three months ended March 31, 2017 and 1.85 for the year ended December 31, 2016. Excluding annuity benefits, this ratio was 9.33 and 8.62, respectively. Although the ratio excluding annuity benefits is not required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholder accounts is not always considered a borrowing cost for an insurance company.

Condensed Consolidated Cash Flows AFG's principal sources of cash include insurance premiums, income from its investment portfolio and proceeds from the maturities, redemptions and sales of investments. Insurance premiums in excess of acquisition expenses and operating costs are invested until they are needed to meet policyholder obligations or made available to the parent company through dividends to cover debt obligations and corporate expenses, and to provide returns to shareholders through share repurchases and dividends. Cash flows from operating, investing and financing activities as detailed in AFG's Consolidated Statement of Cash Flows are shown below (in millions):

	Three months ended March 31,	
	2017	2016
Net cash provided by (used in) operating activities	$ (76)	$ 408
Net cash used in investing activities	(1,194)	(1,269)
Net cash provided by financing activities	1,053	872
Net change in cash and cash equivalents	$ (217)	$ 11

Net Cash Provided by (Used in) Operating Activities AFG's property and casualty insurance operations typically produce positive net operating cash flows as premiums collected and investment income exceed policy acquisition costs, claims payments and operating expenses. AFG's net cash provided by (used in) operating activities is impacted by the level and timing of property and casualty premiums, claim and expense payments and recoveries from reinsurers. AFG's annuity operations typically produce positive net operating cash flows as investment income exceeds acquisition costs and operating expenses. Interest credited on annuity policyholder funds is a non-cash increase in AFG's annuity benefits accumulated liability and annuity premiums, benefits and withdrawals are considered financing activities due to the deposit-type nature of annuities. Cash flows provided by (used in) operating activities also includes the activity of AFG's managed investment entities (collateralized loan obligations) other than those activities included in investing or financing activities. The changes in the assets and liabilities of the managed investment entities included in operating activities reduced cash flows from operating activities by $487 million during the first three months of 2017 and $55 million in the first three months of 2016, accounting for a $432 million decline in cash flows from operating activities. As discussed in *Note A — "Accounting Policies — Managed Investment Entities"* to the financial statements, AFG has no right to use the CLO assets and no obligation to pay the CLO liabilities and such assets and liabilities are shown separately in AFG's Balance Sheet. Excluding the impact of the managed investment entities, net cash flows provided by operating activities were $411 million in the first three months of 2017 compared to $463 million in the first three months of 2016, a decrease of $52 million.

Net Cash Used in Investing Activities AFG's investing activities consist primarily of the investment of funds provided by its property and casualty and annuity products. Net cash used in investing activities was $1.19 billion for the first three months of 2017 compared to $1.27 billion in the first three months of 2016, a decrease of $75 million. While the $201 million decrease in net cash flows from annuity policyholders in the first three months of 2017 as compared to the 2016 period (discussed below under net cash provided by financing activities) decreased the amount of cash available for investment in the first three months of 2017 compared to the same 2016 period, this decrease was more than offset by the investment of cash held at December 31, 2016. In addition to the investment of funds provided by the insurance operations, investing activities also include the purchase and disposal of managed investment entity investments, which are presented separately in AFG's Balance Sheet. Net investment activity in the managed investment entities was a $148 million source of cash in the first three months of 2017 compared to a $51 million source of cash in the 2016 period, accounting for a $97 million decrease in net cash used in investing activities in the first three months of 2017 compared to the same 2016 period. See *Note A — "Accounting Policies — Managed Investment Entities"* and *Note H — "Managed Investment Entities"* to the financial statements.

Net Cash Provided by Financing Activities AFG’s financing activities consist primarily of transactions with annuity policyholders, issuances and retirements of long-term debt, repurchases of common stock and dividend payments. Net cash provided by financing activities was $1.05 billion for the first three months of 2017 compared to $872 million in the first three months of 2016, an increase of $181 million. Annuity receipts exceeded annuity surrenders, benefits, withdrawals and transfers by $740 million in the first three months of 2017 compared to $941 million in the first three months of 2016, resulting in a $201 million decrease in net cash provided by financing activities in the 2017 period compared to the 2016 period. There were no shares of AFG Common Stock repurchased during the first three months of 2017, compared to $76 million repurchased in the first three months of 2016, which accounted for a $76 million increase in net cash provided by financing activities in the 2017 period compared to the 2016 period. Financing activities also include issuances and retirements of managed investment entity liabilities, which are nonrecourse to AFG and presented separately in AFG’s Balance Sheet. Issuances of managed investment entity liabilities exceeded retirements by $325 million in the first three months of 2017 compared to $20 million in the first three months of 2016, accounting for a $305 million increase in net cash provided by financing activities in the 2017 period compared to the 2016 period. See *Note A — “Accounting Policies — Managed Investment Entities*” and *Note H — “Managed Investment Entities*” to the financial statements.

Parent and Subsidiary Liquidity

Parent Holding Company Liquidity Management believes AFG has sufficient resources to meet its liquidity requirements. If funds generated from operations, including dividends, tax payments and borrowings from subsidiaries, are insufficient to meet fixed charges in any period, AFG would be required to utilize parent company cash and marketable securities or to generate cash through borrowings, sales of other assets, or similar transactions.

In June 2016, AFG replaced its bank credit facility with a five-year, $500 million revolving credit line. Amounts borrowed under this agreement bear interest at rates ranging from 1.00% to 1.875% (currently 1.375%) over LIBOR based on AFG’s credit rating. There were no borrowings under this agreement, or under any other parent company short-term borrowing arrangements, during 2016 or the first three months of 2017.

In May 2017, AFG declared a special cash dividend of $1.50 per share of AFG Common Stock. The dividend is payable on May 25, 2017 to shareholders of record on May 15, 2017. The aggregate amount of this special dividend will be approximately $132 million.

In November 2016, AFG acquired the 49% of National Interstate Corporation (“NATL”) not previously owned by AFG’s wholly-owned subsidiary, Great American Insurance Company (“GAI”) for $315 million ($32.00 per share) in cash in a merger transaction. In addition, NATL paid a one-time special cash dividend of $0.50 per share to its shareholders immediately prior to the merger closing ($5 million was paid to noncontrolling shareholders).

In August 2016, AFG issued $300 million of 3.50% Senior Notes due 2026. AFG used the net proceeds from the offering to fund a portion of the acquisition of NATL mentioned above.

During 2016, AFG repurchased 1.9 million shares of its Common Stock for $133 million.

Under a tax allocation agreement with AFG, its 80%-owned U.S. subsidiaries generally pay taxes to (or recover taxes from) AFG based on each subsidiary’s contribution to amounts due under AFG’s consolidated tax return.

Subsidiary Liquidity Great American Life Insurance Company (“GALIC”), a wholly-owned annuity subsidiary, is a member of the Federal Home Loan Bank of Cincinnati (“FHLB”). The FHLB makes advances and provides other banking services to member institutions, which provides the annuity operations with an additional source of liquidity. These advances further the FHLB’s mission of improving access to housing by increasing liquidity in the residential mortgage-backed securities market. At March 31, 2017, GALIC had $935 million in outstanding advances from the FHLB (included in annuity benefits accumulated), bearing interest at rates ranging from 0.03% to 0.53% over LIBOR (average rate of 1.36% at March 31, 2017). While these advances must be repaid between 2018 and 2021 ($285 million in 2018, $500 million in 2020 and $150 million in 2021), GALIC has the option to prepay all or a portion of the advances. GALIC has invested the proceeds from the advances in fixed maturity securities with similar expected lives as the advances for the purpose of earning a spread over the interest payments due to the FHLB. At March 31, 2017, GALIC estimated that it had additional borrowing capacity of approximately $300 million from the FHLB.

The liquidity requirements of AFG's insurance subsidiaries relate primarily to the liabilities associated with their products as well as operating costs and expenses, payments of dividends and taxes to AFG and contributions of capital to their subsidiaries. Historically, cash flows from premiums and investment income have generally provided more than sufficient funds to meet these requirements. Funds received in excess of cash requirements are generally invested in additional marketable securities. In addition, the insurance subsidiaries generally hold a significant amount of highly liquid, short-term investments.

The excess cash flow of AFG's property and casualty group allows it to extend the duration of its investment portfolio somewhat beyond that of its claim reserves.

In the annuity business, where profitability is largely dependent on earning a spread between invested assets and annuity liabilities, the duration of investments is generally maintained close to that of liabilities. In a rising interest rate environment, significant protection from withdrawals exists in the form of temporary and permanent surrender charges on AFG's annuity products. With declining rates, AFG receives some protection (from spread compression) due to the ability to lower crediting rates, subject to contractually guaranteed minimum interest rates ("GMIRs"). AFG began selling policies with GMIRs below 2% in 2003; almost all new business since late 2010 has been issued with a 1% GMIR. At March 31, 2017, AFG could reduce the average crediting rate on approximately $23 billion of traditional fixed and fixed-indexed annuities without guaranteed withdrawal benefits by approximately 82 basis points (on a weighted average basis). Annuity policies are subject to GMIRs at policy issuance. The table below shows the breakdown of annuity reserves by GMIR. The current interest crediting rates on substantially all of AFG's annuities with a GMIR of 3% or higher are at their minimum.

	% of Reserves		
	March 31,	December 31,	
GMIR	2017	2016	2015
1 — 1.99%	73%	72%	67%
2 — 2.99%	6%	6%	7%
3 — 3.99%	11%	12%	14%
4.00% and above	10%	10%	12%
Annuity benefits accumulated (in millions)	$31,002	$29,907	$26,622

AFG believes its insurance subsidiaries maintain sufficient liquidity to pay claims and benefits and operating expenses. In addition, these subsidiaries have sufficient capital to meet commitments in the event of unforeseen events such as reserve deficiencies, inadequate premium rates or reinsurer insolvencies. Nonetheless, changes in statutory accounting rules, significant declines in the fair value of the insurance subsidiaries' investment portfolios or significant ratings downgrades on these investments, could create a need for additional capital.

Investments AFG's investment portfolio at March 31, 2017, contained $36.46 billion in fixed maturity securities and $1.58 billion in equity securities classified as available for sale and carried at fair value with unrealized gains and losses included in a separate component of shareholders' equity on an after-tax basis. In addition, $359 million in fixed maturities and $58 million in equity securities were classified as trading with changes in unrealized holding gains or losses included in net investment income.

Fair values for AFG's portfolio are determined by AFG's internal investment professionals using data from nationally recognized pricing services as well as non-binding broker quotes. Fair values of equity securities are generally based on published closing prices. For mortgage-backed securities ("MBS"), which comprise approximately 14% of AFG's fixed maturities, prices for each security are generally obtained from both pricing services and broker quotes. For the remainder of AFG's fixed maturity portfolio, approximately 78% are priced using pricing services and the balance is priced primarily by using non-binding broker quotes. When prices obtained for the same security vary, AFG's internal investment professionals select the price they believe is most indicative of an exit price.

