



## ANNUAL REPORT 2017

Specialty Property and Casualty Insurance  
Fixed and Fixed-Indexed Annuities





A company with **strength and stability** that has grown steadily over time.

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**

This past year was an important reminder of the significant role that insurance plays in stabilizing the economy and restoring communities, homes, businesses and individual financial security in periods of loss and uncertainty. Times like these serve as a defining moment for us, highlighting our strength, agility and capacity to respond when it matters the most.

We carry this philosophy with us as we consider the importance of the products we sell, the service we provide and the lives we impact in offering specialty property and casualty (P&C) products for commercial businesses and fixed and fixed-indexed annuities for individuals. It is through these products that we help businesses and individuals manage risks so that they can focus on living their lives and building their businesses, knowing that they have protection when things do not go as planned.



## Strength, Stability and Possibilities

Disciplined underwriting and product pricing, coupled with a commitment to specialization in markets we know best, have enabled us to continue a proud history of financial strength that our policyholders, agents, investors and employees can count on. Our learning culture helps us to adapt and use each experience as an opportunity to refine, adjust and improve our operations to look beyond what we know today to make improvements and see possibilities for the future. This year was no exception. As we navigated one of the worst years on record for U.S. natural catastrophes, we examined our underwriting appetite, claims processes and relationships with trusted, highly rated reinsurance partners. We opportunistically invested capital in the organic growth of our Specialty P&C businesses that serve niche markets. Amid a persistently low interest rate environment, volatility in the equity markets and a changing regulatory landscape, we pursued measured growth in our annuity operations and introduced product enhancements to enrich the offerings in our annuity portfolio.

Catastrophe losses and low interest rates notwithstanding, 2017 was another record year for AFG. Our Specialty P&C operations reported strong operating earnings, our Annuity Segment achieved record earnings, and our in-house investment management team, American Money Management, outperformed our P&C and life and annuity peers. We believe our business model is unique, as one of the few insurers with over 30 specialty commercial P&C insurance operations as well as a market-leading annuity business. Our insurance professionals are

specialists in selected markets, and the diversity and scope of our product offerings have enabled us to produce consistent, strong financial results and return capital to our shareholders over time.

We are very pleased that Congress passed comprehensive tax reform for the first time in over 30 years. Foreign competitors have enjoyed a tax advantage that has been part of the tax code since 1986. As a full rate taxpayer, we are excited about competing on a more level playing field in the insurance industry; we welcome fair competition. We also see potential stimulus in our economy as a result of tax reform. Higher insurance exposures, rising total insured values, and the opportunity for annuity policyholders to invest more of their hard-earned money are possible benefits.

With the potential for growth and change, we must carefully monitor reinsurance costs, loss cost inflation, interest rates and pricing in our P&C businesses. Likewise, we will continue to closely monitor the impact of changing interest rates and stock market performance on our annuity business. Industry and economic disruption can work to our advantage, especially when we remain disciplined and patient. Dislocations and consolidations, distress in certain lines of business and economic uncertainty can create meaningful opportunities for us. We have always embraced an entrepreneurial spirit and agility, which allows us to act in these situations. We are excited about the possibilities.

We continue to be forward-thinking; we are strategically using predictive analytics to influence decision-making and leverage data to improve profitability in our P&C businesses. The data we collect 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.

Our Annuity Segment continues to develop consumer-centric products with a focus on fixed and fixed-indexed annuities. This approach has enabled us to build a strong market presence, particularly in the financial institutions channel. 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 believe AFG's business model positions us well to identify opportunities and execute to profitably grow our Specialty insurance businesses when we can achieve targeted returns. This past year, we focused on organic growth of several of our Specialty P&C businesses, rather than adding businesses through acquisitions or start-ups. In addition, we combined two of our excess and surplus businesses in our Specialty P&C Group to launch Great American Risk Solutions in order to optimize distribution and service to the wholesale broker community. In our annuity business, we focused on pricing discipline and maintaining sales volume, despite aggressive pricing by certain of AFG's competitors and lower overall industry sales. Our entrepreneurial business model and effective alignment of incentives with business objectives enable a culture of empowerment and accountability, and create a strong foundation for success.

## 2017 Results

Net earnings were \$475 million or \$5.28 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 a \$1.27 per share net loss related to non-core items. Included in those non-core items was a \$0.92 per share write-down of the Company's net deferred tax asset due to the impact of a lower U.S. corporate tax rate beginning in 2018, an \$0.82 per share charge for asbestos and environmental (A&E) reserve strengthening, and a loss on early retirement of debt of \$0.37 per share. These items were partially offset by \$0.81 per share in non-core income from the reinsurance to close transaction involving 2015 and prior years of account at Neon, our Lloyd's-based insurer, and tax benefits from restructuring Neon, as well as net realized gains of \$0.03 per share. Return on equity was 10.3% for the year. AFG produced record core net operating earnings per share of \$6.55 for the year, an increase of 9% from the prior year. Core return on equity was 12.7%.

