



# ANNUAL REPORT 2016

Specialty Property and Casualty Insurance  
Fixed and Fixed-Indexed Annuities



## Looking Beyond The Horizon

Our vision is to deliver financial solutions that fulfill today's needs and tomorrow's dreams. We enable individuals and businesses to manage financial risk by providing insurance products tailored to meet their specific and ever-changing financial risk exposures. We strive to create long-term value for our customers, employees and investors in all that we do.



Carl H. Lindner III (left) and S. Craig Lindner, Co-Chief Executive Officers

## To Our Shareholders

We cannot think of a better way to start our Letter to Shareholders than to say 2016 was a record year for our Company. We were very pleased to report strong profitability in our Specialty Property and Casualty (P&C) Segment, record results in our Annuity Segment, and continued outperformance by American Money Management Corporation, our in-house investment management team. We are one of the few insurers today with vibrant P&C insurance and annuity businesses, which is an attribute that we believe distinguishes us in the marketplace and enables us to produce consistent, strong financial results.

While our results this past year were excellent, it is important that we continue to “look beyond the horizon” – beyond what we see and know today – to anticipate changing needs and priorities of our policyholders, agents and employees within this dynamic industry. We place a high value on specialization, entrepreneurial spirit, accountability and discipline to build and sustain a reputable business franchise. However, we also value vision, creativity and nimbleness as qualities that will enable us to see opportunities and position us for success in the future.

A forward-looking mindset is not new to us. Our P&C Group made an intentional shift to focus on specialty lines nearly 20 years ago. The sale of our commercial business and our personal auto businesses were both strategically significant to the foundation of our current business model. Today, our Specialty P&C portfolio is a compelling mix of 34 businesses, some of which are not closely correlated to each other, and in some cases, to the overall P&C insurance cycle.

We have used our specialty expertise to identify opportunities and act on them, many times ahead of the market. As an example, over the past several years, we have grown our workers’ compensation business both organically and through acquisitions when others in the industry did not. Today, we have several books of workers’ compensation business that nicely complement each other and are leaders in their respective markets. Likewise, we put \$320 million in excess capital to work in 2016 to purchase the remaining shares of National Interstate Corporation that we did not already own. National Interstate is a business we know well and is strategically significant to American Financial Group (AFG). We see opportunities in commercial auto and the potential to augment our existing lines in the commercial auto space.

WHILE OUR RESULTS THIS PAST YEAR WERE EXCELLENT, IT IS IMPORTANT THAT WE CONTINUE TO “LOOK BEYOND THE HORIZON.”



Similarly, years ago we made a decision within our Annuity Group to focus on consumer-centric fixed and fixed-indexed annuities. Our goal has been to offer easy-to-understand products that help consumers plan and save for a secure retirement. We have not historically focused on developing products with elaborate bonus features, high surrender charges or complicated crediting rate structures for our policyholders. Instead, our consumer-centric approach has enabled us to build a strong market presence, particularly in the financial institutions channel, which has higher barriers to entry in terms of financial strength ratings and other requirements. In an environment of regulatory change and uncertainty, we believe we are well-positioned to make enhancements to our products and distribution processes required by regulators and expected by consumers.

We continue to be forward-thinking. Today, we are strategically using predictive analytics to influence decision-making and leverage data to improve profitability. When done well, the data we collect, manage and analyze helps us to improve the effectiveness of our underwriting and the quality of our products. This information also equips us to price our business with more confidence and directs our sales and marketing efforts.

There is uncertainty today with regard to our overall economy – specifically related to tax reform, inflation and deregulation. While it is too early to speculate about how all of this may evolve, it is more important than ever that we are monitoring and anticipating changes in loss costs, social inflation, interest rates and pricing. As a nearly full-rate corporate taxpayer, we are hopeful that corporate tax reform may very well level the playing field and eliminate the unfair advantage for insurance companies with offshore operations. Who knows, these decisions could potentially lead to a rebirth of the reinsurance industry in this country. We will remain watchful and nimble as decisions play out.

Industry and economic disruption can work to our advantage. Dislocations and consolidations, distress in certain lines of business and uncertainty arising from a new presidential administration can create meaningful opportunities for us. We have always embraced an entrepreneurial spirit and agility that allow us to act in these situations. We are excited about the possibilities, and our leadership team is, too.

We believe our business model positions us well to identify opportunities and execute when we see ways to profitably grow our specialty insurance businesses. Our results this past year demonstrate that. Our entrepreneurial business model, a culture of empowerment and effective alignment of incentives with business objectives form a strong foundation for success. We are pleased to share a few highlights from the year with you.

## 2016 Results

Net earnings were a record \$649 million or \$7.33 per share for the year. These results reflect strong core operating earnings in our Specialty P&C insurance operations, record earnings in our annuity business, and include \$1.30 per share related to realized gains and other non-core items. Included in those non-core items were \$1.99 per share in special tax benefits related to Neon's restructuring and the National Interstate merger. Return on equity was 14.8% for the year. AFG produced record core net operating earnings per share of \$6.03 for the year, an increase of 11% from the prior year. Core return on equity was 12.2%.

AFG's adjusted book value per share grew to \$53.11 at the end of 2016. Total value creation, measured as the change in adjusted book value per share plus dividends, was \$5.94 per share during 2016. Superior underwriting results, exceptional investment management and intelligent deployment of our capital have allowed us to achieve compounded growth in AFG's adjusted book value plus dividends of approximately 10% over the past five years. Our balance sheet remains strong, with \$55 billion in assets at December 31, 2016, and a debt to total capital ratio of 17%.

## Property and Casualty Insurance

Results in our Specialty P&C Group in 2016 were excellent. The combined operating ratio of 92.3%

was an improvement of nearly a point from the previous year. Underwriting profit was \$337 million, an increase of 14% from 2015. Higher profitability within our Property and Transportation Group was partially offset by lower underwriting profits in our Specialty Casualty and Specialty Financial Groups. Strong underwriting results, coupled with an increase in net investment income, contributed to pretax operating earnings in our P&C Segment that were 11% higher year-over-year.

Net written premiums increased 1% during 2016 and overall renewal rates were flat for the year. Excluding the impact of rate declines in our workers' compensation businesses, overall renewal rates increased by approximately 1%. Loss cost trends remained relatively benign, due in part to the low inflation environment. We are pleased that we were able to secure rate increases in the businesses where we need them the most, particularly in several businesses within our Property and Transportation Group.