The pricing services use a variety of observable inputs to estimate fair value of fixed maturities that do not trade on a daily basis. Based upon information provided by the pricing services, these inputs include, but are not limited to, recent reported trades, benchmark yields, issuer spreads, bids or offers, reference data, and measures of volatility. Included in the pricing of MBS are estimates of the rate of future prepayments and defaults of principal over the remaining life of the underlying collateral. Due to the lack of transparency in the process that brokers use to develop prices, valuations that are based on brokers' prices are classified as Level 3 in the GAAP hierarchy unless the price can be corroborated, for example, by comparison to similar securities priced using observable inputs.

Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG's internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, AFG communicates directly with pricing services regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the services to value specific securities.

In general, the fair value of AFG's fixed maturity investments is inversely correlated to changes in interest rates. The following table demonstrates the sensitivity of such fair values to reasonably likely changes in interest rates by illustrating the estimated effect on AFG's fixed maturity portfolio and accumulated other comprehensive income that an immediate increase of 100 basis points in the interest rate yield curve would have at March 31, 2017 (dollars in millions). Effects of increases or decreases from the 100 basis points illustrated would be approximately proportional.

Fair value of fixed maturity portfolio	$ 36,815
Percentage impact on fair value of 100 bps increase in interest rates	(5.0%)
Pretax impact on fair value of fixed maturity portfolio	$ (1,841)
Offsetting adjustments to deferred policy acquisition costs and other balance sheet amounts	750
Estimated pretax impact on accumulated other comprehensive income	(1,091)
Deferred income tax	382
Estimated after-tax impact on accumulated other comprehensive income	$ (709)

Approximately 89% of the fixed maturities held by AFG at March 31, 2017, were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and non-investment grade. Management believes that the high quality investment portfolio should generate a stable and predictable investment return.

MBS are subject to significant prepayment risk due to the fact that, in periods of declining interest rates, mortgages may be repaid more rapidly than scheduled as borrowers refinance higher rate mortgages to take advantage of lower rates. Although interest rates have been low in recent years, tighter lending standards have resulted in fewer buyers being able to refinance the mortgages underlying much of AFG's non-agency residential MBS portfolio.

Summarized information for AFG's MBS (including those classified as trading) at March 31, 2017, is shown in the table below (dollars in millions). Agency-backed securities are those issued by a U.S. government-backed agency; Alt-A mortgages are those with risk profiles between prime and subprime. The average life of the residential and commercial MBS is approximately 4-1/2 years.

	Amortized Cost	Fair Value	Fair Value as % of Cost	Unrealized Gain (Loss)	% Rated Investment Grade
Collateral type					
Residential:					
Agency-backed	$ 237	$ 237	100%	$ —	100%
Non-agency prime	1,447	1,601	111%	154	28%
Alt-A	1,108	1,196	108%	88	12%
Subprime	643	685	107%	42	29%
Commercial	1,211	1,253	103%	42	97%
	$ 4,646	$ 4,972	107%	$ 326	45%

The National Association of Insurance Commissioners ("NAIC") assigns creditworthiness designations on a scale of 1 to 6 with 1 being the highest quality and 6 being the lowest quality. The NAIC retains third-party investment management firms to assist in the determination of appropriate NAIC designations for MBS based not only on the probability of loss (which is the primary basis of ratings by the major ratings firms), but also on the severity of loss and statutory carrying value. At March 31, 2017, 97% (based on statutory carrying value of $4.58 billion) of AFG's MBS had an NAIC designation of 1.

Municipal bonds represented approximately 19% of AFG's fixed maturity portfolio at March 31, 2017. AFG's municipal bond portfolio is high quality, with 98% of the securities rated investment grade at that date. The portfolio is well diversified across the states of issuance and individual issuers. At March 31, 2017, approximately 76% of the municipal bond portfolio was held in revenue bonds, with the remaining 24% held in general obligation bonds. General obligation securities of California, Illinois, Michigan, New Jersey, New York and Puerto Rico collectively represented approximately 1% of this portfolio.

Summarized information for the unrealized gains and losses recorded in AFG's Balance Sheet at March 31, 2017, is shown in the following table (dollars in millions). Approximately $692 million of available for sale fixed maturity securities and $34 million of available for sale equity securities had no unrealized gains or losses at March 31, 2017.

	Securities With Unrealized Gains	Securities With Unrealized Losses
Available for Sale Fixed Maturities		
Fair value of securities	$ 28,002	$ 7,762
Amortized cost of securities	$ 26,826	$ 7,927
Gross unrealized gain (loss)	$ 1,176	$ (165)
Fair value as % of amortized cost	104%	98%
Number of security positions	4,216	1,048
Number individually exceeding $2 million gain or loss	55	2
Concentration of gains (losses) by type or industry (exceeding 5% of unrealized):		
Mortgage-backed securities	$ 338	$ (12)
States and municipalities	213	(48)
Banks, savings and credit institutions	113	(13)
Manufacturing	106	(14)
Asset-backed securities	74	(30)
Gas and electric services	60	(4)
Insurance companies	47	(9)
Percentage rated investment grade	89%	89%
Available for Sale Equity Securities		
Fair value of securities	$ 1,316	$ 229
Cost of securities	$ 1,069	$ 253
Gross unrealized gain (loss)	$ 247	$ (24)
Fair value as % of cost	123%	91%
Number of security positions	164	30
Number individually exceeding $2 million gain or loss	31	3

The table below sets forth the scheduled maturities of AFG's available for sale fixed maturity securities at March 31, 2017, based on their fair values. Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Securities With Unrealized Gains	Securities With Unrealized Losses
Maturity		
One year or less	3%	1%
After one year through five years	19%	11%
After five years through ten years	37%	35%
After ten years	11%	20%
	70%	67%
Asset-backed securities (average life of approximately 5 years)	15%	24%
Mortgage-backed securities (average life of approximately 4-1/2 years)	15%	9%
	100%	100%

The table below (dollars in millions) summarizes the unrealized gains and losses on fixed maturity securities by dollar amount:

	Aggregate Fair Value	Aggregate Unrealized Gain (Loss)	Fair Value as % of Cost
Fixed Maturities at March 31, 2017			
Securities with unrealized gains:			
Exceeding $500,000 (690 securities)	$ 9,307	$ 711	108%
$500,000 or less (3,526 securities)	18,695	465	103%
	$ 28,002	$ 1,176	104%
Securities with unrealized losses:			
Exceeding $500,000 (81 securities)	$ 1,329	$ (69)	95%
$500,000 or less (967 securities)	6,433	(96)	99%
	$ 7,762	$ (165)	98%

The following table (dollars in millions) summarizes the unrealized losses for all securities with unrealized losses by issuer quality and the length of time those securities have been in an unrealized loss position:

	Aggregate Fair Value	Aggregate Unrealized Loss	Fair Value as % of Cost
Securities with Unrealized Losses at March 31, 2017			
Investment grade fixed maturities with losses for:			
Less than one year (787 securities)	$ 6,163	$ (114)	98%
One year or longer (96 securities)	772	(25)	97%
	$ 6,935	$ (139)	98%
Non-investment grade fixed maturities with losses for:			
Less than one year (97 securities)	$ 556	$ (9)	98%
One year or longer (68 securities)	271	(17)	94%
	$ 827	$ (26)	97%
Common stocks with losses for:			
Less than one year (17 securities)	$ 138	$ (21)	87%
One year or longer (none)	—	—	—%
	$ 138	$ (21)	87%
Perpetual preferred stocks with losses for:			
Less than one year (12 securities)	$ 85	$ (2)	98%
One year or longer (1 security)	6	(1)	86%
	$ 91	$ (3)	97%

When a decline in the value of a specific investment is considered to be other-than-temporary, a provision for impairment is charged to earnings (accounted for as a realized loss) and the cost basis of that investment is reduced by the amount of the charge. The determination of whether unrealized losses are other-than-temporary requires judgment based on subjective as well as objective factors as detailed in AFG's 2016 Form 10-K under *Management's Discussion and Analysis — "Investments."*

Based on its analysis, management believes AFG will recover its cost basis in the securities with unrealized losses and that AFG has the ability to hold the securities until they recover in value and had no intent to sell them at March 31, 2017. Although AFG has the ability to continue holding its investments with unrealized losses, its intent to hold them may change due to deterioration in the issuers' creditworthiness, decisions to lessen exposure to a particular issuer or industry, asset/liability management decisions, market movements, changes in views about appropriate asset allocation or the desire to offset taxable realized gains. Should AFG's ability or intent change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, charges for other-than-temporary impairment could be material to results of operations in future periods. Significant declines in the fair value of AFG's investment portfolio could have a significant adverse effect on AFG's liquidity. For information on AFG's realized gains (losses) on securities, including charges for other-than-temporary impairment, see *"Results of Operations — Consolidated Realized Gains (Losses) on Securities."*

Uncertainties Management believes that the areas posing the greatest risk of material loss are the adequacy of its insurance reserves and contingencies arising out of its former railroad and manufacturing operations. See *Management's Discussion and Analysis — "Uncertainties"* in AFG's 2016 Form 10-K.

MANAGED INVESTMENT ENTITIES

Accounting standards require AFG to consolidate its investments in collateralized loan obligation ("CLO") entities that it manages and owns an interest in (in the form of debt). See *Note A — "Accounting Policies — Managed Investment Entities"* and *Note H — "Managed Investment Entities"* to the financial statements. The effect of consolidating these entities is shown in the tables below (in millions). The "Before CLO Consolidation" columns include AFG's investment and earnings in the CLOs on an unconsolidated basis.

CONDENSED CONSOLIDATING BALANCE SHEET

	Before CLO Consolidation	Managed Investment Entities	Consol. Entries		Consolidated As Reported
March 31, 2017					
Assets:					
Cash and investments	$ 43,579	$ —	$ (229)	(a)	$ 43,350
Assets of managed investment entities	—	5,331	—		5,331
Other assets	8,784	—	(1)	(a)	8,783
Total assets	$ 52,363	$ 5,331	$ (230)		$ 57,464
Liabilities:					
Unpaid losses and loss adjustment expenses and unearned premiums	$ 10,795	$ —	$ —		$ 10,795
Annuity, life, accident and health benefits and reserves	31,689	—	—		31,689
Liabilities of managed investment entities	—	5,331	(230)	(a)	5,101
Long-term debt and other liabilities	4,684	—	—		4,684
Total liabilities	47,168	5,331	(230)		52,269
Shareholders’ equity:					
Common Stock and Capital surplus	1,226	—	—		1,226
Retained earnings	3,466	—	—		3,466
Accumulated other comprehensive income, net of tax	499	—	—		499
Total shareholders’ equity	5,191	—	—		5,191
Noncontrolling interests	4	—	—		4
Total equity	5,195	—	—		5,195
Total liabilities and equity	$ 52,363	$ 5,331	$ (230)		$ 57,464
December 31, 2016					
Assets:					
Cash and investments	$ 41,649	$ —	$ (216)	(a)	$ 41,433
Assets of managed investment entities	—	4,765	—		4,765
Other assets	8,874	—	—	(a)	8,874
Total assets	$ 50,523	$ 4,765	$ (216)		$ 55,072
Liabilities:					
Unpaid losses and loss adjustment expenses and unearned premiums	$ 10,734	$ —	$ —		$ 10,734
Annuity, life, accident and health benefits and reserves	30,598	—	—		30,598
Liabilities of managed investment entities	—	4,760	(211)	(a)	4,549
Long-term debt and other liabilities	4,272	—	—		4,272
Total liabilities	45,604	4,760	(211)		50,153
Shareholders’ equity:					
Common Stock and Capital surplus	1,198	5	(5)		1,198
Retained earnings	3,343	—	—		3,343
Accumulated other comprehensive income, net of tax	375	—	—		375
Total shareholders’ equity	4,916	5	(5)		4,916
Noncontrolling interests	3	—	—		3
Total equity	4,919	5	(5)		4,919
Total liabilities and equity	$ 50,523	$ 4,765	$ (216)		$ 55,072

(a) Elimination of the fair value of AFG’s investment in CLOs and related accrued interest.