AFG's adjusted book value per share grew to \$53.51 at the end of 2017. Total value creation, measured as the change in adjusted book value per share plus dividends, was \$5.19 per share, or approximately 10% during 2017. Our balance sheet remains strong, with \$60 billion in assets at December 31, 2017, and a debt to total capital ratio of 16.9%.





## Property and Casualty Insurance

Although Specialty P&C underwriting profit was 6% lower year-over-year, we were very pleased that our Specialty P&C Group achieved a combined operating ratio of 93.1%, outperforming our peer group. These strong underwriting results, coupled with an increase in net investment income and lower P&C expenses, contributed to core pretax operating earnings in our P&C Segment that were 5% higher year-over-year. Net written premiums increased 8% during 2017, and overall renewal rates increased approximately 1% for the year. 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.

During 2017, AFG's P&C Segment outperformed the composite commercial P&C insurance industry by over 10 points on the statutory combined operating ratio. Over the past 10 years, the combined operating ratio of AFG's property and casualty operations has been more favorable than the industry by an average of nearly 11 points.

## Annuities

Our Annuity Segment reported pretax annuity operating earnings of \$380 million in 2017, an increase of 3% from the prior year, achieving a new record for annuity earnings. The improved profitability reflects an 11% increase in average annuity investments, partially offset by lower investment yields due to the run-off of higher yielding investments, and a \$3 million unfavorable unlocking. Interest rate and stock market fluctuations have an impact on the accounting for fixed-indexed annuities; these fair value accounting adjustments are recognized through AFG's reported core earnings. Pretax annuity operating earnings before the impact of fair value accounting were \$413 million in 2017, an increase of 5% from the prior year. Statutory annuity premiums were \$4.3 billion in 2017, down approximately 2% from the prior year, primarily the result of our adherence to pricing discipline in a relatively low interest rate environment during the year, as well as from aggressive pricing by some of AFG's competitors. Overall, we are pleased with this result, given that overall industry annuity premiums were down about 9% for the year. As a result of a consistent pattern of strong sales over many years, particularly through financial institutions, AFG's fixed annuity reserves have more than doubled from \$15 billion at the end of 2011 to \$33 billion at year-end 2017.

## Investments

We view investment management as a core competency and have a highly skilled in-house team of professionals managing our investment portfolio. These individuals who manage our \$46 billion investment portfolio have followed a consistent strategy over many years and changing economic conditions, outperforming market indices while effectively managing portfolio risk.

Our portfolio consists primarily of investment grade securities that provide a relatively predictable, steady stream of income. Over the past 10 years, the returns in our fixed income portfolio significantly surpassed other fixed income indices, and our equity portfolio has achieved average returns well in excess of the S&P 500 Index.

## 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 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. 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.

AFG's financial condition is strong, with \$885 million in excess capital (including cash at the parent company of approximately \$300 million) as of December 31, 2017. 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.

We returned \$421 million to shareholders in the form of dividends during 2017. The compounded annual growth rate of AFG's common stock plus dividends for the five-year period ended December 31, 2017, was approximately 27%, exceeding comparable indices. These measures serve as benchmarks as we evaluate our effectiveness in value creation.

During 2017, we announced a 12% increase in AFG's regular quarterly dividend to an annual rate of \$1.40 per share. This marks the 12th consecutive annual dividend increase for the Company. In addition, we paid special dividends of \$1.50 and \$2.00 per share in May and November, respectively. 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 \$1.6 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.



## Reliability Today and Tomorrow

Superior service, market-leading product offerings and demonstrated financial strength are at the core of all that we do. Maintaining our focus on these essential elements enables us to enjoy strong market leadership in the specialty niches we serve. Our culture distinguishes us as a partner our agents want to work with, a company that businesses and individuals place their trust in, and an employer of choice for our insurance professionals. With a history that dates back to the founding of Great American Insurance Company in 1872, our roots run deep, and provide a strong base of financial strength that our policyholders, agents, investors and employees expect and rely upon today and for years to come.

We thank God, our talented management team and employees for a very successful year. We also thank you, our shareholders, for your investment and confidence.