## Annuities

It was a record year for our Annuity Segment in 2016 despite a persistently low interest rate environment and market fluctuations throughout the year. Pretax annuity operating earnings were \$368 million in 2016, an increase of 11% from the prior year. The improved profitability reflects higher investment



income from certain investments required to be carried at fair value through earnings, and a 12% increase in average annuity investments, partially offset by lower investment yields due to the run-off of higher yielding investments, and a lower favorable “unlocking” in 2016 versus 2015. Interest rate and stock market fluctuations have an impact on the accounting for fixed-indexed annuities; these accounting adjustments are recognized through AFG’s reported core earnings. Pretax annuity operating earnings before the impact of fair value accounting were \$395 million in 2016, an increase of 12% from the prior year.

Statutory annuity premiums were \$4.4 billion in 2016, the highest level of annuity premiums in the Company’s history. As a result of a consistent pattern of strong sales, particularly through financial institutions, AFG’s fixed annuity reserves have grown from \$15 billion at the end of 2011 to nearly \$30 billion at year-end 2016.

### Investments

We view investment management as a core competency and have a highly skilled in-house team of investment individuals managing our investment

portfolio. The professionals who manage our \$41 billion investment portfolio have followed a consistent strategy over many years and changing economic conditions, and have outperformed market indices while effectively managing portfolio risk.

Our portfolio consists primarily of investment grade securities that provide a relatively predictable, steady stream of income. For the nine years ended December 31, 2016, a time period that captures the beginning of the global financial crisis, our fixed income portfolio outperformed the insurance industry by approximately 1% per year, or approximately \$2 billion. Opportunistic purchases of non-agency residential mortgage-backed securities were the primary driver of these returns, which significantly surpassed those of other fixed income indices over the same time period. In addition, our equity portfolio achieved a total return of approximately 14% per year, outperforming the S&P 500 Index by about 7% per year, or approximately \$200 million during the same time period.

Although our investment in real estate comprises approximately 1% of our overall portfolio, AFG has a track record of success in buying under-performing or out-of-favor properties, improving them and

selling them when they reach an attractive value. During 2016, the sale of an apartment property generated a non-core after-tax gain of \$15 million, or \$0.17 per share for AFG.

## Creating Long-term Value For Shareholders

Intelligent deployment of our Company’s capital is a top priority, and we strive to find the highest and best use of capital to create long-term value for our shareholders. We do this through a combination of dividends, opportunistic share repurchases, acquisitions and/or the addition of bolt-on or start-up businesses. We also look to grow our business organically when there is dislocation in the market or other opportunities that align with our existing businesses.

We returned approximately **\$320 million** to shareholders in the form of dividends and share repurchases during 2016.

AFG’s financial condition is strong, with \$950 million in excess capital (including cash at the parent company of approximately \$200 million) as of December 31, 2016. The capital in our insurance businesses exceeds, or is consistent with, amounts required for our ratings levels. Holding capital in excess of current ratings levels allows us to operate confidently in forming business plans while maintaining the financial strength to effectively compete in the marketplace. We will maintain financial leverage and capital adequacy at levels that

are prudent for our business, and consistent with our commitments to ratings agencies, while maintaining a sufficient level of liquidity to respond to business needs and opportunities.

Our business model enables us to allocate capital to businesses with the greatest return potential, and scale back growth when we are unable to reach targeted returns. We will continue to evaluate business opportunities that have the potential to produce desired long-term returns. Alignment with our existing businesses and cultural fit are other considerations when we evaluate opportunities to expand our specialty insurance portfolio.

We returned approximately \$320 million to shareholders in the form of dividends and share repurchases during 2016. The compounded annual growth rate of AFG’s common stock plus dividends for the five-year period ended December 31, 2016, was approximately 23%, exceeding comparable indices. These measures serve as benchmarks as we evaluate our effectiveness in value creation.

During 2016, we announced a 12% increase in AFG’s regular quarterly dividend to an annual rate of \$1.25 per share. This marks the 11th consecutive annual dividend increase for the Company. In addition, we paid a special dividend of \$1.00 per share in December 2016. The five-year compounded annual growth in dividends paid to our shareholders was approximately 12%, excluding special dividends. Dividend payments and share repurchases have enabled us to return \$1.7 billion to our shareholders over the past five years.

Additionally, we believe that the considerable ownership of AFG’s stock by our management team and employees aligns our interests with those of our shareholders.

## Looking Beyond The Horizon

We are proud of our culture and the success we have enjoyed as an industry-leading specialty insurance company. We are committed to maintaining the financial strength and stability that is valued by our policyholders, agents and employees. Superior underwriting, investing and capital management have allowed us to outperform industry averages and our peers. This performance, coupled with our commitment to provide superior service to policyholders and agents, has enabled us to achieve market leadership in many of our businesses. In fact, over 60% of the gross written premium in our Specialty P&C business is written by top 10-ranked businesses. Our annuity business ranks #1 in sales of fixed-indexed annuities in financial institutions and is a top 10 writer of fixed annuities overall.

Consistent, strong financial performance and the ability to earn healthy returns on equity will lead to growth in book value and sustained financial flexibility. We believe our business model positions us well to “look beyond the horizon” to profitably grow our Specialty P&C insurance and annuity businesses.

We thank God, our talented management team and employees for a tremendously successful year and for helping us become a company that others want to work for, do business with and in which to invest. We also thank you, our shareholders, for your investment and confidence.



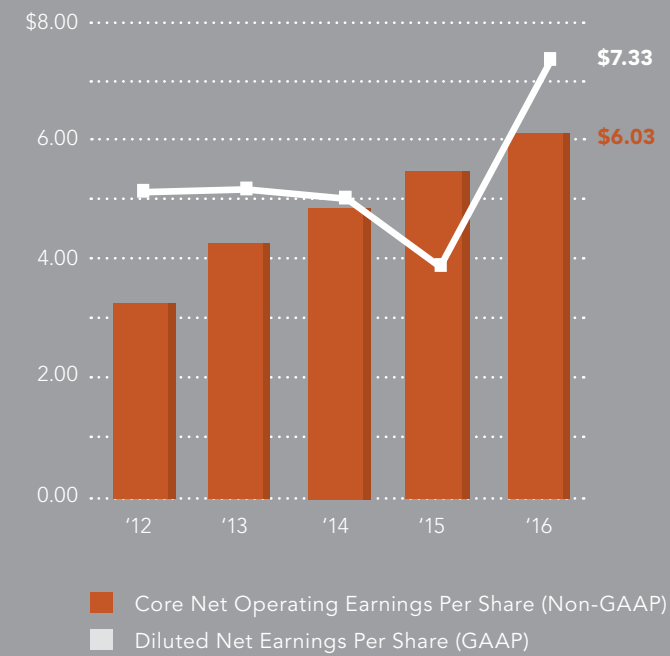
S. Craig Lindner  
Co-Chief Executive Officer