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

	Before CLO Consolidation (a)	Managed Investment Entities	Consol. Entries		Consolidated As Reported
Three months ended March 31, 2017					
Revenues:					
Insurance net earned premiums	$ 1,028	$ —	$ —		$ 1,028
Net investment income	441	—	(6)	(b)	435
Realized gains on securities	3	—	—		3
Income (loss) of managed investment entities:					
Investment income	—	51	—		51
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(b)	—
Other income	63	—	(4)	(c)	59
Total revenues	1,535	51	(10)		1,576
Costs and Expenses:					
Insurance benefits and expenses	1,206	—	—		1,206
Expenses of managed investment entities	—	51	(10)	(b)(c)	41
Interest charges on borrowed money and other expenses	106	—	—		106
Total costs and expenses	1,312	51	(10)		1,353
Earnings before income taxes	223	—	—		223
Provision for income taxes	68	—	—		68
Net earnings, including noncontrolling interests	155	—	—		155
Less: Net earnings attributable to noncontrolling interests	2	—	—		2
Net earnings attributable to shareholders	$ 153	$ —	$ —		$ 153
Three months ended March 31, 2016					
Revenues:					
Insurance net earned premiums	$ 1,004	$ —	$ —		$ 1,004
Net investment income	404	—	7	(b)	411
Realized losses on securities	(18)	—	—		(18)
Income (loss) of managed investment entities:					
Investment income	—	45	—		45
Gain (loss) on change in fair value of assets/liabilities	—	1	(14)	(b)	(13)
Other income	50	—	(4)	(c)	46
Total revenues	1,440	46	(11)		1,475
Costs and Expenses:					
Insurance benefits and expenses	1,187	—	—		1,187
Expenses of managed investment entities	—	46	(11)	(b)(c)	35
Interest charges on borrowed money and other expenses	97	—	—		97
Total costs and expenses	1,284	46	(11)		1,319
Earnings before income taxes	156	—	—		156
Provision for income taxes	52	—	—		52
Net earnings, including noncontrolling interests	104	—	—		104
Less: Net earnings attributable to noncontrolling interests	3	—	—		3
Net earnings attributable to shareholders	$ 101	$ —	$ —		$ 101

(a) Includes income of $6 million in the first three months of 2017 and losses of $7 million in the first three months of 2016, representing the change in fair value of AFG’s CLO investments plus $4 million in both periods in CLO management fees earned.
(b) Elimination of the change in fair value of AFG’s investments in the CLOs, including $6 million and $7 million in the first three months of 2017 and 2016, respectively, in distributions recorded as interest expense by the CLOs.
(c) Elimination of management fees earned by AFG.

RESULTS OF OPERATIONS

General AFG’s net earnings attributable to shareholders, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. For example, core net operating earnings excludes realized gains (losses) on securities because such gains and losses are influenced significantly by financial markets, interest rates and the timing of sales. Similarly, significant gains and losses from the sale of real estate are excluded from core earnings as they are influenced by the timing of sales and realized gains (losses) on subsidiaries are excluded because such gains and losses are largely the result of the changing business strategy and market opportunities. In addition, special charges related to coverage that AFG no longer writes for asbestos and environmental exposures are excluded from core earnings. The following table (in millions, except per share amounts) identifies non-core items and reconciles net earnings attributable to shareholders to core net operating earnings, a non-GAAP financial measure. AFG believes core net operating earnings is a useful tool for investors and analysts in analyzing ongoing operating trends and for management to evaluate financial performance against historical results because it believes this provides a more comparable measure of its continuing business.

	Three months ended March 31,	
	2017	2016
Components of net earnings attributable to shareholders:		
Core operating earnings before income taxes	$ 220	$ 174
Pretax non-core item:		
Realized gains (losses) on securities	3	(18)
Earnings before income taxes	223	156
Provision (credit) for income taxes:		
Core operating earnings	67	59
Realized gains (losses) on securities	1	(7)
Total provision for income taxes	68	52
Net earnings, including noncontrolling interests	155	104
Less net earnings (loss) attributable to noncontrolling interests:		
Core operating earnings	2	4
Realized gains (losses) on securities	—	(1)
Total net earnings attributable to noncontrolling interests	2	3
Net earnings attributable to shareholders	$ 153	$ 101
Net earnings:		
Core net operating earnings	$ 151	$ 111
Realized gains (losses) on securities	2	(10)
Net earnings attributable to shareholders	$ 153	$ 101
Diluted per share amounts:		
Core net operating earnings	$ 1.69	$ 1.25
Realized gains (losses) on securities	0.03	(0.11)
Net earnings attributable to shareholders	$ 1.72	$ 1.14

Net earnings attributable to shareholders increased $52 million in the first three months of 2017 compared to the same period in 2016 due primarily to net realized gains on securities in the 2017 period compared to net realized losses on securities in the 2016 period and higher core net operating earnings. Core net operating earnings increased $40 million in the first three months of 2017 compared to the same period in 2016 reflecting higher earnings in the annuity segment, higher net investment income in the property and casualty insurance segment and higher income from the sale of real estate in the first three months of 2017, partially offset by lower underwriting profit in the property and casualty insurance segment and higher holding company expenses.

RESULTS OF OPERATIONS — THREE MONTHS ENDED MARCH 31, 2017 AND 2016

Segmented Statement of Earnings AFG reports its business as four segments: (i) Property and casualty insurance (“P&C”), (ii) Annuity, (iii) Run-off long-term care and life and (iv) Other, which includes holding company costs and income and expenses related to the managed investment entities (“MIEs”).

AFG’s net earnings attributable to shareholders, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. The following tables for the three months ended March 31, 2017 and 2016 identify such items by segment and reconcile net earnings attributable to shareholders to core net operating earnings, a non-GAAP financial measure that AFG believes is a useful tool for investors and analysts in analyzing ongoing operating trends (in millions):

				Other				
	P&C	Annuity	Run-off long-term care and life	Consol. MIEs	Holding Co., other and unallocated	Total	Non-core reclass	GAAP Total
Three months ended March 31, 2017								
Revenues:								
Property and casualty insurance net earned premiums	$ 1,022	$ —	$ —	$ —	$ —	$ 1,022	$ —	$ 1,022
Life, accident and health net earned premiums	—	—	6	—	—	6	—	6
Net investment income	86	347	5	(6)	3	435	—	435
Realized gains on securities	—	—	—	—	—	—	3	3
Income (loss) of MIEs:								
Investment income	—	—	—	51	—	51	—	51
Gain (loss) on change in fair value of assets/liabilities	—	—	—	—	—	—	—	—
Other income	16	27	1	(4)	19	59	—	59
Total revenues	1,124	374	12	41	22	1,573	3	1,576
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	609	—	—	—	—	609	—	609
Commissions and other underwriting expenses	335	—	—	—	4	339	—	339
Annuity benefits	—	196	—	—	—	196	—	196
Life, accident and health benefits	—	—	9	—	—	9	—	9
Annuity and supplemental insurance acquisition expenses	—	52	1	—	—	53	—	53
Interest charges on borrowed money	—	—	—	—	21	21	—	21
Expenses of MIEs	—	—	—	41	—	41	—	41
Other expenses	9	30	2	—	44	85	—	85
Total costs and expenses	953	278	12	41	69	1,353	—	1,353
Earnings before income taxes	171	96	—	—	(47)	220	3	223
Provision for income taxes	55	32	—	—	(20)	67	1	68
Net earnings, including noncontrolling interests	116	64	—	—	(27)	153	2	155
Less: Net earnings attributable to noncontrolling interests	2	—	—	—	—	2	—	2
Core Net Operating Earnings	114	64	—	—	(27)	151		
Non-core earnings attributable to shareholders (a):								
Realized gains on securities, net of tax	—	—	—	—	2	2	(2)	—
Net Earnings Attributable to Shareholders	$ 114	$ 64	$ —	$ —	$ (25)	$ 153	$ —	$ 153

	P&C	Annuity	Run-off long-term care and life	Other: Consol. MIEs	Other: Holding Co., other and unallocated	Total	Non-core reclass	GAAP Total
Three months ended March 31, 2016								
Revenues:								
Property and casualty insurance net earned premiums	$ 998	$ —	$ —	$ —	$ —	$ 998	$ —	$ 998
Life, accident and health net earned premiums	—	—	6	—	—	6	—	6
Net investment income	83	315	5	7	1	411	—	411
Realized losses on securities	—	—	—	—	—	—	(18)	(18)
Income (loss) of MIEs:								
Investment income	—	—	—	45	—	45	—	45
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(13)	—	(13)	—	(13)
Other income	3	26	1	(4)	20	46	—	46
Total revenues	1,084	341	12	35	21	1,493	(18)	1,475
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	581	—	—	—	—	581	—	581
Commissions and other underwriting expenses	330	—	—	—	4	334	—	334
Annuity benefits	—	228	—	—	—	228	—	228
Life, accident and health benefits	—	—	9	—	—	9	—	9
Annuity and supplemental insurance acquisition expenses	—	34	1	—	—	35	—	35
Interest charges on borrowed money	—	—	—	—	18	18	—	18
Expenses of MIEs	—	—	—	35	—	35	—	35
Other expenses	11	26	3	—	39	79	—	79
Total costs and expenses	922	288	13	35	61	1,319	—	1,319
Earnings before income taxes	162	53	(1)	—	(40)	174	(18)	156
Provision for income taxes	54	19	—	—	(14)	59	(7)	52
Net earnings, including noncontrolling interests	108	34	(1)	—	(26)	115	(11)	104
Less: Net earnings attributable to noncontrolling interests	4	—	—	—	—	4	(1)	3
Core Net Operating Earnings	104	34	(1)	—	(26)	111		
Non-core earnings attributable to shareholders (a):								
Realized losses on securities, net of tax and noncontrolling interests	—	—	—	—	(10)	(10)	10	—
Net Earnings Attributable to Shareholders	$ 104	$ 34	$ (1)	$ —	$ (36)	$ 101	$ —	$ 101

(a) See the reconciliation of core earnings to GAAP net earnings under *"Results of Operations — General"* for details on the tax and noncontrolling interest impacts of these reconciling items.