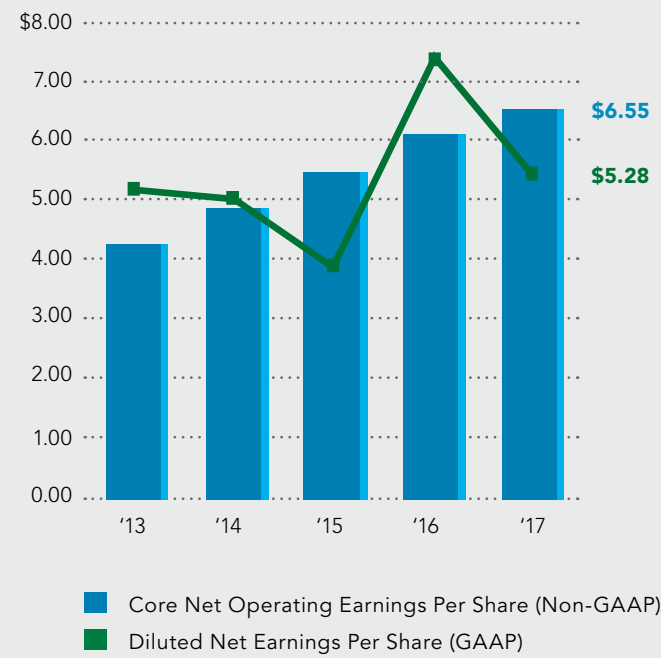
Carl H. Lindner III  
Co-Chief Executive Officer



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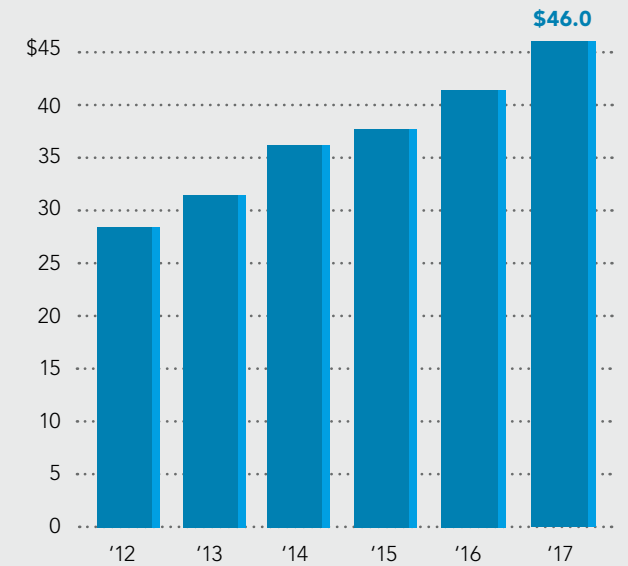
## Earnings Per Share

For the year ended December 31



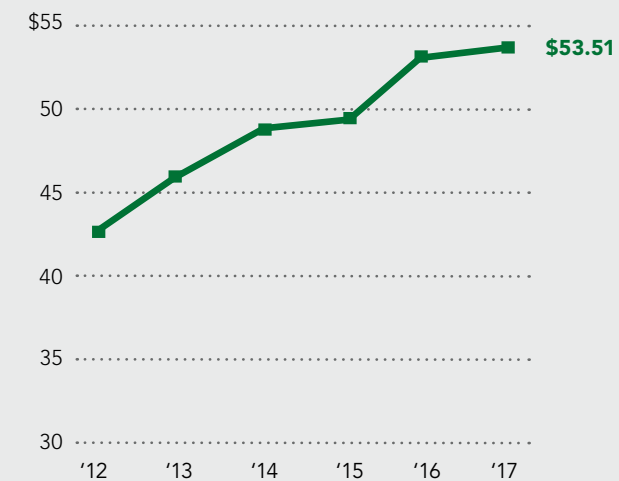
## Invested Assets

As of December 31 (dollars in billions)



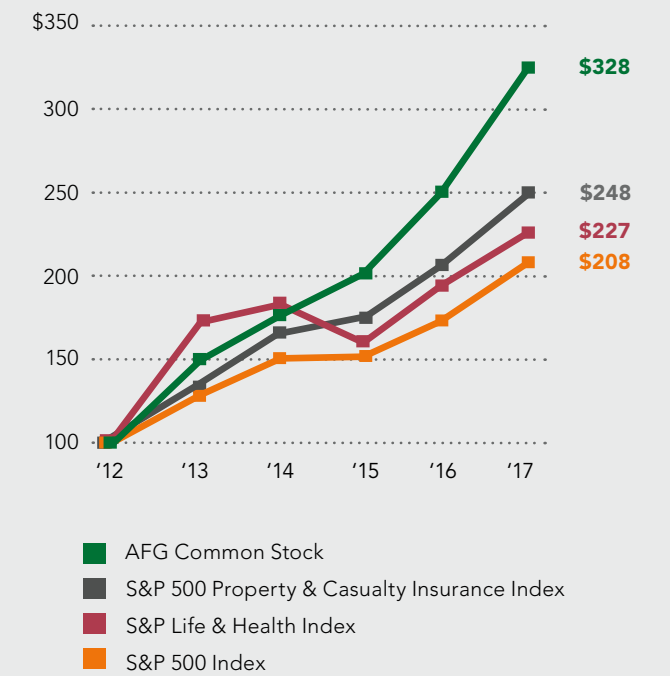
## Adjusted Book Value Per Share

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, 2012 in AFG's Common Stock, the S&P 500 Property & Casualty Insurance Index, the S&P Life & Health Index and the S&P 500 Index, including reinvestment of dividends.