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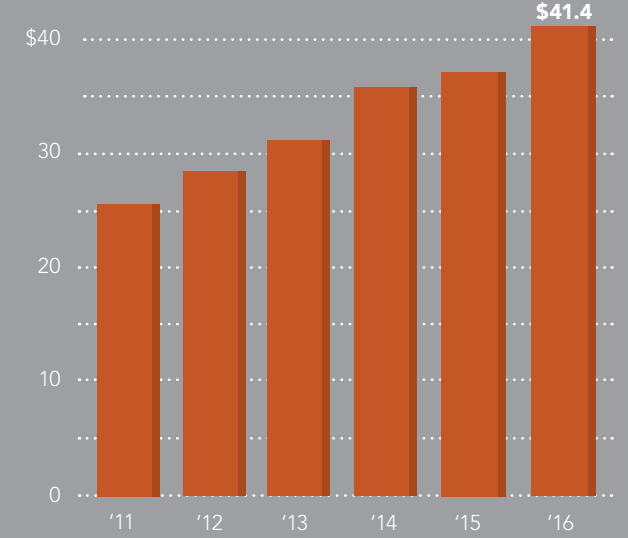
## Earnings Per Share

For the year ended December 31



## Invested Assets

As of December 31 (dollars in billions)



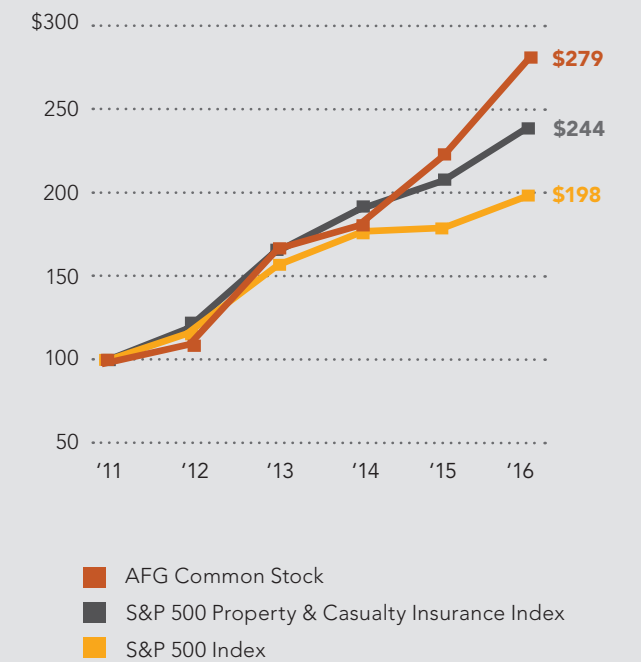
## Adjusted Book Value Per Share

As of December 31 (excluding appropriated retained earnings and net unrealized gains related to fixed maturity securities)



## 5 Year Cumulative Total Shareholder Return

On AFG Common Stock vs S&P Indices, as of December 31



This graph assumes \$100 invested on December 31, 2011 in AFG's Common Stock, the S&P 500 Index and the S&P 500 Property & Casualty Insurance Index, including reinvestment of dividends.



Photo: Great American Insurance Group headquarters, Cincinnati, Ohio

## Financial Strength Ratings

### Specialty Property & Casualty Insurance Group

	A.M. Best*	Standard & Poor's*
Great American Insurance Company	A+ (Superior)	A+
American Empire Surplus Lines Insurance Company	A+ (Superior)	A+
Mid-Continent Casualty Company	A+ (Superior)	A+
National Interstate Insurance Company	A (Excellent)	Not Rated
Vanliner Insurance Company	A (Excellent)	Not Rated
Republic Indemnity Company of America	A (Excellent)	A+
Bridgefield Casualty Insurance Company	A (Excellent)	A+
Bridgefield Employers Insurance Company	A (Excellent)	A+
El Águila, Compañía de Seguros	A- (Excellent)	Not Rated
Great American International Insurance DAC	Not Rated	A+
Neon Underwriting Limited	A (Excellent)	A+

### Annuity Group

Great American Life Insurance Company	A (Excellent)	A+
Annuity Investors Life Insurance Company	A (Excellent)	A+

\*Information reflects ratings in effect as of March 13, 2017

In millions, except per share amounts

## Balance Sheet Data

	2016	2015	2014
Cash and investments	\$41,433	\$37,736	\$36,210
Total assets	55,072	49,837	47,513
Long-term debt	1,283	998	1,039
Shareholders' equity	4,916	4,592	4,879
Book value per share <sup>A</sup>	\$56.55	\$52.50	\$55.65
Adjusted shareholders' equity <sup>B</sup>	4,617	4,313	4,277
Adjusted book value per share <sup>B</sup>	\$53.11	\$49.32	\$48.76
Cash dividends per share <sup>C</sup>	\$2.1525	\$2.0300	\$1.9100
Ratio of debt to total capital <sup>D</sup>			
Including subordinated debt and debt secured by real estate	22.1%	18.5%	19.2%
Excluding subordinated debt and debt secured by real estate	17.0%	13.1%	15.6%
Shares outstanding	86.9	87.5	87.7

## Summary Of Operations

	2016	2015	2014
Total revenues	\$6,498	\$6,145	\$5,733
Components of net earnings:			
Core net operating earnings <sup>E</sup>	\$534	\$486	\$439
Realized gains (losses) on securities	13	(12)	32
Realized gain (loss) on subsidiaries	1	(104)	-
Gain on sale of apartment properties and hotel	15	36	-
Special A&E charges	(26)	(52)	(19)
Neon exited lines charge	(65)	-	-
Loss on early retirement of debt	-	(2)	-
Tax benefit related to National Interstate merger	66	-	-
Tax benefit related to Neon restructuring	111	-	-
Net earnings attributable to shareholders – GAAP	\$649	\$352	\$452
Return on shareholders' equity:			
Core net operating earnings <sup>F</sup>	12.2%	11.5%	10.7%
Net earnings <sup>F</sup>	14.8%	8.3%	11.0%
Components of diluted earnings per share:			
Core net operating earnings <sup>E</sup>	\$6.03	\$5.44	\$4.82
Realized gains (losses) on securities	0.16	(0.12)	0.36
Realized gain (loss) on subsidiaries	0.01	(1.17)	-
Gain on sale of apartment properties and hotel	0.17	0.40	-
Special A&E charges	(0.30)	(0.58)	(0.21)
Neon exited lines charge	(0.73)	-	-
Loss on early retirement of debt	-	(0.03)	-
Tax benefit related to National Interstate merger	0.74	-	-
Tax benefit related to Neon restructuring	1.25	-	-
Diluted earnings per share	\$7.33	\$3.94	\$4.97

A Excludes appropriated retained earnings.

B Excludes appropriated retained earnings and net unrealized gains (losses) related to fixed maturity securities.

C Includes special cash dividends of \$1.00 per share paid in December 2016, 2015 and 2014.