Property and Casualty Insurance Segment — Results of Operations Performance measures such as underwriting profit or loss and related combined ratios are often used by property and casualty insurers to help users of their financial statements better understand the company's performance. Underwriting profitability is measured by the combined ratio, which is a sum of the ratios of losses and loss adjustment expenses, and commissions and other underwriting expenses to premiums. A combined ratio under 100% indicates an underwriting profit. The combined ratio does not reflect net investment income, other income, other expenses or federal income taxes.

AFG's property and casualty insurance operations contributed $171 million in pretax earnings in the first three months of 2017 compared to $162 million in the first three months of 2016, an increase of $9 million (6%). The increase in pretax earnings reflects improved underwriting results in the Property and transportation group, higher net investment income and higher income from the sale of real estate, partially offset by lower underwriting profit in the Specialty casualty and Specialty financial groups.

The following table details AFG's earnings before income taxes from its property and casualty insurance operations for the three months ended March 31, 2017 and 2016 (dollars in millions):

	Three months ended March 31, 2017	Three months ended March 31, 2016	% Change
Gross written premiums	$ 1,324	$ 1,243	7%
Reinsurance premiums ceded	(297)	(264)	13%
Net written premiums	1,027	979	5%
Change in unearned premiums	(5)	19	(126%)
Net earned premiums	1,022	998	2%
Loss and loss adjustment expenses	609	581	5%
Commissions and other underwriting expenses	335	330	2%
Underwriting gain	78	87	(10%)
Net investment income	86	83	4%
Other income and expenses, net	7	(8)	(188%)
Earnings before income taxes	$ 171	$ 162	6%
Combined Ratios:			
Specialty lines			Change
Loss and LAE ratio	59.5%	58.3%	1.2%
Underwriting expense ratio	32.7%	33.0%	(0.3%)
Combined ratio	92.2%	91.3%	0.9%
Aggregate — including exited lines			
Loss and LAE ratio	59.6%	58.2%	1.4%
Underwriting expense ratio	32.7%	33.0%	(0.3%)
Combined ratio	92.3%	91.2%	1.1%

AFG reports the underwriting performance of its Specialty property and casualty insurance business in the following sub-segments: (i) Property and transportation, (ii) Specialty casualty and (iii) Specialty financial.

To understand the overall profitability of particular lines, the timing of claims payments and the related impact of investment income must be considered. Certain "short-tail" lines of business (primarily property coverages) generally have quick loss payouts, which reduce the time funds are held, thereby limiting investment income earned thereon. In contrast, "long-tail" lines of business (primarily liability coverages and workers' compensation) generally have payouts that are either structured over many years or take many years to settle, thereby significantly increasing investment income earned on related premiums received.

Gross Written Premiums

Gross written premiums ("GWP") for AFG's property and casualty insurance segment were $1.32 billion for the first three months of 2017 compared to $1.24 billion for the first three months of 2016, an increase of $81 million (7%). Detail of AFG's property and casualty gross written premiums is shown below (dollars in millions):

	Three months ended March 31, 2017 GWP	2017 %	2016 GWP	2016 %	% Change
Property and transportation	$ 416	32%	$ 398	32%	5%
Specialty casualty	744	56%	698	56%	7%
Specialty financial	164	12%	147	12%	12%
	$ 1,324	100%	$ 1,243	100%	7%

Reinsurance Premiums Ceded
Reinsurance premiums ceded ("Ceded") for AFG's property and casualty insurance segment were 22% of gross written premiums for the first three months of 2017 compared to 21% for the first three months of 2016, an increase of 1 percentage point. Detail of AFG's property and casualty reinsurance premiums ceded is shown below (dollars in millions):

	Three months ended March 31,				
	2017		2016		Change in
	Ceded	% of GWP	Ceded	% of GWP	% of GWP
Property and transportation	$ (92)	22%	$ (87)	22%	—%
Specialty casualty	(204)	27%	(179)	26%	1%
Specialty financial	(23)	14%	(22)	15%	(1%)
Other specialty	22		24		
	$ (297)	22%	$ (264)	21%	1%

Net Written Premiums
Net written premiums ("NWP") for AFG's property and casualty insurance segment were $1.03 billion for the first three months of 2017 compared to $979 million for the first three months of 2016, an increase of $48 million (5%). Detail of AFG's property and casualty net written premiums is shown below (dollars in millions):

	Three months ended March 31,				
	2017		2016		
	NWP	%	NWP	%	% Change
Property and transportation	$ 324	32%	$ 311	32%	4%
Specialty casualty	540	53%	519	53%	4%
Specialty financial	141	14%	125	13%	13%
Other specialty	22	1%	24	2%	(8%)
	$ 1,027	100%	$ 979	100%	5%

Net Earned Premiums
Net earned premiums ("NEP") for AFG's property and casualty insurance segment were $1.02 billion for the first three months of 2017 compared to $998 million for the first three months of 2016, an increase of $24 million (2%). Detail of AFG's property and casualty net earned premiums is shown below (dollars in millions):

	Three months ended March 31,				
	2017		2016		
	NEP	%	NEP	%	% Change
Property and transportation	$ 342	33%	$ 339	34%	1%
Specialty casualty	508	50%	502	50%	1%
Specialty financial	147	14%	132	13%	11%
Other specialty	25	3%	25	3%	—%
	$ 1,022	100%	$ 998	100%	2%

The $81 million (7%) increase in gross written premiums for the first three months of 2017 compared to the first three months of 2016 reflects growth in each of the Specialty property and casualty insurance sub-segments. Overall average renewal rates were flat in the first three months of 2017.

Property and transportation Gross written premiums increased $18 million (5%) in the first three months of 2017 compared to the first three months of 2016. This increase was the result of higher gross written premiums in the transportation, property and inland marine and Singapore operations. Average renewal rates increased approximately 3% for this group in the first three months of 2017. Reinsurance premiums ceded as a percentage of gross written premiums are comparable between periods.

Specialty casualty Gross written premiums increased $46 million (7%) in the first three months of 2017 compared to the first three months of 2016. Higher gross written premiums in the workers' compensation businesses, primarily the result of rate increases in the state of Florida, and higher premiums in the targeted markets businesses were partially offset by lower premiums in the excess and surplus lines operations. The decline in excess and surplus lines premiums was primarily the result of more stringent underwriting standards related to New York contractors business. Average renewal rates were flat for this group in the first three months of 2017. Reinsurance premiums ceded as a percentage of gross written premiums increased 1 percentage point for the first three months of 2017 compared to the first three months of 2016, reflecting the timing of reinsurance agreements at Neon, partially offset by lower cessions in the excess and surplus lines and professional liability operations and in certain targeted markets business.

Specialty financial Gross written premiums increased $17 million (12%) in the first three months of 2017 compared to the first three months of 2016 due primarily to growth in the financial institutions and surety businesses. Average renewal rates for this group decreased 4% in the first three months of 2017. Reinsurance premiums ceded as a percentage of gross written premiums decreased 1 percentage point for the first three months of 2017 compared to the first three months of 2016, reflecting a change in mix of business.

Other specialty The amounts shown as reinsurance premiums ceded represent business assumed by AFG's internal reinsurance program from the operations that make up AFG's other Specialty property and casualty insurance sub-segments.

Combined Ratio

The table below (dollars in millions) details the components of the combined ratio for AFG's property and casualty segment:

	Three months ended March 31,			Three months ended March 31,	
	2017	2016	Change	2017	2016
Property and transportation					
Loss and LAE ratio	60.8%	62.2%	(1.4%)		
Underwriting expense ratio	26.5%	28.4%	(1.9%)		
Combined ratio	87.3%	90.6%	(3.3%)		
Underwriting profit				$ 43	$ 32
Specialty casualty					
Loss and LAE ratio	65.2%	62.4%	2.8%		
Underwriting expense ratio	31.8%	31.9%	(0.1%)		
Combined ratio	97.0%	94.3%	2.7%		
Underwriting profit				$ 15	$ 29
Specialty financial					
Loss and LAE ratio	35.6%	34.0%	1.6%		
Underwriting expense ratio	49.4%	48.6%	0.8%		
Combined ratio	85.0%	82.6%	2.4%		
Underwriting profit				$ 22	$ 23
Total Specialty					
Loss and LAE ratio	59.5%	58.3%	1.2%		
Underwriting expense ratio	32.7%	33.0%	(0.3%)		
Combined ratio	92.2%	91.3%	0.9%		
Underwriting profit				$ 79	$ 86
Aggregate — including exited lines					
Loss and LAE ratio	59.6%	58.2%	1.4%		
Underwriting expense ratio	32.7%	33.0%	(0.3%)		
Combined ratio	92.3%	91.2%	1.1%		
Underwriting profit				$ 78	$ 87

The Specialty property and casualty insurance operations generated an underwriting profit of $79 million in the first three months of 2017 compared to $86 million in the first three months of 2016, a decrease of $7 million (8%). The lower underwriting profit in the first three months of 2017 reflects lower underwriting profits in the Specialty casualty and Specialty financial sub-segments, partially offset by improved underwriting results in the Property and transportation sub-segment.

Property and transportation Underwriting profit for this group was $43 million for the first three months of 2017 compared to $32 million in the first three months of 2016, an increase of $11 million (34%). Higher underwriting profits in the agricultural, property and inland marine and transportation businesses contributed to these improved results.

Specialty casualty Underwriting profit for this group was $15 million for the first three months of 2017 compared to $29 million in the first three months of 2016, a decrease of $14 million (48%). Higher underwriting profitability in the workers’ compensation businesses and slightly improved year-over-year results at Neon were more than offset by lower underwriting profitability in the targeted markets, executive liability and excess and surplus lines businesses.

Specialty financial Underwriting profit for this group was $22 million for the first three months of 2017 compared to $23 million in the first three months of 2016, a decrease of $1 million (4%) reflecting lower underwriting profitability in the financial institutions business, partially offset by higher underwriting profits in the fidelity and surety businesses.

Other specialty This group reported an underwriting loss of $1 million for the first three months of 2017 compared to an underwriting profit of $2 million in the first three months of 2016, a decrease of $3 million (150%). The decrease is due primarily to a $6 million charge to adjust the deferred gain on the retroactive insurance transaction entered into in connection with the sale of businesses in 1998, partially offset by favorable prior year loss development in the business assumed by AFG’s internal reinsurance program from the operations that make up AFG’s other Specialty sub-segments.