Photo: Great American Insurance Group headquarters, Cincinnati, Ohio

## Financial Strength Ratings

	A.M. Best*	Standard & Poor's*
<b>Specialty Property &amp; Casualty Insurance Group</b>		
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+
<b>Annuity Group</b>		
Great American Life Insurance Company	A (Excellent)	A+
Annuity Investors Life Insurance Company	A (Excellent)	A+

\*Information reflects ratings in effect as of March 15, 2018

In millions, except per share amounts

## Balance Sheet Data

	As of December 31,		
	2017	2016	2015
Cash and investments	\$46,048	\$41,433	\$37,736
Total assets	60,658	55,072	49,837
Long-term debt	1,301	1,283	998
Shareholders' equity	5,330	4,916	4,592
Book value per share	\$60.38	\$56.55	\$52.50
Adjusted shareholders' equity <sup>A</sup>	4,724	4,617	4,313
Adjusted book value per share <sup>A</sup>	\$53.51	\$53.11	\$49.32
Cash dividends per share <sup>B</sup>	\$4.788	\$2.153	\$2.030
Ratio of debt to total capital <sup>C</sup>			
Including subordinated debt	21.8%	22.1%	18.5%
Excluding subordinated debt	16.9%	17.0%	13.1%
Shares outstanding	88.3	86.9	87.5

## Summary of Operations

	For the Year Ended December 31,		
	2017	2016	2015
Total revenues	\$6,865	\$6,498	\$6,145
Components of net earnings:			
Core net operating earnings <sup>D</sup>	\$588	\$534	\$486
Realized gains (losses) on securities	3	13	(12)
Realized gain (loss) on subsidiaries	–	1	(104)
Gain on sale of apartment properties and hotel	–	15	36
Special A&E charges	(74)	(26)	(52)
Neon exited lines charge	18	(65)	–
Loss on retirement of debt	(33)	–	(2)
Tax benefit related to National Interstate merger	–	66	–
Tax benefit related to Neon restructuring	56	111	–
Tax expense related to change in U.S. corporate tax rate	(83)	–	–
Net earnings attributable to shareholders – GAAP	\$475	\$649	\$352
Return on shareholders' equity:			
Core net operating earnings <sup>E</sup>	12.7%	12.2%	11.5%
Net earnings <sup>E</sup>	10.3%	14.8%	8.3%
Components of diluted earnings per share:			
Core net operating earnings <sup>D</sup>	\$6.55	\$6.03	\$5.44
Realized gains (losses) on securities	0.03	0.16	(0.12)
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	(0.82)	(0.30)	(0.58)
Neon exited lines charge	0.19	(0.73)	–
Loss on retirement of debt	(0.37)	–	(0.03)
Tax benefit related to National Interstate merger	–	0.74	–
Tax benefit related to Neon restructuring	0.62	1.25	–
Tax expense related to change in U.S. corporate tax rate	(0.92)	–	–
Diluted earnings per share	\$5.28	\$7.33	\$3.94

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

B Includes special cash dividends of \$1.50 and \$2.00 per share paid in May and November 2017, respectively, and \$1.00 per share paid in December 2016 and 2015.

C 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) on fixed maturity investments).

D Certain significant items that may not be indicative of ongoing core 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.

E Excludes 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

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

### A History of Strength, Reliability and Agility

We are passionate about our business and the impact it has on the economy and the world. Annuity products equip individuals to manage financial risks and help them live their lives to the fullest. Property and casualty insurance enables financial systems to operate effectively by pooling and transferring risks and by allowing commercial businesses to transact in an uninterrupted manner. We are proud of AFG's 145-year history in the insurance business, dating back to the founding of Great American Insurance Company.