D The ratio is calculated by dividing AFG's long-term debt by its total capital, which includes long-term debt, noncontrolling interests and shareholders' equity (excluding unrealized gains (losses) related to fixed maturity investments and appropriated retained earnings related to managed investment entities).

E Certain significant items that may not be indicative of ongoing operations are excluded in deriving our core net operating earnings. Though it is not a generally accepted accounting principles ("GAAP") measure, it is a key performance measure used by analysts and ratings agencies.

F Excludes appropriated retained earnings and accumulated other comprehensive income.

## Specialty Property And Casualty Insurance Operations

### Property and Transportation Group

#### Agricultural-related

Federally reinsured multi-peril crop (allied lines) insurance covering most perils as well as crop-hail, equine mortality and other coverages for full-time operating farms/ranches and agribusiness operations on a nationwide basis.

#### Commercial Automobile

Coverage for vehicles (such as buses and trucks) in a broad range of businesses including the moving and storage and transportation industries, and a specialized physical damage product for the trucking industry.

#### Inland and Ocean Marine

Coverage primarily for builders' risk, contractors' equipment, property, motor truck cargo, marine cargo, boat dealers, marina operators/dealers and excursion vessels.

### Specialty Casualty Group

#### Excess and Surplus

Liability, umbrella and excess coverage for unique, volatile or hard to place risks, using rates and forms that generally do not have to be approved by state insurance regulators.

#### Executive and Professional Liability

Markets coverage for directors and officers of businesses and non-profit organizations, errors and omissions, cyber, and mergers and acquisitions.

#### General Liability

Coverage for contractor-related businesses, energy development and production risks, and environmental liability risks.

#### Targeted Programs

Coverage (primarily liability and property) for social service agencies, leisure, entertainment and non-profit organizations, customized solutions for other targeted markets and alternative risk programs using agency captives.

#### Umbrella and Excess Liability

Coverage in excess of primary layers.

#### Workers' Compensation

Coverage for prescribed benefits payable to employees who are injured on the job.

### Specialty Financial Group

#### Fidelity and Surety

Fidelity and crime coverage for government, mercantile and financial institutions and surety coverage for various types of contractors and public and private corporations.

#### Lease and Loan Services

Coverage for insurance risk management programs for lending and leasing institutions, including equipment leasing and collateral and lender-placed mortgage property insurance.

### Annuity Operations

#### Traditional Fixed and Fixed-Indexed Annuities

Sold primarily in the retail, financial institutions and education markets.

## Operational Overview

### Strength Through Specialization – Today and Tomorrow

AFG has a history in the insurance business that dates back to 1872 with the founding of Great American Insurance Company. Years of specialization and focus in markets we know best have enabled us to become a leading specialty P&C and annuity business 145 years later. Today, our insurance operations are members of the Great American Insurance Group. Our 34 Specialty P&C businesses provide insurance solutions that help businesses manage the unique risks in their operations, industries and markets. Our annuity operations help individuals plan for secure financial futures by providing annuity products that are simple to understand and responsive to their needs.

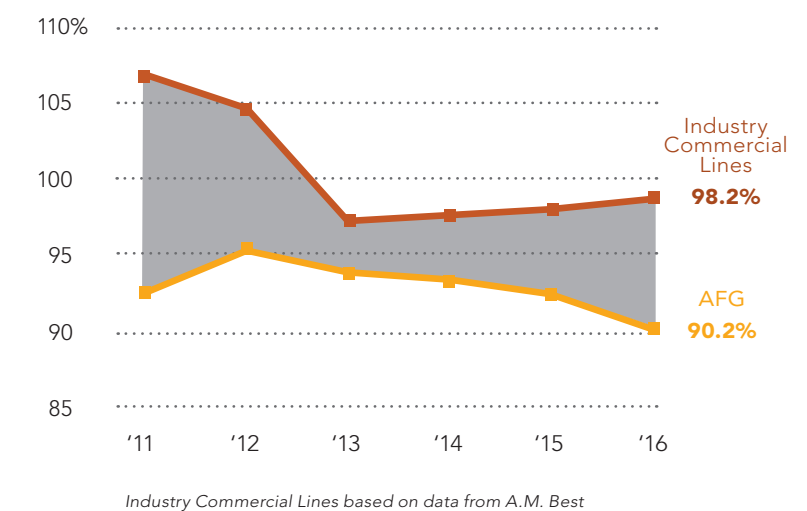
We are passionate about our business and the impact it has on the economy and the world. Insurance enables the economy to operate effectively by pooling and transferring risks and by allowing commercial businesses to transact in an uninterrupted manner; insurance equips individuals to manage personal and financial risks to help them live their lives to the fullest.

Our business model, culture and values form an important foundation to deliver on our purpose and our brand promise. Our business has an entrepreneurial spirit at its core. Experienced professionals oversee each of our Specialty P&C businesses, focused on a particular industry, product or market. Each business handles its own decision making related to underwriting, marketing, claims and policy servicing. We believe this approach allows each of our businesses the autonomy necessary to respond to local and specialty market conditions while capitalizing on the efficiencies of centralized investment and administrative support functions. Our annuity professionals oversee a consumer-friendly product design philosophy and manage pricing strategies within each of our distribution channels.

Our business model also demands accountability. Performance benchmarks and operational and financial measures provide a clear line of sight into overall results. Business leaders are rewarded for strong performance through compensation programs that align with the strategic and financial goals of AFG. This approach may also prompt us to withdraw from markets that do not meet profit objectives or fit within our business strategy, such as Neon's withdrawal from the U.K. and international medical malpractice and general liability classes in 2016. Similarly, in our annuity operations, the disposition of non-core businesses in recent years allowed for increased focus on fixed and fixed-indexed annuities, leading to successful new product launches, expansion into growing annuity markets and organic growth.

Over the past 15 years, AFG has had a successful history of acquisitions, business bolt-ons and start-ups that have grown the diversity of our Specialty P&C portfolio. In 2016, we successfully completed a merger with National Interstate Corporation by acquiring the remaining 49% of National Interstate common shares that we did not

### Statutory Combined Ratio





already own. It is one of our largest Specialty P&C businesses, and has been a strategically significant component of our commercial auto business for many years.

Our commitment to disciplined underwriting and superior claims service within our Specialty P&C operations has resulted in underwriting outperformance as compared to the overall commercial property and casualty insurance industry in 29 of the past 31 years. Over the past 10 years, the combined operating ratio of AFG's property and casualty operations has been more favorable than the industry by nearly 11 points.

In our annuity business, assets and reserves have grown by approximately 70% over the past four years due to significant growth in annuity sales, especially in the financial institutions channel. We believe this growth is due to our consumer-friendly model, strong ratings and more than 40-year history in the annuity industry.