Losses and Loss Adjustment Expenses
AFG's overall loss and LAE ratio was 59.6% for the first three months of 2017 compared to 58.2% for the first three months of 2016, an increase of 1.4 percentage points. The components of AFG's property and casualty losses and LAE amounts and ratio are detailed below (dollars in millions):

	Three months ended March 31,				
	Amount		Ratio		Change in
	2017	2016	2017	2016	Ratio
Property and transportation					
Current year, excluding catastrophe losses	$ 220	$ 222	64.2%	65.7%	(1.5%)
Prior accident years development	(17)	(17)	(4.8%)	(5.2%)	0.4%
Current year catastrophe losses	5	6	1.4%	1.7%	(0.3%)
Property and transportation losses and LAE and ratio	$ 208	$ 211	60.8%	62.2%	(1.4%)
Specialty casualty					
Current year, excluding catastrophe losses	$ 336	$ 316	66.1%	63.0%	3.1%
Prior accident years development	(6)	(4)	(1.1%)	(0.7%)	(0.4%)
Current year catastrophe losses	1	1	0.2%	0.1%	0.1%
Specialty casualty losses and LAE and ratio	$ 331	$ 313	65.2%	62.4%	2.8%
Specialty financial					
Current year, excluding catastrophe losses	$ 60	$ 48	41.2%	36.2%	5.0%
Prior accident years development	(9)	(4)	(6.4%)	(3.3%)	(3.1%)
Current year catastrophe losses	1	1	0.8%	1.1%	(0.3%)
Specialty financial losses and LAE and ratio	$ 52	$ 45	35.6%	34.0%	1.6%
Total Specialty					
Current year, excluding catastrophe losses	$ 630	$ 601	61.6%	60.2%	1.4%
Prior accident years development	(29)	(27)	(2.8%)	(2.7%)	(0.1%)
Current year catastrophe losses	7	8	0.7%	0.8%	(0.1%)
Total Specialty losses and LAE and ratio	$ 608	$ 582	59.5%	58.3%	1.2%
Aggregate — including exited lines					
Current year, excluding catastrophe losses	$ 630	$ 601	61.6%	60.2%	1.4%
Prior accident years development	(28)	(28)	(2.7%)	(2.8%)	0.1%
Current year catastrophe losses	7	8	0.7%	0.8%	(0.1%)
Aggregate losses and LAE and ratio	$ 609	$ 581	59.6%	58.2%	1.4%

Current accident year losses and LAE, excluding catastrophe losses
The current accident year loss and LAE ratio, excluding catastrophe losses for AFG's Specialty property and casualty insurance operations was 61.6% for the first three months of 2017 compared to 60.2% for the first three months of 2016, an increase of 1.4%.

Property and transportation The 1.5 percentage point decrease in the loss and LAE ratio for the current year, excluding catastrophe losses reflects a decrease in the loss and LAE ratios of the transportation and agricultural businesses in the first three months of 2017 compared to the first three months of 2016.

Specialty casualty The 3.1 percentage point increase in the loss and LAE ratio for the current year, excluding catastrophe losses reflects an increase in the loss and LAE ratios of the excess and surplus lines and general liability businesses and at Neon.

Specialty financial The 5.0 percentage point increase in the loss and LAE ratio for the current year, excluding catastrophe losses reflects an increase in the loss and LAE ratio of the financial institutions business, partially offset by a decrease in the loss and LAE ratios of the trade credit, fidelity and equipment leasing businesses.

Net prior year reserve development

AFG's Specialty property and casualty insurance operations recorded net favorable reserve development related to prior accident years of $29 million in the first three months of 2017 compared to $27 million in the first three months of 2016, an increase of $2 million (7%).

Property and transportation Net favorable reserve development of $17 million in the first three months of 2017 reflects lower than expected losses in the crop and equine operations and lower than expected claim severity in the property and inland marine business, partially offset by higher than expected claim severity in the ocean marine business. Net favorable reserve development of $17 million in the first three months of 2016 reflects lower than expected losses in the crop operations and lower than expected claim severity in the property and inland marine and trucking businesses, partially offset by higher than anticipated claim frequency in the ocean marine business.

Specialty casualty Net favorable reserve development of $6 million in the first three months of 2017 reflects lower than anticipated claim severity and frequency in the workers' compensation businesses and lower than anticipated claim severity at Neon, partially offset by higher than anticipated claim severity in the targeted markets businesses and higher than expected claim severity and frequency in the excess and surplus lines business. Net favorable reserve development of $4 million in the first three months of 2016 reflects lower than anticipated claim severity in workers' compensation business and in directors and officers liability insurance, partially offset by adverse reserve development at Neon and higher than anticipated severity in contractor claims.

Specialty financial Net favorable reserve development of $9 million in the first three months of 2017 reflects lower than anticipated claim severity in the fidelity business and lower than expected claim frequency and severity in the surety business. Net favorable reserve development of $4 million in the first three months of 2016 reflects lower than anticipated claim severity in the fidelity business and lower than expected claim frequency and severity in the surety business, partially offset by higher than anticipated claim frequency in the financial institutions business.

Other specialty In addition to the development discussed above, total Specialty prior year reserve development includes net adverse reserve development of $3 million in the first three months of 2017 and favorable reserve development of $2 million in the first three months of 2016. The adverse development in the first three months of 2017 reflects a $6 million charge to adjust the deferred gain on the retroactive insurance transaction entered into in connection with the sale of businesses in 1998, partially offset by the amortization of deferred gains on retroactive reinsurance and reserve development associated with AFG's internal reinsurance program. Favorable development in the first three months of 2016 reflects amortization of deferred gains on retroactive reinsurance.

Catastrophe losses

AFG generally seeks to reduce its exposure to catastrophes through individual risk selection, including minimizing coastal and known fault-line exposures, and the purchase of reinsurance. Based on data available at December 31, 2016, AFG's exposure to a catastrophic earthquake or windstorm that industry models indicate could occur once in every 500 years (a "500-year event") is expected to be less than 4% of AFG's Shareholders' Equity. Catastrophe losses of $7 million in the first three months of 2017 resulted primarily from storms and tornadoes in several regions of the United States. Catastrophe losses of $8 million in the first three months of 2016 resulted primarily from winter storms.

Commissions and Other Underwriting Expenses
AFG’s property and casualty commissions and other underwriting expenses (“U/W Exp”) were $335 million in the first three months of 2017 compared to $330 million for the first three months of 2016, an increase of $5 million (2%). AFG’s underwriting expense ratio, calculated as commissions and other underwriting expenses divided by net premiums earned, was 32.7% for the first three months of 2017 compared to 33.0% for the first three months of 2016, a decrease of 0.3 percentage points. Detail of AFG’s property and casualty commissions and other underwriting expenses and underwriting expense ratios is shown below (dollars in millions):

	Three months ended March 31,				
	2017		2016		Change in
	U/W Exp	% of NEP	U/W Exp	% of NEP	% of NEP
Property and transportation	$ 91	26.5%	$ 96	28.4%	(1.9%)
Specialty casualty	162	31.8%	160	31.9%	(0.1%)
Specialty financial	73	49.4%	64	48.6%	0.8%
Other specialty	9	37.8%	10	37.6%	0.2%
	$ 335	32.7%	$ 330	33.0%	(0.3%)

AFG’s overall expense ratio decreased 0.3% in the first three months of 2017 as compared to the first three months of 2016.

Property and transportation Commissions and other underwriting expenses as a percentage of net earned premiums decreased 1.9 percentage points in the first three months of 2017 compared to the first three months of 2016 reflecting an increase in ceding commissions received from reinsurers in the crop business.

Specialty casualty Commissions and other underwriting expenses as a percentage of net earned premiums decreased 0.1 percentage points in the first three months of 2017 compared to the first three months of 2016.

Specialty financial Commissions and other underwriting expenses as a percentage of net earned premiums increased 0.8 percentage points in the first three months of 2017 compared to the first three months of 2016 reflecting a change in the mix of business.

Property and Casualty Net Investment Income
Net investment income in AFG’s property and casualty insurance operations was $86 million in the first three months of 2017 compared to $83 million in the first three months of 2016, an increase of $3 million (4%). In recent years, yields available in the financial markets on fixed maturity securities have generally declined, placing downward pressure on AFG’s investment portfolio yield. The average invested assets and overall yield earned on investments held by AFG’s property and casualty insurance operations are provided below (dollars in millions):

	Three months ended March 31,			
	2017	2016	Change	% Change
Net investment income	$ 86	$ 83	$ 3	4%
Average invested assets (at amortized cost)	$ 9,855	$ 9,366	$ 489	5%
Yield (net investment income as a % of average invested assets)	3.49%	3.54%	(0.05%)	
Tax equivalent yield (*)	3.98%	4.08%	(0.10%)	

(*) Adjusts the yield on equity securities and tax-exempt bonds to the fully taxable equivalent yield.

The increase in average invested assets and net investment income in the property and casualty insurance segment for the first three months of 2017 as compared to the first three months of 2016 is due primarily to growth in the property and casualty insurance segment. The property and casualty insurance segment’s overall yield on investments (net investment income as a percentage of average invested assets) was 3.49% for the first three months of 2017 compared to 3.54% for the first three months of 2016, a decrease of 0.05 percentage points, reflecting lower yields available in the financial markets and a decrease in equity in the earnings of limited partnerships and similar investments, partially offset by higher income from certain investments that are required to be carried at fair value through earnings.

Property and Casualty Other Income and Expenses, Net
Other income and expenses, net for AFG's property and casualty insurance operations was net income of $7 million for the first three months of 2017 compared to a net expense of $8 million in the first three months of 2016, an improvement of $15 million (188%). The table below details the items included in other income and expenses, net for AFG's property and casualty insurance operations (in millions):

	Three months ended March 31,	
	2017	2016
Other income		
Income from the sale of real estate	$ 13	$ —
Other	3	3
Total other income	16	3
Other expenses		
Amortization of intangibles	2	2
Other	7	9
Total other expenses	9	11
Other income and expenses, net	$ 7	$ (8)

Income from the sale of real estate includes $13 million related to the sale of a hotel property in the first three months of 2017.

Annuity Segment — Results of Operations
AFG's annuity operations contributed $96 million in pretax earnings in the first three months of 2017 compared to $53 million in the first three months of 2016, an increase of $43 million (81%). AFG's annuity segment results for the first three months of 2017 as compared to the first three months of 2016 reflect higher investment income from certain investments that are required to be carried at fair value through earnings, an 11% increase in average annuity investments (at amortized cost) and the unfavorable impact of significantly lower than anticipated interest rates on the fair value accounting for fixed-indexed annuities in the 2016 quarter, partially offset by lower investment yields due to the run-off of higher yielding investments.

The following table details AFG's earnings before income taxes from its annuity operations for the three months ended March 31, 2017 and 2016 (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
Revenues:			
Net investment income	$ 347	$ 315	10%
Other income:			
Guaranteed withdrawal benefit fees	14	12	17%
Policy charges and other miscellaneous income	13	14	(7%)
Total revenues	374	341	10%
Costs and Expenses:			
Annuity benefits (*)	196	228	(14%)
Acquisition expenses	52	34	53%
Other expenses	30	26	15%
Total costs and expenses	278	288	(3%)
Earnings before income taxes	$ 96	$ 53	81%

Detail of annuity earnings before income taxes (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
Earnings before income taxes — before the impact of derivatives related to FIAs	$ 98	$ 84	17%
Impact of derivatives related to FIAs	(2)	(31)	(94%)
Earnings before income taxes	$ 96	$ 53	81%

(*) Annuity benefits consisted of the following (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
Interest credited — fixed	$ 152	$ 139	9%
Interest credited — fixed component of variable annuities	1	1	—%
Other annuity benefits:			
Change in expected death and annuitization reserve	4	5	(20%)
Amortization of sales inducements	6	5	20%
Change in guaranteed withdrawal benefit reserve	16	16	—%
Change in other benefit reserves	11	5	120%
Total other annuity benefits	37	31	19%
Total before impact of derivatives related to FIAs	190	171	11%
Derivatives related to fixed-indexed annuities:			
Embedded derivative mark-to-market	147	17	765%
Equity option mark-to-market	(141)	40	(453%)
Impact of derivatives related to FIAs	6	57	(89%)
Total annuity benefits	$ 196	$ 228	(14%)

The profitability of a fixed annuity business is largely dependent on the ability of a company to earn income on the assets supporting the business in excess of the amounts credited to policyholder accounts plus expenses incurred (earning a "spread"). Performance measures such as net interest spread and net spread earned are often presented by annuity businesses to help users of their financial statements better understand the company's performance.