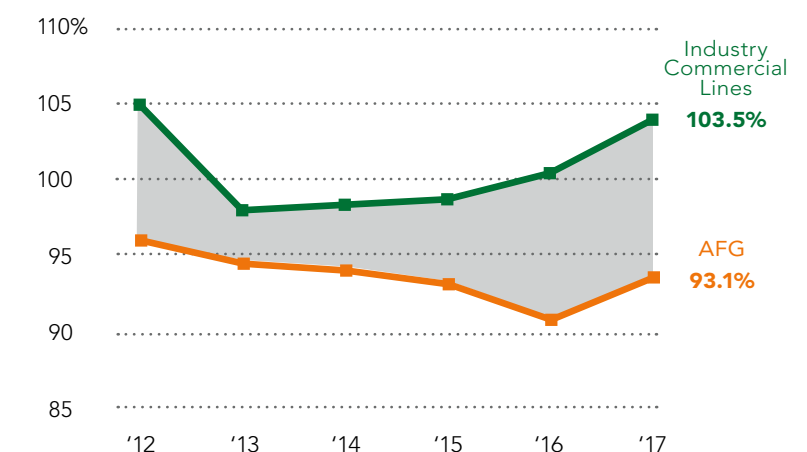
AFG has an entrepreneurial spirit at its core. Experienced professionals oversee each of our Specialty Property and Casualty (P&C) businesses, which are focused on a particular industry, product or market. Each business handles its own decision-making related to underwriting, marketing, claims and policy 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 portfolio 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 ensures that we grow our business only when we can achieve desired or targeted returns, and may prompt us to withdraw from markets that do not meet profit objectives or fit within our business strategy. A successful history of acquisitions, business bolt-ons and start-ups has grown the diversity of our Specialty P&C portfolio, while carefully executed dispositions have enabled us to focus on operations where we have deep expertise in the development, delivery and service of the products provided to specialty niches.

Disciplined underwriting and superior claims service within our Specialty P&C operations have resulted in underwriting outperformance as compared to the overall commercial property and casualty insurance industry in 30 of the past 32 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 an average of nearly 11 points.

Our Annuity Segment sharpened its focus and grew considerably following the height of the global financial crisis. Since the end of 2009, our annuity business has tripled earnings, tripled premiums and nearly tripled its assets. Significant growth in annuity sales, especially in the financial institutions channel, has been the result of our consumer-friendly model, strong ratings and more than 40-year history in the annuity industry. In fact, AFG's annuity assets have grown at an annual compounded rate of 18% since 1974.

### Statutory Combined Ratio



Industry Commercial Lines based on data from A.M. Best



AFG and its Great American Insurance Group member companies employ approximately 8,000 employees in approximately 120 office locations globally, with about 94% of AFG's 2017 direct written premiums derived from U.S.-based subsidiaries.

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, the 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 33 Specialty P&C businesses provide insurance solutions that help businesses manage the risks unique to their operations, industries and markets.

Our diversified book of Specialty insurance businesses, strong capital adequacy, disciplined pricing and relatively low windstorm/earthquake and coastal exposures are central to AFG's Specialty P&C strategy. At December 31, 2017, the Company's net exposure to a catastrophic earthquake or windstorm that industry models indicate should statistically 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. During 2017, we acted on opportunities to profitably grow our businesses organically in response to changing market conditions throughout insurance cycles, changes in the economic environment and periods of market dislocation.

AFG's P&C Segment reported \$660 million in pretax operating earnings in 2017 compared to \$630 million in 2016, an increase of 5%. Lower underwriting profit was more than offset by higher net investment income and lower expenses. The Specialty P&C Insurance Group generated an underwriting profit of \$317 million in 2017 compared to \$337 million in 2016, a decrease of 6%. Lower underwriting profit in our Property and Transportation and Specialty Financial Groups was partially offset by higher underwriting profit in the Specialty Casualty Group. Results for each of the Specialty P&C insurance groups reflect higher catastrophe losses in 2017 compared to 2016. Overall catastrophe losses were \$140 million (3.0 points on the combined ratio) for 2017 compared to \$55 million (1.3 points) for 2016.

Gross written premiums for AFG's Specialty P&C Group were \$6.5 billion in 2017 compared to \$6.0 billion in 2016, an increase of 9%. Net written premiums were \$4.8 billion, up 8% from the \$4.4 billion reported in 2016, with each of our Specialty P&C insurance groups reporting growth in gross and net written premiums during 2017.

Overall renewal rates increased approximately 1% in 2017. 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.

Great American Insurance Company 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.

Underwriting profit for this group was \$154 million in 2017, a decrease of 7% from the prior year. Lower underwriting profits in our crop and ocean marine businesses were the primary drivers of the lower results, and were partially offset by higher underwriting profit in our transportation businesses. AFG's crop insurance operations reported strong underwriting profitability in 2017, albeit at lower levels than in 2016. Catastrophe losses were \$36 million (2.1 points on the combined ratio) and related reinstatement premiums were \$2 million in 2017 compared to catastrophe losses of \$31 million (1.9 points) in 2016.

Gross written premiums in this group increased 7% in 2017 compared to 2016. This increase was the result of higher gross written premiums in

our crop, transportation and property and inland marine businesses, and Great American's Singapore branch. This growth was partially offset by lower premiums resulting from an exit from the customs bond business, which was part of the ocean marine operations. Average renewal rates increased approximately 3% for this group in 2017.