AFG and its Great American Insurance Group member companies employ approximately 7,600 employees in nearly 120 office locations globally, with about 5% of AFG's 2016 direct written premiums derived from non-U.S.-based insurers. We were pleased to grow our international footprint during 2016, with the opening of a new Specialty P&C Division within El Aguila, our Mexico-based insurance subsidiary.

Our business success is highly dependent on our ability to attract and retain qualified employees. AFG places a high priority on identifying and developing talent, and is committed to leadership development at all levels of our organization. We believe our people-focused culture, supported by a commitment to open and honest communication, and a healthy work/life balance, enables us to attract, retain and empower high caliber individuals. Our culture, coupled with a business model that allows high performers to excel, makes AFG a desirable place to work and build a career.

## Specialty Property and Casualty Insurance Operations

Great American Insurance Company, our flagship insurer in our P&C business, is rated "A+" (Superior) and is one of only five property and casualty insurers to have maintained a financial strength rating of "A" or better from A.M. Best Company for over 100 years. Our property and casualty insurance products are distributed through thousands of independent insurance agents and brokers who rely on the financial strength that is signified by this rating.

Our diversified book of specialty insurance businesses, strong capital adequacy and commitment to disciplined pricing and relatively low windstorm/earthquake and coastal exposures are central to AFG's Specialty P&C strategy. At December 31, 2016 the Company's net exposure to a catastrophic earthquake or windstorm that industry models indicate could occur once in every 500 years is estimated to be less than 4% of AFG's shareholders' equity.

AFG's P&C professionals are rewarded for profitable growth and achieving healthy returns on equity. As such, premium volume will vary based on market conditions, including the ability to achieve appropriate pricing and scale. We have acted on opportunities to grow our businesses organically in response to changing market conditions throughout insurance cycles, changes in the economic environment and periods of market dislocation.

The Specialty P&C Group generated an underwriting profit of \$337 million in 2016, up 14% from the prior year. Net written premiums were \$4.4 billion, up 1% from 2015. Growth in our Property and Transportation and Specialty Financial Groups was partially offset by lower premiums in our Specialty Casualty Group. Overall renewal rates were flat for the year. Loss cost trends appeared to be benign across our portfolio of businesses.

Our **Property and Transportation Group** is comprised of several specialty insurance operations that are leaders in the markets they serve, including our wholly-owned National Interstate subsidiary and our crop insurance business, which is the fourth largest provider of multi-peril crop insurance in the United States. We are also the leading provider of coverage to the equine community through our equine mortality business and among the top providers of coverage for independent owner/operators in the trucking industry. Other businesses in this group offer ocean marine and property and inland marine insurance, as well as various forms of coverage for the agricultural industry.

In 2016, over 60% of the P&C Group's gross written premium was produced by top 10-ranked businesses.

Underwriting profit for this group was \$166 million in 2016, an increase of \$118 million from the prior year. This improvement reflects higher underwriting profit in our crop insurance business, primarily the result of favorable growing conditions and relatively stable commodity pricing, as well as higher underwriting profits in our transportation and property and inland marine businesses. These improved results were partially offset by an increase of \$10 million in catastrophe losses in 2016 compared to 2015.

Gross written premiums increased 2% in 2016 compared to 2015. This increase was the result of higher premiums in our agricultural businesses, growth in our transportation businesses and higher gross written premiums from our Singapore branch, which opened for business in June 2015. These increases were partially offset by lower

gross written premiums in our property and inland marine businesses. Average renewal rates increased approximately 3% for this group in 2016, including a 5% increase in National Interstate's renewal rates. Reinsurance premiums ceded as a percentage of gross written premiums were comparable in 2016 and 2015.

Our **Specialty Casualty Group** is the largest group within our Specialty P&C operations and includes our workers' compensation, executive and professional liability, general liability, excess and surplus, international, and non-profit social services businesses. This group also provides coverage to targeted markets, such as environmental insurance solutions, package products for the public sector and risk-sharing captive programs.

Underwriting profit for this group was \$78 million in 2016, a decrease of 47% from 2015. We reported higher underwriting profitability in our workers' compensation businesses, due primarily to higher favorable prior year reserve development, and improved results in our general liability business. These results were more than offset by adverse prior year reserve development in our excess and surplus and targeted markets businesses and higher current accident year losses in Neon, our United Kingdom-based Lloyd's insurer.

Gross written premiums increased 2% in 2016 compared to 2015. Higher gross written premiums in our excess and surplus, targeted markets and



workers' compensation businesses were partially offset by lower premiums in our general liability business and by Neon's exit of certain lines of business, as well as the implementation of more stringent underwriting standards at Neon. Lower premiums in the general liability business were primarily the result of competitive market conditions, re-underwriting efforts within the Florida homebuilders market and the slowdown within the energy sector. Average renewal rates decreased approximately 1% for this group in 2016, including a decrease of approximately 4% in our workers' compensation businesses. Excluding our workers' compensation business, average renewal rates for this group increased approximately 1% during 2016.

Underwriting profit for this group was \$84 million in 2016, a decrease of 3% from 2015. Higher underwriting profit in our fidelity and crime and surety businesses, primarily the result of higher favorable prior year reserve development, was more than offset by lower underwriting profit in our financial institutions and trade credit businesses, resulting primarily from lower favorable prior year reserve development.

Gross written premiums increased 8% in 2016 from the prior year due primarily to growth in our financial institutions and surety businesses. Average renewal rates for this group decreased approximately 1% in 2016. Reinsurance premiums ceded as a percentage of gross written premiums increased 1 percentage point in 2016 compared to 2015, reflecting higher cessions in our financial institutions business, partially offset by a decline in auto dealer business, which is heavily reinsured.

### Annuity Operations

Through the annuity operations of Great American Insurance Group, AFG sells traditional fixed and fixed-indexed annuities (FIAs) in the retail, financial institutions and education markets. The ratings assigned by independent insurance ratings agencies are an important competitive factor because agents, potential policyholders, financial institutions and school districts often use a company's rating as an initial screening measure when considering annuity products. We believe AFG's strong ratings are important considerations in enabling us to successfully compete in the annuity marketplace.

Today, annuities sold through independent agents and financial institutions represent about 95% of AFG's statutory annuity premiums. AFG sells annuities in the retail channel through a network of over 5,000 agents who wrote at least one annuity policy with AFG during 2016. AFG also sells annuities in financial

institutions through direct relationships with the financial institutions and through independent agents and brokers; in this channel, approximately 5,000 agents or employees representing approximately 35 financial institutions wrote at least one annuity policy with AFG during 2016. For the full year, AFG ranked first in sales of fixed-indexed annuities through financial institutions and eighth for sales of fixed annuities overall.

