AMERICAN FINANCIAL GROUP INC
Form 10-K
February 26, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2015 Commission File No. 1-13653
AMERICAN FINANCIAL GROUP, INC.
Incorporated under the Laws of Ohio IRS Employer I.D. No. 31-1544320
301 East Fourth Street, Cincinnati, Ohio 45202
(513) 579-2121
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	New York Stock Exchange
6-3/8% Senior Notes due June 12, 2042	New York Stock Exchange
5-3/4% Senior Notes due August 25, 2042	New York Stock Exchange
6-1/4% Subordinated Debentures due September 30, 2054	New York Stock Exchange
6% Subordinated Debentures due November 15, 2055	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ
State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter: $4.90 billion.
Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 86,591,708 shares (excluding 14.9 million shares owned by subsidiaries) as of February 1, 2016.

Documents Incorporated by Reference:
Proxy Statement for 2016 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part III hereof).

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FORWARD-LOOKING STATEMENTS

The disclosures in this Form 10-K contain certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of words such as "anticipates", "believes", "expects", "projects", "estimates", "intends", "plans", "seeks", "could", "may", "should", "will" or th version of those words or other comparable terminology. Such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings, investment activities, and the amount and timing of share repurchases; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate changes; and improved loss experience.

Actual results and/or financial condition could differ materially from those contained in or implied by such forward-looking statements for a variety of reasons including but not limited to the following and those discussed in Item 1A — Risk Factors.

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

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

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PART I
ITEM 1
Business

Introduction

American Financial Group, Inc. ("AFG" or the "Company") is a holding company that, through the operations of Great American Insurance Group, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of fixed and fixed-indexed annuities in the retail, financial institutions and education markets. Its address is 301 East Fourth Street, Cincinnati, Ohio 45202; its phone number is (513) 579-2121. SEC filings, news releases, AFG's Code of Ethics applicable to directors, officers and employees and other information may be accessed free of charge through AFG's Internet site at: www.AFGinc.com. (Information on AFG's Internet site is not part of this Form 10-K.)

See Note C — "Segments of Operations" to the financial statements for information on AFG's assets, revenues and earnings before income taxes by segment.

Property and Casualty Insurance Segment

General

AFG's property and casualty operations provide a wide range of commercial coverages through over 30 niche insurance businesses that make up the Great American Insurance Group. AFG's property and casualty insurance operations ultimately report to a single senior executive and operate under a business model that allows local decision-making for underwriting, claims and policy servicing in each of the niche operations. Each business is managed by experienced professionals in particular lines or customer groups and operates autonomously but with certain central controls and accountability. The decentralized approach allows each unit the autonomy necessary to respond to local and specialty market conditions while capitalizing on the efficiencies of centralized investment and administrative support functions. AFG's property and casualty insurance operations employed approximately 6,500 people as of December 31, 2015. These operations are conducted through the subsidiaries listed in the following table, which includes independent financial strength ratings and 2015 gross written premiums (in millions) for each major subsidiary. These ratings are generally based on concerns for policyholders and agents and are not directed toward the protection of investors. AFG believes that maintaining a rating in the "A" category by A.M. Best is important to compete successfully in most lines of business.

	Ratings		Gross Written
Company	AM Best	S&P	Premiums
Great American Insurance	A+	A+	$3,692
National Interstate	A	not rated	727
Summit (Bridgefield Casualty and Bridgefield Employers)	A	A+	535
Republic Indemnity	A	A+	277
Marketform Lloyd's Syndicate	A	A+	217
American Empire Surplus Lines	A+	A+	157
Mid-Continent Casualty	A+	A+	144
Other			83
			$5,832

The primary objectives of AFG's property and casualty insurance operations are to achieve solid underwriting profitability and provide excellent service to its policyholders and agents. Underwriting profitability is measured by the combined ratio, which is a sum of the ratios of losses, loss adjustment expenses ("LAE"), underwriting expenses and policyholder dividends to premiums. A combined ratio under 100% indicates an underwriting profit. The combined ratio does not reflect investment income, other income or federal income taxes.

While many costs included in underwriting are readily determined (commissions, administrative expenses and many of the losses on claims reported), the process of determining overall underwriting results is highly dependent upon the use of estimates in the case of losses incurred or expected but not yet reported or developed. Actuarial procedures and projections are

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used to obtain “point estimates” of ultimate losses. While the process is imprecise and develops amounts which are subject to change over time, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate.

AFG’s statutory combined ratio averaged 93.4% for the period 2013 to 2015 as compared to 97.3% for the property and casualty industry over the same period (Source: “A.M. Best’s U.S. Property/Casualty Review & Preview” — February 2016 Edition). AFG believes that its specialty niche focus, product line diversification and underwriting discipline have contributed to the Company’s ability to consistently outperform the industry’s underwriting results. Management’s philosophy is to refrain from writing business that is not expected to produce an underwriting profit even if it is necessary to limit premium growth to do so.