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, non-profit social services businesses and Neon, our Lloyd's-based insurer. 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 \$104 million in 2017, an increase of 33% from 2016. These results include favorable reserve development within Neon, including a portion of a 2015 and prior years reinsurance to close transaction attributed to ongoing lines of business, and higher underwriting profit in our excess and surplus lines and workers' compensation businesses. These improved results were partially offset by lower underwriting profit in our executive liability business, due primarily to lower favorable prior year reserve development, adverse prior year reserve development in the targeted markets operations and higher catastrophe losses. Catastrophe losses were \$71 million (3.3 points on the combined ratio) and related reinstatement





premiums were \$6 million in 2017 compared to catastrophe losses of \$10 million (0.5 points) in 2016.

Gross written premiums increased 11% in 2017 compared to 2016. New accounts written in the targeted markets businesses and higher gross written premiums at Neon, resulting from the growth of its portfolio in targeted classes of business, were the primary drivers of the increase. Additionally, higher gross written premiums in our workers' compensation businesses, primarily the result of rate increases in Florida, coupled with growth in our executive liability and excess and surplus businesses, contributed to the growth in gross written premiums in 2017. Average renewal rates were flat for this group in 2017.



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.

Underwriting profit for this group was \$61 million in 2017, a decrease of 27% from 2016. These results reflect lower underwriting profitability in our financial institutions business, due primarily to higher catastrophe losses and adverse prior year reserve

development. Catastrophe losses were \$30 million (5.2 points on the combined ratio) in 2017 compared to \$11 million (2.0 points) in 2016. In connection with catastrophe losses incurred in 2017, profit-based commissions payable to agents decreased by \$8 million (1.1 points on the combined ratio) and reinstatement premiums of \$2 million were paid.

Gross written premiums increased 6% in 2017 from the prior year due primarily to higher premiums in our lending and leasing, fidelity and surety businesses. Average renewal rates for this group decreased approximately 2% in 2017.

### Annuity Operations

Through the annuity operations of Great American Insurance Group, AFG sells traditional fixed and fixed-indexed annuities (FIAs) primarily in the retail and financial institutions markets. The ratings assigned by independent insurance ratings agencies are an important competitive factor because agents, potential policyholders and financial institutions 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. Our annuity operations help individuals plan for secure financial futures by providing products that are simple to understand and responsive to their needs.

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 2017. 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 financial institution employees representing over 30 financial institutions wrote at least one annuity policy with AFG during 2017. For the full year, AFG ranked first in sales of fixed-indexed annuities through financial institutions and is among the top 10 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 pretax annuity earnings of more than 8% in AFG's annuity business over the past five years.

AFG's annuity operations contributed a record \$380 million in pretax earnings in 2017 compared to \$368 million in 2016, an increase of 3%. This increase reflects an 11% increase in average annuity investments, partially offset by lower investment yields due to the run-off of higher yielding investments. Included in these results is the impact of fair value accounting for FIAs, which had a negative impact of \$33 million

in 2017 and \$27 million in 2016. Both periods reflect the negative impact of lower than anticipated interest rates, partially offset by the positive impact of a higher stock market on the fair value accounting for FIAs. AFG's periodic detailed unlocking review of the major actuarial assumptions underlying its annuity operations resulted in a net annuity charge of \$3 million in 2017 compared to a net annuity expense reduction of \$1 million in 2016. Excluding the impact of fair value accounting for FIAs, pretax annuity earnings increased by 5% during 2017.

AFG's annuity operations contributed a record **\$380 million** in pretax earnings in 2017.

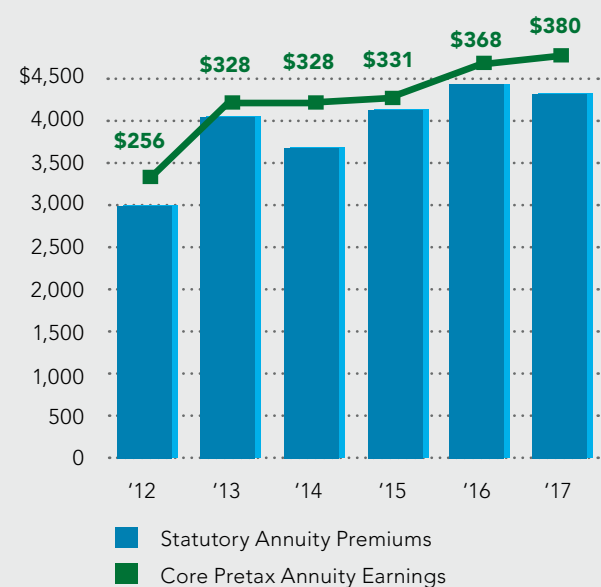
The focus of our annuity business is to maintain appropriate spreads on our base of invested assets and annuity reserves. Our "net interest spread," which represents the difference between net investment income earned and interest credited, was 2.62% for 2017, a decrease of 11 basis points from the prior



year. This decrease was due primarily to lower fixed maturity investment yields, partially offset by lower crediting rates. Features included in current annuity products allow AFG to achieve its desired profitability at a lower net interest spread than past offerings. As a result, AFG expects its net interest spread to narrow in the future.