As a consistent, experienced participant in these markets, we continue to look for ways to best serve the needs of our policyholders and distribution partners. We are committed to the development of products that are consumer-friendly, utilizing a simpler product design and generally shorter surrender periods and lower surrender charges than many other companies. We believe this approach provides policyholders with greater transparency and helps to increase their confidence in selecting a product that will help them protect their financial futures. Growth in our annuity reserves, accompanied by pricing discipline and exceptional investment results, have been instrumental in achieving compounded annual growth in core pretax operating earnings of about 14% in AFG's annuity business over the past five years.

AFG's annuity operations contributed a record \$368 million in pretax earnings in 2016 compared to \$331 million in 2015, an increase of 11%. This increase reflects higher investment income from certain investments that are required to be carried at fair value through earnings and a 12% increase in

average annuity investments, partially offset by lower investment yields due to the run-off of higher yielding investments and lower favorable unlocking. Included in these results is the impact of fair value accounting on FIAs, which had a negative impact of \$27 million in 2016 compared to \$23 million in 2015. Excluding the impact of fair value accounting on fixed-indexed annuities, pretax operating earnings increased by 12% during 2016.

The focus of our annuity business is to maintain appropriate spreads on our base of invested assets and annuity reserves. Our "net interest spread,"

Our annuity business has been consistently **ranked in the top 10 overall** and within the top three for sales of fixed-indexed annuities through financial institutions.

which represents the difference between net investment income earned and interest credited, was 2.73% for 2016, an increase of four basis points from the prior year.

Our in-house investment management team, American Money Management Corporation, closely monitors market conditions and economic



Reinsurance premiums ceded as a percentage of gross written premiums increased 2 percentage points in 2016 compared to 2015, reflecting the cession of Neon's U.K. medical malpractice business and a change in the mix of business at Neon.

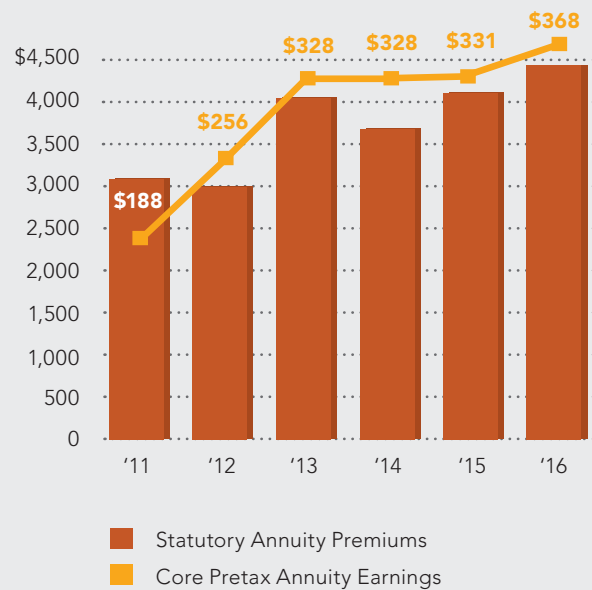
The **Specialty Financial Group** includes our financial institutions business, the largest business unit in this group, which offers a wide variety of insurance coverages to lending and leasing institutions. Also included in this group are our fidelity and crime and trade credit operations, as well as our surety business.

trends to ensure adequate pricing and effective investment management strategies that support our consumer-friendly annuity products.

Annuity premiums for 2016 were \$4.4 billion, the highest in AFG's history. As a result, over the last year, average fixed annuity investments, at amortized cost, grew by 12% and average fixed annuity reserves were up 13% compared to 2015.

### Premium and Earnings Growth

Year Ended December 31 (dollars in millions)



The 7% growth achieved in annuity premiums in 2016 reflects new products, additional staffing and increased market share within existing financial institutions that sell AFG's products. Sales of fixed annuities through financial institutions continue to be a valuable source of annuity sales for AFG and represent approximately 55% of total annuity premiums.

Photo: Delicate Arch, Arches National Park, Utah

### Investments

Our investment philosophy is to focus on high-quality investments that maximize returns on a long-term basis, rather than focusing on short-term performance. Fixed income investments, primarily investment grade bonds and mortgage-backed securities, account for approximately 92% of our total investments. Approximately 89% of our fixed maturity investments are rated investment grade, and 97% have an NAIC designation of 1 or 2, the highest two levels. Stocks, real estate and other investments make up the remaining 8% of our portfolio. Our unrealized after-tax gain on investments was \$404 million as of December 31, 2016.

Our real estate investment strategy is based upon our history of buying under-performing or out-of-favor assets, developing and managing them in-house, and selling them when we believe the value has been maximized. During 2016, we recorded pretax gains of approximately \$41 million on the sale of several investments in our real estate portfolio. Over the past 10 years, we have realized net pretax gains of approximately \$175 million on sales of real estate properties.

We continue to look for attractive investment opportunities and will capitalize on our strong internal investment capabilities that will give us a competitive advantage. We believe that our investment returns will continue to be a major contributor to our earnings and book value growth.