Financial data is reported in accordance with U.S. generally accepted accounting principles (“GAAP”) for shareholder and other investment purposes and reported on a statutory basis for insurance regulatory purposes. Major differences for statutory accounting include charging policy acquisition costs to expense as incurred rather than spreading the costs over the periods covered by the policies; reporting investment grade bonds and redeemable preferred stocks at amortized cost rather than fair value; netting of reinsurance recoverables and prepaid reinsurance premiums against the corresponding liabilities rather than reporting such items separately; and charging to surplus certain GAAP assets, such as furniture and fixtures and agents’ balances over 90 days old.

Unless indicated otherwise, the financial information presented for the property and casualty insurance operations herein is presented based on GAAP. Statutory information is provided for industry comparisons or where comparable GAAP information is not readily available.

Property and Casualty Results

Performance measures such as underwriting profit or loss and related combined ratios are often used by property and casualty insurers to help users of their financial statements better understand the company’s performance. See Note C — “Segments of Operations” to the financial statements for the reconciliation of AFG’s earnings before income taxes by significant business segment to the Statement of Earnings.

The following table shows the performance of AFG’s property and casualty insurance operations (dollars in millions):

	2015		2014		2013	
Gross written premiums	$5,832		$5,477		$4,805	
Ceded reinsurance	(1,505	)	(1,457	)	(1,464	)
Net written premiums	$4,327		$4,020		$3,341	
Net earned premiums	$4,224		$3,878		$3,204	
Loss and LAE	2,628		2,470		1,986	
Special asbestos and environmental (“A&E”) charges	67		24		54	
Underwriting expenses	1,304		1,172		1,019	
Underwriting gain	$225		$212		$145	
GAAP ratios:						
Loss and LAE ratio	63.8	%	64.3	%	63.7	%
Underwriting expense ratio	30.9	%	30.2	%	31.8	%
Combined ratio	94.7	%	94.5	%	95.5	%
Statutory ratios:						
Loss and LAE ratio	60.9	%	63.2	%	62.2	%

Underwriting expense ratio	31.6	%	30.4	%	31.9	%
Combined ratio	92.5	%	93.6	%	94.1	%
Industry statutory combined ratio (a)						
All lines	98.0	%	97.4	%	96.4	%
Commercial lines	98.1	%	97.1	%	96.7	%

(a) The source of the industry ratios is "A.M. Best's U.S. Property/Casualty — Review & Preview" (February 2016 Edition).

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As with other property and casualty insurers, AFG's operating results can be adversely affected by unpredictable catastrophe losses. Certain natural disasters (hurricanes, severe storms, earthquakes, tornadoes, floods, etc.) and other incidents of major loss (explosions, civil disorder, terrorist events, fires, etc.) are classified as catastrophes by industry associations. Losses from these incidents are usually tracked separately from other business of insurers because of their sizable effects on overall operations. Total net losses to AFG's insurance operations from current accident year catastrophes were $35 million in 2015, $28 million in 2014 and $31 million in 2013 and are included in the table above.

AFG generally seeks to reduce its exposure to catastrophes through individual risk selection, including minimizing coastal and known fault-line exposures, and the purchase of reinsurance. AFG's net exposure to a catastrophic earthquake or windstorm that industry models indicate could occur once in every 500 years (a "500-year event") is expected to be less than 3.5% of AFG's shareholders' equity.

Property and Casualty Insurance Products

AFG is focused on growth opportunities in what it believes to be more profitable specialty businesses where AFG personnel are experts in particular lines of business or customer groups. The following are examples of AFG's specialty businesses:

Property and Transportation	
Inland and Ocean Marine	Provides coverage primarily for builders' risk, contractors' equipment, property, motor truck cargo, marine cargo, boat dealers, marina operators/dealers and excursion vessels.
Agricultural-related	Provides 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	Provides 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.
Specialty Casualty	
Executive and Professional Liability	Markets coverage for directors and officers of businesses and non-profit organizations; errors and omissions; mergers and acquisitions; and provides medical malpractice insurance.
Umbrella and Excess Liability	Provides liability coverage in excess of primary layers.
Excess and Surplus	Provides 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.
General Liability	Provides coverage for contractor-related businesses, energy development and production risks, and environmental liability risks.
Targeted Programs	Includes 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.
Workers' Compensation	Provides coverage for prescribed benefits payable to employees who are injured on the job.

Specialty Financial	
Fidelity and Surety	Provides 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	Provides coverage for insurance risk management programs for lending and leasing institutions, including equipment leasing and collateral and lender-placed mortgage property insurance.

Management believes specialization is the key element to the underwriting success of these business units. These specialty businesses are opportunistic and their premium volume will vary based on prevailing market conditions. AFG continually evaluates expansion in existing markets and opportunities in new specialty markets that meet its profitability objectives. For example, in April 2014, AFG acquired Summit Holding Southeast, Inc. and its related companies. Summit, which is a leading

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provider of workers' compensation solutions in the southeastern United States, generated $529 million in net written premiums in 2015. Likewise, AFG will withdraw from markets that do not meet its profit objectives or business strategy, such as the withdrawal from certain auto programs over the last few years.