Net Spread on Fixed Annuities (excludes variable annuity earnings)
The table below (dollars in millions) details the components of these spreads for AFG's fixed annuity operations (including fixed-indexed annuities):

	Three months ended March 31,		
	2017	2016	% Change
Average fixed annuity investments (at amortized cost)	$ 30,055	$ 27,186	11%
Average fixed annuity benefits accumulated	30,183	26,935	12%
As % of fixed annuity benefits accumulated (except as noted):			
Net investment income (as % of fixed annuity investments)	4.59%	4.60%	
Interest credited — fixed	(2.01%)	(2.06%)	
Net interest spread	2.58%	2.54%	
Policy charges and other miscellaneous income	0.14%	0.16%	
Other annuity benefit expenses, net of guaranteed withdrawal benefit fees	(0.31%)	(0.27%)	
Acquisition expenses	(0.67%)	(0.47%)	
Other expenses	(0.38%)	(0.38%)	
Change in fair value of derivatives related to fixed-indexed annuities	(0.08%)	(0.84%)	
Net spread earned on fixed annuities	1.28%	0.74%	

The table below illustrates the impact of fair value accounting for derivatives related to fixed-indexed annuities on the annuity segment’s net spread earned on fixed annuities:

	Three months ended March 31,	
	2017	2016
Net spread earned on fixed annuities — before impact of derivatives related to FIAs	1.31%	1.20%
Impact of derivatives related to fixed-indexed annuities:		
Change in fair value of derivatives	(0.08%)	(0.84%)
Related impact on amortization of deferred policy acquisition costs (*)	0.05%	0.36%
Related impact on amortization of deferred sales inducements (*)	—%	0.02%
Net spread earned on fixed annuities	1.28%	0.74%

(*) An estimate of the related acceleration/deceleration of the amortization of deferred policy acquisition costs and deferred sales inducements.

Annuity Net Investment Income
Net investment income for the first three months of 2017 was $347 million compared to $315 million for the first three months of 2016, an increase of $32 million (10%). This increase reflects primarily the growth in AFG’s annuity business and higher income from certain investments that are required to be carried at fair value through earnings, partially offset by the impact of lower investment yields. The overall yield earned on investments in AFG’s fixed annuity operations, calculated as net investment income divided by average investment balances (at amortized cost), decreased by 0.01 percentage points to 4.59% from 4.60% in the first three months of 2017 compared to the first three months of 2016. This decline in net investment yield reflects (i) the investment of new premium dollars at lower yields as compared to the existing investment portfolio and (ii) the impact of the reinvestment of proceeds from maturity and redemption of higher yielding investments at the lower yields available in the financial markets, partially offset by higher income from certain investments that are required to be carried at fair value through earnings. During 2016, $4.0 billion in annuity segment investments with an average yield of 5.51% were redeemed or sold while the investments purchased during 2016 (with new premium dollars and the redemption/sale proceeds) had an average yield at purchase of 4.21%.

Annuity Interest Credited — Fixed
Interest credited — fixed for the first three months of 2017 was $152 million compared to $139 million for the first three months of 2016, an increase of $13 million (9%). The impact of growth in the annuity business was partially offset by lower interest crediting rates on new premiums as compared to the crediting rates on policyholder funds surrendered or withdrawn. The average interest rate credited to policyholders, calculated as interest credited divided by average fixed annuity benefits accumulated, decreased 0.05 percentage points to 2.01% in the first three months of 2017 from 2.06% in the first three months of 2016.

Annuity Net Interest Spread
AFG’s net interest spread increased 0.04 percentage points to 2.58% from 2.54% in the first three months of 2017 compared to the same period in 2016 due primarily to the impact of lower crediting rates and higher income from certain investments that are required to be carried at fair value through earnings, partially offset by lower in-force investment yields. Features included in current annuity product offerings allow AFG to achieve its desired profitability at a lower net interest spread than historical product offerings. As a result, AFG expects its net interest spread to narrow in the future.

Annuity Policy Charges and Other Miscellaneous Income
Annuity policy charges and other miscellaneous income, which consist primarily of surrender charges, amortization of deferred upfront policy charges (unearned revenue) and income from sales of real estate were $13 million for the first three months of 2017 compared to $14 million for the first three months of 2016, a decrease of $1 million (7%). Other miscellaneous income includes $1 million and $2 million in income from the sale of real estate in the first three months of 2017 and 2016, respectively. As a percentage of average fixed annuity benefits accumulated, annuity policy charges and other miscellaneous income decreased 0.02 percentage points to 0.14% from 0.16% in the first three months of 2017 compared to the first three months of 2016.

Other Annuity Benefits, Net of Guaranteed Withdrawal Benefit Fees
Other annuity benefits, net of guaranteed withdrawal benefit fees, for the first three months of 2017 were $23 million compared to $19 million for the first three months of 2016, an increase of $4 million (21%). As a percentage of average fixed annuity benefits accumulated, these net expenses increased 0.04 percentage points to 0.31% from 0.27% in the first three months of 2017 compared to first three months of 2016. In addition to interest credited to policyholders’ accounts and the change in fair value of derivatives related to fixed-indexed annuities, annuity benefits expense also includes the following expenses (in millions, net of guaranteed withdrawal benefit fees):

	Three months ended March 31,	
	2017	2016
Change in expected death and annuitization reserve	$ 4	$ 5
Amortization of sales inducements	6	5
Change in guaranteed withdrawal benefit reserve	16	16
Change in other benefit reserves	11	5
Other annuity benefits	37	31
Offset guaranteed withdrawal benefit fees	(14)	(12)
Other annuity benefits, net	$ 23	$ 19

As discussed under *“Annuity Benefits Accumulated”* in *Note A — “Accounting Policies”* to the financial statements, guaranteed withdrawal benefit reserves are accrued for and modified using assumptions similar to those used in establishing and amortizing deferred policy acquisition costs. The guaranteed withdrawal benefit reserve related to FIAs can be inversely impacted by the calculated FIA embedded derivative reserve as the value to policyholders of the guaranteed withdrawal benefits decreases when the benefit of stock market participation increases.

Annuity Acquisition Expenses
AFG’s amortization of deferred policy acquisition costs (“DPAC”) and commission expenses as a percentage of average fixed annuity benefits accumulated was 0.67% for the first three months of 2017 compared to 0.47% for the first three months 2016 and has generally ranged between 0.75% and 0.85%. Variances from the general range relate primarily to the impact of (i) material changes in interest rates or the stock market on AFG’s fixed-indexed annuity business, and (ii) differences in actual experience from actuarially projected estimates and assumptions. For example, the negative impact of significantly lower than anticipated interest rates during the first three months 2016 on the fair value of derivatives related to fixed-indexed annuities (discussed below) resulted in a partially offsetting deceleration in the amortization of DPAC.

The table below illustrates the estimated impact of fair value accounting for derivatives related to fixed-indexed annuities on annuity acquisition expenses as a percentage of average fixed annuity benefits accumulated:

	Three months ended March 31,	
	2017	2016
Before the impact of changes in the fair value of derivatives related to FIAs on the amortization of DPAC	0.72%	0.83%
Impact of changes in fair value of derivatives related to FIAs on amortization of DPAC (*)	(0.05%)	(0.36%)
Annuity acquisition expenses as a % of fixed annuity benefits accumulated	0.67%	0.47%

(*) An estimate of the acceleration/deceleration in the amortization of deferred policy acquisition costs resulting from fair value accounting for derivatives related to fixed-indexed annuities.

Annuity Other Expenses
Annuity other expenses were $30 million for the first three months of 2017 compared to $26 million for the first three months of 2016, an increase of $4 million (15%). Annuity other expenses represent primarily general and administrative expenses, as well as selling and issuance expenses that are not deferred. The increase in annuity other expenses reflects primarily growth in the business and an increase in the number of sales personnel focused on new initiatives and increased market share within existing financial institutions and retail marketing organizations in the first three months of 2017 compared to the first three months of 2016. As a percentage of average fixed annuity benefits accumulated, these expenses were 0.38% percentage points for both the first three months of 2017 and 2016.

Change in Fair Value of Derivatives Related to Fixed-Indexed Annuities
AFG's fixed-indexed annuities provide policyholders with a crediting rate tied, in part, to the performance of an existing stock market index. AFG attempts to mitigate the risk in the index-based component of these products through the purchase of call options on the appropriate index. AFG's strategy is designed so that the change in the fair value of the call option assets will generally offset the economic change in the liabilities from the index participation. Both the index-based component of the annuities and the related call options are considered derivatives that must be adjusted for changes in fair value through earnings each period. The fair values of these derivatives are impacted by actual and expected stock market performance and interest rates as well as other factors. For a list of other factors impacting the fair value of the index-based component of AFG's annuity benefits accumulated, see *Note D — "Fair Value Measurements"* to the financial statements. The net change in fair value of derivatives related to fixed-indexed annuities increased annuity benefits by $6 million and $57 million in the first three months of 2017 and 2016, respectively. During the first three months of 2017, the positive impact of strong stock market performance on the fair value of these derivatives substantially offset the negative impact of slightly lower interest rates. During the first three months of 2016, a significant decrease in interest rates had an unfavorable impact on the fair value of these derivatives. As a percentage of average fixed annuity benefits accumulated, this net expense decreased 0.76 percentage points to 0.08% in the first three months of 2017 from 0.84% in the first three months of 2016.

Fluctuations in interest rates and the stock market, among other factors, can cause volatility in the periodic measurement of fair value of the embedded derivative that management believes can be inconsistent with the long-term economics of these products. The table below illustrates the impact of fair value accounting for derivatives related to fixed-indexed annuities on the annuity segment's earnings before income taxes (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
Earnings before income taxes — before change in fair value of derivatives related to fixed-indexed annuities	$ 98	$ 84	17%
Change in fair value of derivatives related to fixed-indexed annuities	(6)	(57)	(89%)
Related impact on amortization of DPAC (*)	4	26	(85%)
Earnings before income taxes	$ 96	$ 53	81%

(*) An estimate of the related acceleration/deceleration of amortization of deferred sales inducements and deferred policy acquisition costs.

As illustrated in the table above, the change in fair value of derivatives related to fixed-indexed annuities, including the related impact on amortization of DPAC, decreased the annuity segment's earnings before income taxes by $2 million and $31 million in the first three months of 2017 and 2016, respectively.

Annuity Net Spread Earned on Fixed Annuities
AFG's net spread earned on fixed annuities increased 0.54 percentage points to 1.28% from 0.74% in the first three months of 2017 compared to the same period in 2016 due primarily to the net impact of changes in the fair value of derivatives and related DPAC amortization offset discussed above and the 0.04 percentage points increase in AFG's net interest spread.