## Premium and Earnings Growth

Year Ended December 31 (dollars in millions)



Annuity premiums for 2017 were \$4.3 billion, a decrease of 2% from the prior year period. Sales of fixed annuities through financial institutions continue to be a valuable source of annuity sales for AFG and represent approximately 54% of total annuity premiums in 2017.

Our in-house investment management team, American Money Management Corporation, closely monitors market conditions and economic trends to ensure adequate pricing and effective investment management strategies that support our consumer-friendly annuity products.

## 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 account for 91% of our total investments. Approximately 90% of our fixed maturity investments are rated investment grade, and 98% have an NAIC designation of 1 or 2, the highest two levels. Stocks, real estate and other investments make up the remaining 9% of our portfolio. Our net unrealized after-tax gain on marketable securities was \$840 million as of December 31, 2017.

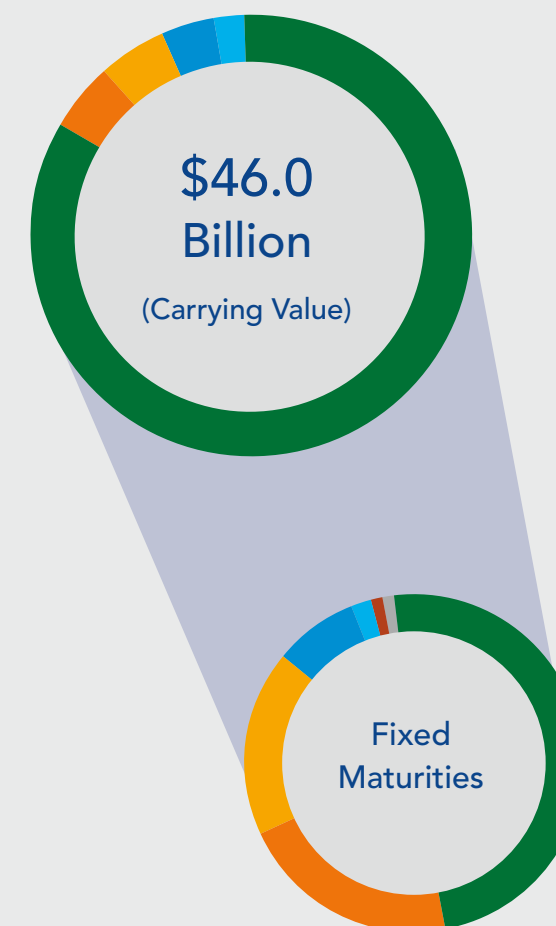
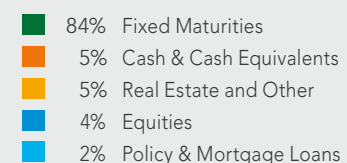
Our real estate investment strategy is based on our history of buying under-performing or out-of-favor assets, developing and managing them in-house, and selling them when we believe the value has been maximized. Over the past five years, we have realized net pretax gains of approximately \$160 million on sales of real estate properties.

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

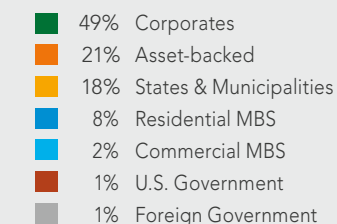


## Investment Portfolio

As of December 31, 2017



### Fixed Maturities Overview





## Specialty Property and Casualty Insurance Operations

### Property and Transportation Group

Year Ended December 31 (dollars in millions)

	2017	2016	2015
Gross Written Premiums	\$2,688	\$2,504	\$2,455
Net Written Premiums	\$1,765	\$1,672	\$1,636
GAAP Combined Ratio	91.0%	90.0%	96.9%

### Specialty Casualty Group

Year Ended December 31 (dollars in millions)

	2017	2016	2015
Gross Written Premiums	\$3,087	\$2,792	\$2,739
Net Written Premiums	\$2,280	\$2,036	\$2,052
GAAP Combined Ratio	95.2%	96.1%	92.7%

### Specialty Financial Group

Year Ended December 31 (dollars in millions)

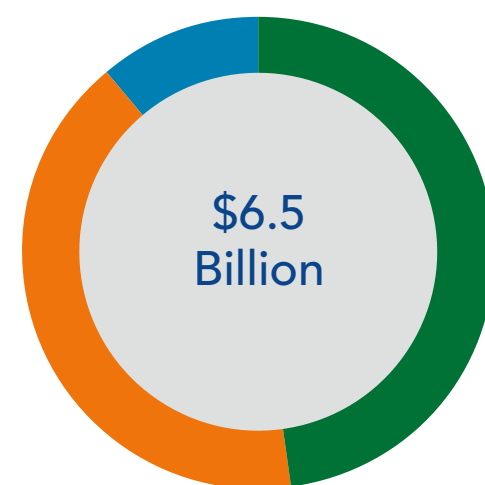
	2017	2016	2015
Gross Written Premiums	\$727	\$685	\$637
Net Written Premiums	\$596	\$572	\$540
GAAP Combined Ratio	89.4%	84.9%	83.1%