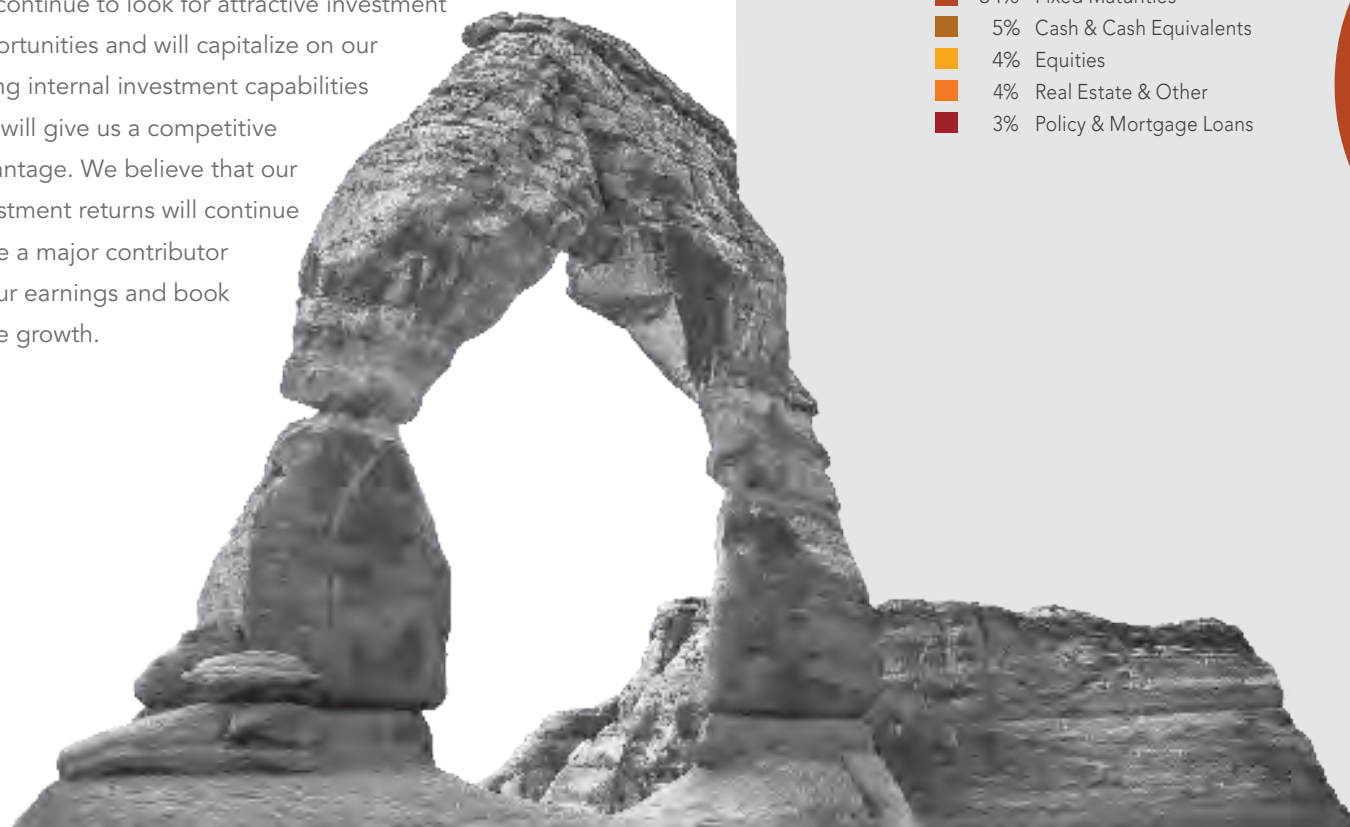


Photo: Thor's Hammer, Bryce Canyon National Park, Utah

### Investment Portfolio

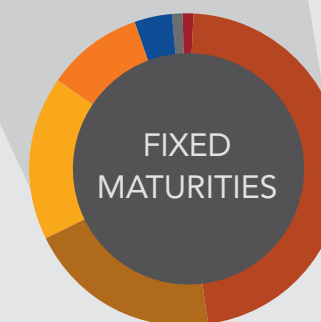
As of December 31, 2016

- 84% Fixed Maturities
- 5% Cash & Cash Equivalents
- 4% Equities
- 4% Real Estate & Other
- 3% Policy & Mortgage Loans



#### Fixed Maturities Overview

- 47% Corporates
- 19% States & Municipalities
- 17% Asset-Backed
- 11% Residential MBS
- 4% Commercial MBS
- 1% U.S. Government
- 1% Foreign Government



## SPECIALTY PROPERTY AND CASUALTY INSURANCE OPERATIONS

### Property and Transportation Group

Year Ended December 31 (dollars in millions)

	2016	2015	2014
Gross Written Premiums	\$2,504	\$2,455	\$2,342
Net Written Premiums	\$1,672	\$1,636	\$1,566
GAAP Combined Ratio	90.0%	96.9%	98.7%

### Specialty Casualty Group

Year Ended December 31 (dollars in millions)

	2016	2015	2014
Gross Written Premiums	\$2,792	\$2,739	\$2,529
Net Written Premiums	\$2,036	\$2,052	\$1,864
GAAP Combined Ratio	96.1%	92.7%	92.3%

### Specialty Financial Group

Year Ended December 31 (dollars in millions)

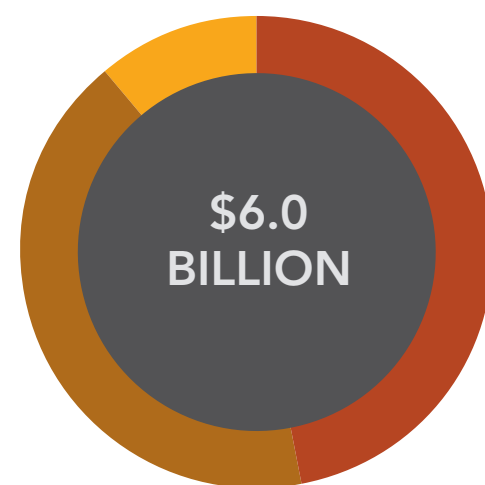
	2016	2015	2014
Gross Written Premiums	\$685	\$637	\$605
Net Written Premiums	\$572	\$540	\$488
GAAP Combined Ratio	84.9%	83.1%	86.5%

### Specialty Property and Casualty Operations

Year Ended December 31 (dollars in millions)

	2016	2015	2014
Gross Written Premiums	\$5,981	\$5,832	\$5,477
Net Written Premiums	\$4,386	\$4,327	\$4,020
GAAP Combined Ratio	92.3%	93.1%	93.9%

### 2016 Gross Written Premiums



- 47% Specialty Casualty
- 42% Property and Transportation
- 11% Specialty Financial

## ANNUITY OPERATIONS

### Components of Earnings

Year Ended December 31 (dollars in millions)

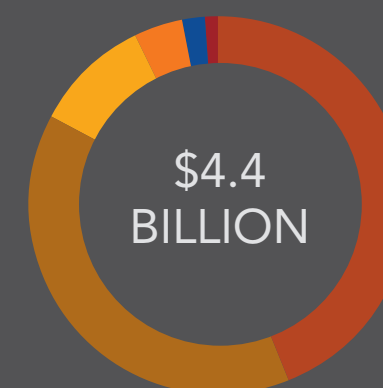
	2016	2015	2014
Operating earnings before impact of fair value accounting on FIAs	\$395	\$354	\$362
Impact of fair value accounting	(27)	(23)	(34)
Operating earnings before income taxes	\$368	\$331	\$328

### Net Spread on Fixed Annuities

Year Ended December 31 (dollars in millions)

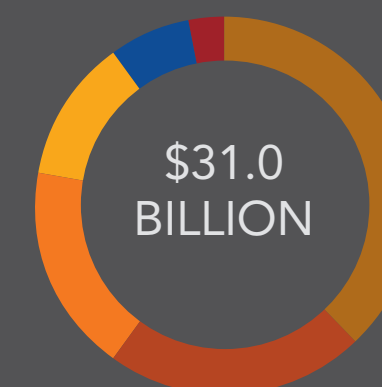
	2016	2015	2014
Average fixed annuity investments	\$28,223	\$25,174	\$22,391
Average fixed annuity benefits accumulated	\$28,146	\$24,898	\$22,119
Net interest spread	2.73%	2.69%	2.78%
Net spread earned	1.29%	1.26%	1.41%

### 2016 Annuity Premiums



- 44% Financial Institutions-Indexed
- 39% Retail Single Premium-Indexed
- 10% Financial Institutions-Fixed
- 4% Education Market
- 2% Retail Single Premium-Fixed
- 1% Variable Annuities

### Annuity Reserves (GAAP) As of December 31, 2016



- 38% Retail Single Premium-Indexed
- 22% Financial Institutions-Indexed
- 18% Education Market
- 12% Financial Institutions-Fixed
- 7% Retail Single Premium-Fixed
- 3% Variable (Separate Account)



## AMERICAN FINANCIAL GROUP BOARD OF DIRECTORS

Seated, left to right: Craig Lindner, Gina Drosos, Ken Ambrecht, John Von Lehman, Carl Lindner III.  
Standing, left to right: Jim Evans, Jeff Consolino, Greg Joseph, Terry Jacobs, Will Verity, John Berding.