Annuity Benefits Accumulated
Annuity premiums received and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability for interest credited and other benefits are charged to expense and decreases for surrender and other policy charges are credited to other income.

For certain products, annuity benefits accumulated also includes reserves for accrued persistency and premium bonuses, excess benefits expected to be paid on future deaths and annuitizations (“EDAR”) and guaranteed withdrawal benefits. Annuity benefits accumulated also includes amounts advanced from the Federal Home Loan Bank of Cincinnati. The following table is a progression of AFG’s annuity benefits accumulated liability for the three months ended March 31, 2017 and 2016 (in millions):

	Three months ended March 31,	
	2017	2016
Beginning fixed annuity reserves	$ 29,647	$ 26,371
Fixed annuity premiums (receipts)	1,283	1,276
Federal Home Loan Bank advances	—	150
Surrenders, benefits and other withdrawals	(539)	(483)
Interest and other annuity benefit expenses:		
Interest credited	152	139
Embedded derivative mark-to-market	147	17
Change in other benefit reserves	29	29
Ending fixed annuity reserves	$ 30,719	$ 27,499
Reconciliation to annuity benefits accumulated per balance sheet:		
Ending fixed annuity reserves (from above)	$ 30,719	$ 27,499
Impact of unrealized investment related gains	100	127
Fixed component of variable annuities	183	186
Annuity benefits accumulated per balance sheet	$ 31,002	$ 27,812

Statutory Annuity Premiums
AFG’s annuity operations generated statutory premiums of $1.29 billion in both the first three months of 2017 and 2016. The following table summarizes AFG’s annuity sales (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
Financial institutions single premium annuities — indexed	$ 487	$ 534	(9%)
Financial institutions single premium annuities — fixed	262	119	120%
Retail single premium annuities — indexed	469	546	(14%)
Retail single premium annuities — fixed	20	20	—%
Education market — fixed and indexed annuities	45	57	(21%)
Total fixed annuity premiums	1,283	1,276	1%
Variable annuities	7	9	(22%)
Total annuity premiums	$ 1,290	$ 1,285	—%

AFG continues to implement product and process changes needed to comply with the Department of Labor (“DOL”) Fiduciary Rule and is proceeding under the premise that the rule becomes effective in June 2017 in its current form. On April 4, 2017, the DOL delayed the April 10, 2017 effective date of the rule to June 9, 2017, and further delayed certain requirements until January 1, 2018. There is considerable discussion surrounding the possibility of a further delay or other action impacting the rule. However, until there is some definitive action impacting the rule, AFG intends to continue to pursue necessary changes.

Assuming the rule becomes effective in its current form, AFG believes the biggest impact will be on insurance-only licensed agents whose qualified sales represented less than 10% of its first quarter 2017 annuity premiums. As a result of the delay discussed above, insurance-only agents will be able to continue selling fixed-indexed annuities through the end of 2017, provided the agent acts in the customer’s best interest and receives only reasonable compensation. While AFG’s management continues to believe the adjustments required of AFG and its distribution partners to comply with the rule will impact 2017 annuity premiums, management does not believe the new rule will have a material impact on AFG’s results of operations.

Annuity Earnings before Income Taxes Reconciliation
The following table reconciles the net spread earned on AFG’s fixed annuities to overall annuity pretax earnings for the three months ended March 31, 2017 and 2016 (in millions):

	Three months ended March 31, 2017	2016
Earnings on fixed annuity benefits accumulated	$ 96	$ 50
Earnings on investments in excess of fixed annuity benefits accumulated (*)	(1)	3
Variable annuity earnings	1	—
Earnings before income taxes	$ 96	$ 53

(*) Net investment income (as a % of investments) of 4.59% and 4.60% for the three months ended March 31, 2017 and 2016, respectively, multiplied by the difference between average fixed annuity investments (at amortized cost) and average fixed annuity benefits accumulated in each period.

Run-off Long-Term Care and Life Segment — Results of Operations The following table details AFG’s loss before income taxes from its run-off long-term care and life operations for the three months ended March 31, 2017 and 2016 (dollars in millions):

	Three months ended March 31, 2017	2016	% Change
Revenues:			
Net earned premiums:			
Long-term care	$ 1	$ 1	—%
Life operations	5	5	—%
Net investment income	5	5	—%
Other income	1	1	—%
Total revenues	12	12	—%
Costs and Expenses:			
Life, accident and health benefits:			
Long-term care	1	1	—%
Life operations	8	8	—%
Acquisition expenses	1	1	—%
Other expenses	2	3	(33%)
Total costs and expenses	12	13	(8%)
Loss before income taxes	$ —	$ (1)	(100%)

Holding Company, Other and Unallocated — Results of Operations AFG’s net pretax loss outside of its insurance operations (excluding realized gains and losses) totaled $47 million in the first three months of 2017 compared to $40 million in the first three months of 2016, an increase of $7 million (18%).

The following table details AFG’s loss before income taxes from operations outside of its insurance operations for the three months ended March 31, 2017 and 2016 (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
Revenues:			
Net investment income	$ 3	$ 1	200%
Other income — P&C fees	14	13	8%
Other income	5	7	(29%)
Total revenues	22	21	5%
Costs and Expenses:			
Property and casualty insurance — commissions and other underwriting expenses	4	4	—%
Interest charges on borrowed money	21	18	17%
Other expense — expenses associated with P&C fees	10	9	11%
Other expenses	34	30	13%
Total costs and expenses	69	61	13%
Loss before income taxes, excluding realized gains and losses	$ (47)	$ (40)	18%

Holding Company and Other — Net Investment Income
AFG recorded net investment income on investments held outside of its insurance operations of $3 million in the first three months of 2017 compared to $1 million in the first three months of 2016. The parent company holds a small portfolio of securities that are classified as “trading” and carried at fair value through net investment income. These trading securities increased in value by $2 million in the first three months of 2017 compared to $1 million in the first three months of 2016.

Holding Company and Other — P&C Fees and Related Expenses
Summit, a workers’ compensation insurance business, collects fees from a small group of unaffiliated insurers for providing underwriting, policy administration and claims services. In addition, certain of AFG’s property and casualty businesses collect fees from customers for ancillary services such as workplace safety programs and premium financing. In the first three months of 2017, AFG collected $14 million in fees for these services compared to $13 million in the first three months of 2016. Management views this fee income, net of the $10 million in the first three months of 2017 and $9 million in the first three months of 2016, in expenses incurred to generate such fees, as a reduction in the cost of underwriting its property and casualty insurance policies. Consistent with internal management reporting, these fees and the related expenses are netted and recorded as a reduction of commissions and other underwriting expenses in AFG’s segmented results.

Holding Company and Other — Other Income
Other income in the table above includes $4 million in both the first three months of 2017 and 2016, in management fees paid to AFG by the AFG-managed CLOs (AFG’s consolidated managed investment entities). The management fees are eliminated in consolidation — see the other income line in the Consolidate MIEs column under *“Results of Operations — Segmented Statement of Earnings.”* Excluding amounts eliminated in consolidation, AFG recorded other income outside of its insurance operations of $1 million in the first three months of 2017 and $3 million in the first three months of 2016.

Holding Company and Other — Interest Charges on Borrowed Money
AFG’s holding companies and other operations outside of its insurance operations recorded interest expense of $21 million in the first three months of 2017 compared to $18 million in the first three months of 2016, an increase of $3 million (17%). This increase reflects higher average indebtedness, partially offset by lower average interest rates on outstanding debt. The following table details the principal amount of AFG’s long-term debt balances as of January 1, 2017 compared to January 1, 2016 (dollars in millions):

	January 1, 2017	January 1, 2016
Direct obligations of AFG:		
9-7/8% Senior Notes due June 2019	$ 350	$ 350
3.50% Senior Notes due August 2026	300	—
6-3/8% Senior Notes due June 2042	230	230
5-3/4% Senior Notes due August 2042	125	125
6-1/4% Subordinated Debentures due September 2054	150	150
6% Subordinated Debentures due November 2055	150	150
Other	3	3
Total principal amount of Holding Company Debt	$ 1,308	$ 1,008
Weighted Average Interest Rate	6.5%	7.4%

The increase in average indebtedness for the first three months of 2017 as compared to the first three months of 2016 reflects the issuance of $300 million of 3.50% Senior Notes in August 2016.

Holding Company and Other — Other Expenses
AFG’s holding companies and other operations outside of its insurance operations recorded other expenses of $34 million in the first three months of 2017 compared to $30 million in the first three months of 2016, an increase of $4 million (13%). This increase reflects the impact of higher holding company expenses related to employee benefit plans that are tied to stock market performance in the first three months of 2017 compared to the first three months of 2016.

Consolidated Realized Gains (Losses) on Securities AFG’s consolidated realized gains (losses) on securities, which are not allocated to segments, were gains of $3 million in the first three months of 2017 compared to losses of $18 million in the first three months of 2016, an improvement of $21 million (117%). Realized gains (losses) on securities consisted of the following (in millions):

	Three months ended March 31,	
	2017	2016
Realized gains (losses) before impairments:		
Disposals	$ 10	$ 38
Change in the fair value of derivatives	—	(1)
Adjustments to annuity deferred policy acquisition costs and related items	(1)	(3)
	9	34
Impairment charges:		
Securities	(9)	(57)
Adjustments to annuity deferred policy acquisition costs and related items	3	5
	(6)	(52)
Realized gains (losses) on securities	$ 3	$ (18)

AFG’s impairment charges on securities for the first three months of 2017 consist of $9 million on equity securities and less than $1 million on fixed maturities compared to $41 million on equity securities and $16 million on fixed maturities in the first three months of 2016. Approximately $2 million in impairment charges in the first three months of 2017 are related to financial institutions and $6 million relates to a pharmaceutical company. Approximately $33 million of the impairment charges recorded in the first three months of 2016 are related to financial institutions and $16 million are on energy-related investments.

Consolidated Income Taxes AFG’s consolidated provision for income taxes was $68 million for the first three months of 2017 compared to $52 million for the first three months of 2016, an increase of $16 million (31%). See *Note L — “Income Taxes”* to the financial statements for an analysis of items affecting AFG’s effective tax rate.

Consolidated Noncontrolling Interests AFG’s consolidated net earnings attributable to noncontrolling interests was $2 million for the first three months of 2017 compared to $3 million for the first three months of 2016. The following table details net earnings in consolidated subsidiaries attributable to holders other than AFG (dollars in millions):

	Three months ended March 31,		
	2017	2016	% Change
National Interstate	$ —	$ 3	(100%)
Other	2	—	—%
Earnings attributable to noncontrolling interests	$ 2	$ 3	(33%)

Other noncontrolling interests includes $2 million related to the gain on the sale of a hotel property in the first three months of 2017, which was owned by an 80%-owned subsidiary of GAI.