### Specialty Property and Casualty Operations

Year Ended December 31 (dollars in millions)

	2017	2016	2015
Gross Written Premiums	\$6,502	\$5,981	\$5,832
Net Written Premiums	\$4,751	\$4,386	\$4,327
GAAP Combined Ratio	93.1%	92.3%	93.1%

### 2017 Gross Written Premiums



- 48% Specialty Casualty
- 41% Property and Transportation
- 11% Specialty Financial

## Annuity Operations

### Components of Earnings

Year Ended December 31 (dollars in millions)

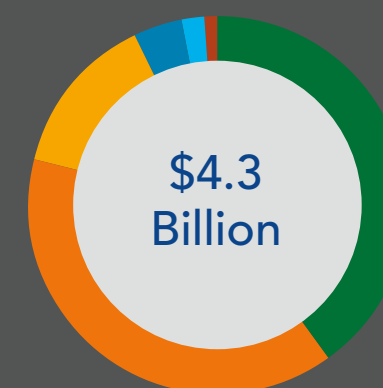
	2017	2016	2015
Earnings before fair value accounting for FIAs	\$413	\$395	\$354
Impact of fair value accounting for FIAs	(33)	(27)	(23)
Earnings before income taxes	\$380	\$368	\$331

### Net Spread on Fixed Annuities

Year Ended December 31 (dollars in millions)

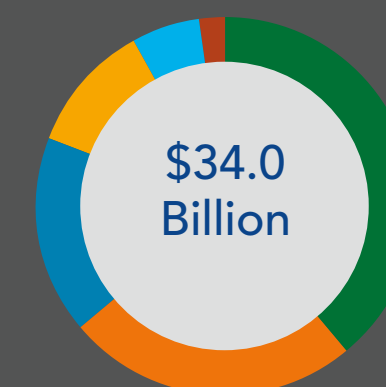
	2017	2016	2015
Average fixed annuity investments	\$31,250	\$28,223	\$25,174
Average fixed annuity benefits accumulated	\$31,526	\$28,146	\$24,898
Net interest spread	2.62%	2.73%	2.69%
Net spread earned	1.23%	1.29%	1.26%

### 2017 Annuity Premiums



- 40% Retail Single Premium-Indexed
- 39% Financial Institutions-Indexed
- 14% Financial Institutions-Fixed
- 4% Education Market
- 2% Retail Single Premium-Fixed
- 1% Variable Annuities

### Annuity Reserves (GAAP) As of December 31, 2017



- 39% Retail Single Premium-Indexed
- 25% Financial Institutions-Indexed
- 17% Education Market
- 11% Financial Institutions-Fixed
- 6% Retail Single Premium-Fixed
- 2% Variable (Separate Account)





## AMERICAN FINANCIAL GROUP BOARD OF DIRECTORS

Seated, left to right: Gina Drosos, John Von Lehman, Ken Ambrecht.

Standing, left to right: Craig Lindner, Jim Evans, Jeff Consolino, Greg Joseph, Terry Jacobs, Will Verity, John Berding, Carl Lindner III.

As of March 15, 2018

### 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.,  
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>

Chief Executive Officer, Signet Jewelers Limited,  
a leading specialty retail jeweler

### 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 15, 2018

### 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

#### 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

### Annuity Operations

#### Mark F. Muething

President, Chief Operating Officer and  
General Counsel

#### Christopher P. Miliano

Executive Vice President and  
Chief Financial 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, Jr.

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.

#### Transfer Agent

American Stock Transfer & Trust Company LLC  
6201 15th Avenue | Brooklyn, New York 11219 | 800-937-5449  
Astfinancial.com

#### Annual Shareholders' Meeting

The Annual Shareholders' Meeting will be held at our Company's headquarters, Great American Insurance Group  
Tower, in Cincinnati on May 22, 2018. 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, 2018, approximately 5,200 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.



## The **strength** to endure

AFG's long-time commitment to specialization in our P&C and annuity businesses has positioned us well to serve the unique needs of markets we know best. Our diversified specialty business model has been built steadily and purposely over many years. We are proud of the fact that businesses and individuals rely on our financial strength and customer focus through varying market conditions, shifting economic landscapes and changing business cycles. We believe that our disciplined approach to steady and healthy growth will continue to produce value for our stakeholders for generations to come.







301 E. Fourth St., Cincinnati, OH 45202  
AFGinc.com / GAIG.com

## *Forward-Looking Statements*

The disclosures in this 2017 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.