As of March 13, 2017

### Carl H. Lindner III

Co-Chief Executive Officer, American Financial Group, Inc.,  
Chairman, Great American Insurance Company

### S. Craig Lindner

Co-Chief Executive Officer, American Financial Group, Inc.,  
President and Chief Executive Officer, Great American Financial  
Resources, Inc.

### Kenneth C. Ambrecht <sup>2, 3</sup>

Principal, KCA Associates, LLC, a consulting firm to participants  
in the capital markets

### John B. Berding

President, American Money Management Corporation

### Joseph E. (Jeff) Consolino

Executive Vice President and Chief Financial Officer,  
American Financial Group, Inc.,  
Chairman, Neon Capital Ltd.

### Virginia (Gina) C. Drosos <sup>1, 3</sup>

President and Chief Executive Officer, Assurex Health,  
a personalized medicine company specializing in  
pharmacogenomics

### James E. Evans

Former Senior Executive Officer and currently Executive  
Consultant to American Financial Group, Inc.

### Terry S. Jacobs <sup>1, 2\*</sup>

Chairman and Chief Executive Officer, The JFP Group, LLC, a real  
estate development company

### Gregory G. Joseph <sup>1\*</sup>

Executive Vice President and Principal of various automotive  
retailers managed by Joseph Automotive Group

### William W. Verity <sup>2, 3\*</sup>

President, Verity Investment Partners, an investment management  
company

### John I. Von Lehman <sup>1, 3</sup>

Retired Executive Vice President, Chief Financial Officer and  
Secretary, The Midland Company, an Ohio-based provider of  
specialty insurance products

#### Board of Directors Committees:

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Corporate Governance Committee

\* Chairman of Committee

## SENIOR MANAGEMENT

As of March 13, 2017

### American Financial Group

**Carl H. Lindner III**  
Co-Chief Executive Officer

**S. Craig Lindner**  
Co-Chief Executive Officer

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

**Michelle A. Gillis**  
Senior Vice President and  
Chief Administrative Officer

**Vito C. Peraino**  
Senior Vice President and  
General Counsel

**H. Kim Baird**  
Vice President – Tax

**Robert E. Dobbs**  
Vice President – Internal Audit

**Karl J. Grafe**  
Vice President, Assistant General Counsel  
and Secretary

**Brian S. Hertzman**  
Vice President and Controller

**Mark A. Weiss**  
Vice President and Assistant General Counsel

**David J. Witzgall**  
Vice President and Treasurer

### American Money Management Corporation

**John B. Berding**  
President

#### Annual Shareholders' Meeting

The Annual Shareholders' Meeting will be held at our Company's headquarters, Great American Insurance Group Tower, in Cincinnati on May 23, 2017. Notices will be mailed to all holders of the Company's Common Stock.

#### Common Stock Market Information

American Financial Group's Common Stock is traded on the New York Stock Exchange under the symbol AFG. On February 1, 2017, approximately 5,500 holders of record own our shares.

#### Dividend Reinvestment Plan

This plan allows registered shareholders to automatically reinvest the dividends on their AFG Common Stock toward the purchase of additional shares of AFG Common Stock at a 4% discount to the current market price. Dividend Reinvestment Plan information and enrollment forms may be obtained from the Company's Transfer Agent.

### Annuity Operations

**Christopher P. Miliano**  
Executive Vice President and  
Chief Financial Officer

**Mark F. Muething**  
Executive Vice President and  
Chief Operating Officer

**Michael J. Prager**  
Executive Vice President and Chief Actuary

### Property and Casualty Operations

**Gary J. Gruber**  
President and Chief Operating Officer

**Ronald J. Brichler**  
Executive Vice President

**Vincent McLenaghan**  
Executive Vice President

**Michael E. Sullivan**  
Executive Vice President

## Additional Information

Investors or analysts requesting additional information, including copies of the American Financial Group, Inc. Form 10-K as filed with the Securities and Exchange Commission, may contact:

Investor Relations, American Financial Group, Inc.  
301 E. Fourth Street | Cincinnati, Ohio 45202 | 513-579-6739  
AFGInvestorRelations@amfin.com

SEC filings, news releases and other information may also be accessed on American Financial Group's website at AFGinc.com.

# Protecting America's Farmers

## Spotlight on Crop Insurance

American Financial Group is proud to be a leading provider of specialty insurance products in the agricultural community, a business we have known well for more than 90 years. Crop insurance is a vital part of the American agricultural industry and a key risk management tool for today's farmer. Crop insurance allows farmers to guard against the loss of their crops due to any number of naturally-occurring perils.

AFG offers multiple-peril crop insurance (MPCI) and state-regulated private crop insurance. MPCI is federally supported and regulated, and is sold and served by private sector crop insurance companies known as Approved Insurance Providers. More than 90% of insurable farmland in the United States is protected through the Federal Crop Insurance Program. AFG's Great American Insurance Company is one of only 16 insurers, and the fourth largest, authorized to offer MPCI coverage.

MPCI includes numerous products that offer farmers protection against a reduction in yield due to unavoidable crop losses caused by acts of nature or disease, as well as revenue protection caused by market fluctuations. Farmers have product choices that range from individual production and/or revenue plans to protection based on county yields and prices.

By combining the regulatory oversight and financial support of the federal government with service delivery by the private sector, the crop insurance program has succeeded in achieving effective and affordable protection for thousands of America's farmers and ranchers.

## 2016 Gross Written Premiums by Crop



Photo: Horseshoe Bend, Glen Canyon National Recreation Area, Arizona

We are pleased to celebrate the National Park Service Centennial in 2016.

## *Forward-Looking Statements*

The disclosures in this 2016 Annual Report contain certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. 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. Please see “Forward-Looking Statements” in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.



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AFGinc.com / GAIG.com

The 2016 AFG Annual Report is printed on Cougar® Super Smooth, part of Domtar's EarthChoice® product line that contains fiber from well-managed, independently certified forests.