RECENT ACCOUNTING STANDARDS

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* which, among other things, requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes in fair value recognized in net income, clarifies that the need for a valuation allowance on a deferred tax asset related to available for sale securities should be evaluated with other deferred tax assets and modifies disclosure requirements for financial instruments. AFG will be required to adopt the updated guidance effective January 1, 2018 (early adoption is not permitted). Although recording changes in the fair value of investments in equity securities in net income will result in more volatility in AFG’s Statement of Earnings, it is not expected to have a material effect on the carrying value of AFG’s investments or on overall shareholders’ equity as AFG’s investments in equity securities are currently carried at fair value through accumulated other comprehensive income.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires entities that lease assets for terms longer than one year to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet based on the present value of cash flows. Qualitative and quantitative disclosures of the amount, timing and uncertainty of cash flows arising from leases will also be required. Although the guidance allows for early adoption, AFG expects to adopt the updated guidance effective January 1, 2019 (when it is required). The guidance will require the earliest comparative period presented to include the measurement and recognition of existing leases with an adjustment to shareholders’ equity as if the updated guidance had always been applied. Although the guidance will result in higher assets and higher liabilities from the recognition of assets and liabilities related to operating leases, it does not change the manner in which lease expense is recognized in the statement of earnings. Although management is currently evaluating the impact of this guidance, AFG does not expect it to have a material effect on its results of operations or financial position.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides a new credit loss model for determining credit-related impairments for financial instruments measured at amortized cost (e.g. mortgage loans or reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent increases or decreases in such losses, will be recorded immediately through realized gains (losses) as an allowance that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected. The updated guidance also amends the current other-than-temporary impairment model for available for sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security’s amortized cost basis and its fair value. Subsequent increases or decreases in expected credit losses will be recorded immediately in the income statement through realized gains (losses). AFG will be required to adopt this guidance effective January 1, 2020. AFG cannot estimate the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

ITEM 3

Quantitative and Qualitative Disclosure about Market Risk

As of March 31, 2017, there were no material changes to the information provided in *Item 7A — Quantitative and Qualitative Disclosures about Market Risk* of AFG's 2016 Form 10-K.

ITEM 4

Controls and Procedures

AFG's management, with participation of its Co-Chief Executive Officers and its Chief Financial Officer, has evaluated AFG's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of the end of the period covered by this report. Based on that evaluation, AFG's Co-CEOs and CFO concluded that the controls and procedures are effective. There have been no changes in AFG's internal control over financial reporting during the first fiscal quarter of 2017 that materially affected, or are reasonably likely to materially affect, AFG's internal control over financial reporting.

In the ordinary course of business, AFG and its subsidiaries routinely enhance their information systems by either upgrading current systems or implementing new systems. There has been no change in AFG's business processes and procedures during the first fiscal quarter of 2017 that has materially affected, or is reasonably likely to materially affect, AFG's internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1A

Risk Factors

The following risk factor has been updated to reflect regulatory developments that occurred subsequent to the filing of AFG's 2016 Form 10-K. For additional risk factors that cause risks and uncertainties that could materially affect AFG's business, financial condition, cash flows or future results, please refer to AFG's Annual Report on Form 10-K for the year ended December 31, 2016.

AFG is subject to comprehensive regulation, and its ability to earn profits may be restricted by these regulations.

AFG is subject to comprehensive regulation by government agencies in the states and countries where its insurance company subsidiaries are domiciled and where these subsidiaries issue policies and handle claims. In addition, the Lloyd's marketplace sets rules under which its members operate, including AFG's Neon Lloyd's syndicate. Most insurance regulations are designed to protect the interests of AFG's policyholders and third party claimants as opposed to its investors.

The Dodd-Frank Act, enacted in June 2010, mandates changes to the regulation of the financial services industry. Implementation of the Dodd-Frank Act is ongoing. The potential impacts of the Act on the U.S. insurance industry are not clear, but may affect AFG's operations and governance in ways that could adversely affect AFG's financial condition and results of operations.

Changes in domestic or foreign tax laws or interpretations of such laws could increase AFG's corporate taxes and reduce earnings. Additionally, global budget deficits make it possible that governments will seek additional revenue through future tax proposals that may increase AFG's effective tax rate. However, it remains difficult to predict the timing and effect that future tax law changes could have on AFG's earnings both in the United States and in foreign jurisdictions.

As a participant in the federal crop insurance program, AFG could also be impacted by regulatory and legislative changes affecting that program. For example, the reinsurance levels that the federal government provides to authorized carriers could be reduced by future legislation. AFG will continue to monitor new and changing federal regulations and their potential impact, if any, on its insurance company subsidiaries.

On April 6, 2016, the U.S. Department of Labor ("DOL") released a final regulation that substantially expands the range of activities that will be considered fiduciary advice under the Employee Retirement Income Security Act of 1974 and the Internal

Revenue Code of 1986. Implementation was scheduled to phase in beginning April 10, 2017. The new regulation deems advisers, including insurance agents, who sell annuities to IRAs, IRA rollovers or 401(k) plans to be fiduciaries and prohibits them from receiving compensation unless they comply with a prohibited transaction exemption requiring advisers to comply with impartial conduct standards. On February 3, 2017, President Trump issued a presidential memorandum directing the DOL to examine the regulation, and on April 4, 2017, the DOL announced “the delay rule” that defers the effective date of the regulation until June 9, 2017, as it continues its examination as mandated by the President’s executive order. The rule further delayed certain requirements associated with prohibited transaction exemptions under the final regulation until January 1, 2018. As a result, insurance-only agents will be able to continue selling fixed-indexed annuities through the end of 2017, provided the agent acts in the customer’s best interest and receives only reasonable compensation. Regardless, during this interim period, compliance with the prohibited transaction exemptions will likely result in increased regulatory burdens and changes to compensation to agents, which could negatively impact AFG’s business, results of operations or financial condition. If the final rule is fully implemented on January 1, 2018, compliance with the prohibited transaction exemptions will likely result in additional regulatory burdens, changes to AFG’s product offerings and increased litigation risk, which could negatively impact AFG’s business, results of operations or financial condition. Management cannot currently predict the effect on AFG’s business if the DOL’s examination mandated by the President results in the proposal of significant changes to the final regulation (or a further delay of the January 1, 2018 implementation date).

Existing insurance-related laws and regulations may become more restrictive in the future or new restrictive laws may be enacted; it is not possible to predict the potential effects of these laws and regulations. The costs of compliance or the failure to comply with existing or future regulations could impose significant burdens on the Company.

ITEM 2

Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities AFG did not repurchase any shares of its Common Stock during the first three months of 2017. There are 4,132,838 remaining shares that may be repurchased under the Plans authorized by AFG’s Board of Directors in December 2014 and February 2016.

In addition, AFG acquired 1,562 shares of its Common Stock (at $87.74 per share) in January 2017, 30,400 shares (at an average of $93.56 per share) in February 2017 and 214 shares (at an average of $95.84 per share) in March 2017 in connection with its stock incentive plans.

ITEM 5

Other Information

Disclosure of Certain Activities Under Section 13(r) of the Securities Exchange Act of 1934 Section 13(r) of the Securities Exchange Act of 1934, as amended (“Section 13(r)”), requires a registrant to disclose in its annual or quarterly reports whether it or an affiliate knowingly engaged in certain activities, transactions or dealings related to Iran during the period covered by the report. Many of the activities, transactions and dealings that are required to be reported under Section 13(r) were previously subject to U.S. sanctions or prohibited by applicable local law. On January 16, 2016, the United States and the European Union eased sanctions against Iran pursuant to the Joint Comprehensive Plan of Action, and many of the reportable activities, transactions and dealings under Section 13(r) are no longer subject to U.S. sanctions and no longer prohibited by applicable local law.

Certain of the Company’s operations located outside the United States subscribe to insurance policies that provide insurance coverage to vessels owned by international shipping and marine entities with vessels that travel worldwide. As a result, the insurance policies may be called upon to respond to claims involving or that have exposure to Iranian petroleum resources, refined petroleum, and petrochemical industries. For example, certain of the Company’s non-U.S. operations participate in global marine hull and war policies that provide coverage for damage to vessels navigating into and out of ports worldwide, which could include Iran.

For the quarter ended March 31, 2017, the Company is not aware of any additional premium with respect to underwriting insurance or reinsurance activities reportable under Section 13(r). Should any such risks have entered into the stream of commerce covered by these insurance or reinsurance activities, the Company believes that the premiums associated with such business would be immaterial.

ITEM 6

Exhibits

Number	Exhibit Description
12	Computation of ratios of earnings to fixed charges.
31(a)	Certification of Co-Chief Executive Officer pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
31(b)	Certification of Co-Chief Executive Officer pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
31(c)	Certification of Chief Financial Officer pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
32	Certification of Co-Chief Executive Officers and Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from American Financial Group's Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet (ii) Consolidated Statement of Earnings (iii) Consolidated Statement of Comprehensive Income (iv) Consolidated Statement of Changes in Equity (v) Consolidated Statement of Cash Flows (vi) Notes to Consolidated Financial Statements

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Financial Group, Inc.

May 5, 2017

By: /s/ Joseph E. (Jeff) Consolino

Joseph E. (Jeff) Consolino
Executive Vice President and Chief Financial Officer

Exhibit 12

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Dollars in Millions)

	Three months ended March 31, 2017	Year ended December 31, 2016
Earnings before income taxes	$ 223	$ 787
Undistributed equity in losses (earnings) of investees	2	(25)
Fixed charges:		
Interest on annuities	196	800
Interest expense	21	76
Debt discount, expense and other fixed charges	—	1
Portion of rentals representing interest	6	23
EARNINGS	$ 448	$ 1,662
Fixed charges:		
Interest on annuities	$ 196	$ 800
Interest expense	21	76
Debt discount, expense and other fixed charges	—	1
Portion of rentals representing interest	6	23
FIXED CHARGES	$ 223	$ 900
Ratio of Earnings to Fixed Charges	2.01	1.85
Earnings in Excess of Fixed Charges	$ 225	$ 762

AMERICAN FINANCIAL GROUP, INC. 10-Q

SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, Carl H. Lindner III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

May 5, 2017

By: /s/ Carl H. Lindner III

Carl H. Lindner III

Co-Chief Executive Officer

Exhibit 31(b)

AMERICAN FINANCIAL GROUP, INC. 10-Q

SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, S. Craig Lindner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2017

By: /s/ S. Craig Lindner

S. Craig Lindner

Co-Chief Executive Officer

Exhibit 31(c)

AMERICAN FINANCIAL GROUP, INC. 10-Q

SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, Joseph E. (Jeff) Consolino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2017

By: /s/ Joseph E. (Jeff) Consolino

Joseph E. (Jeff) Consolino

Executive Vice President and Chief Financial Officer

AMERICAN FINANCIAL GROUP, INC. 10-Q

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of American Financial Group, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2017 (the “Report”), the undersigned officers of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 5, 2017	By:	/s/ S. Craig Lindner
Date		S. Craig Lindner
		Co-Chief Executive Officer
May 5, 2017	By:	/s/ Carl H. Lindner III
Date		Carl H. Lindner III
		Co-Chief Executive Officer
May 5, 2017	By:	/s/ Joseph E. (Jeff) Consolino
Date		Joseph E. (Jeff) Consolino
		Executive Vice President and Chief Financial Officer

A signed original of this written statement will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.