In October of 2015, AFG announced the hiring of a new management team at Marketform with extensive underwriting experience in the Lloyd's market. The new management is in the process of evaluating Marketform's operational structure and lines of business with the goal of improving the profitability of these operations.

Premium Distribution

The following table shows the net written premiums by sub-segment for AFG's property and casualty insurance operations for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Property and transportation	$1,636	$1,566	$1,547
Specialty casualty	2,052	1,864	1,224
Specialty financial	540	488	486
Other	99	102	84
	$4,327	$4,020	$3,341

The geographic distribution of statutory direct written premiums by AFG's U.S.-based insurers for 2015, 2014 and 2013 is shown below. Approximately 5% of AFG's direct written premiums in 2015 were derived from non U.S.-based insurers, primarily Marketform, a United Kingdom-based Lloyd's insurer.

	2015		2014		2013			2015		2014		2013	
California	14.2	%	13.9	%	13.8	%	Pennsylvania	2.6	%	2.6	%	2.3	%
Florida	9.0	%	8.7	%	4.3	%	Iowa	2.5	%	2.5	%	3.4	%
New York	6.7	%	6.6	%	6.6	%	Kansas	2.5	%	2.5	%	3.2	%
Texas	6.1	%	6.2	%	6.8	%	Michigan	2.5	%	2.3	%	2.4	%
Illinois	5.7	%	5.8	%	6.8	%	New Jersey	2.3	%	2.4	%	2.3	%
Georgia	2.8	%	2.8	%	2.3	%	Indiana	2.0	%	1.8	%	2.3	%
Missouri	2.8	%	2.7	%	3.1	%	Other	35.6	%	36.4	%	38.0	%
North Carolina	2.7	%	2.8	%	2.4	%		100.0	%	100.0	%	100.0	%

Reinsurance

Consistent with standard practice of most insurance companies, AFG reinsures a portion of its property and casualty business with other insurance companies and assumes a relatively small amount of business from other insurers. AFG uses reinsurance for two primary purposes: (i) to provide higher limits of coverage than it would otherwise be willing to provide (i.e. large line capacity) and (ii) to protect its business by reducing the impact of catastrophes. The availability and cost of reinsurance are subject to prevailing market conditions, which may affect the volume and profitability of business that is written. AFG is subject to credit risk with respect to its reinsurers, as the ceding of risk to reinsurers does not relieve AFG of its liability to its insureds until claims are fully settled.

The commercial marketplace requires large policy limits ($25 million or more) in several of AFG's lines of business, including certain executive and professional liability, umbrella and excess liability, and fidelity and surety coverages. Since these limits exceed management's desired exposure to an individual risk, AFG generally enters into reinsurance agreements to reduce its net exposure under such policies to an acceptable level. Reinsurance continues to be available for this large line capacity exposure with satisfactory pricing and terms.

AFG has taken steps to limit its exposure to wind and earthquake losses by purchasing catastrophe reinsurance. In addition, AFG purchases catastrophe reinsurance for its workers' compensation businesses. Although the cost of catastrophe reinsurance varies depending on exposure and the level of worldwide loss activity, AFG continues to obtain reinsurance coverage in adequate amounts at acceptable rates due to management's decision to limit overall exposure to catastrophe losses through individual risk selection (including minimizing coastal and known fault-line exposures).

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In addition to traditional reinsurance, AFG has catastrophe coverage through a catastrophe bond structure with Riverfront Re Ltd. that provides coverage up to $95 million (fully collateralized) for catastrophe losses in excess of $119 million per occurrence for the period from April 1, 2014 through December 31, 2016.

In addition to the large line capacity and catastrophe reinsurance programs discussed above, AFG purchases reinsurance on a product-by-product basis. AFG regularly reviews the financial strength of its current and potential reinsurers. These reviews include consideration of credit ratings, available capital, claims paying history and expertise. This process periodically results in the transfer of risks to more financially secure reinsurers. Substantially all reinsurance is ceded to companies with investment grade S&P ratings or is secured by "funds withheld" or other collateral. Under "funds withheld" arrangements, AFG retains ceded premiums to fund ceded losses as they become due from the reinsurer. Recoverables from the following companies were individually between 5% and 11% of AFG's total property and casualty reinsurance recoverable (including prepaid reinsurance premiums and net of payables to reinsurers) at December 31, 2015: Hannover Reinsurance Co. Ltd, Munich Reinsurance America, Inc. and Swiss Reinsurance America Corporation. In addition, AFG has a reinsurance recoverable from Ohio Casualty Insurance Company of $159 million related to that company's purchase of AFG's commercial lines business in 1998. No other reinsurers exceeded 5% of AFG's property and casualty reinsurance recoverable.

Reinsurance is provided on one of two bases, facultative or treaty. Facultative reinsurance is generally provided on a risk by risk basis. Individual risks are ceded and assumed based on an offer and acceptance of risk by each party to the transaction. AFG purchases facultative reinsurance, both pro rata and excess of loss, depending on the risk and available reinsurance markets. Treaty reinsurance provides for risks meeting prescribed criteria to be automatically ceded and assumed according to contract provisions.

The following table presents (by type of coverage) the amount of each loss above the specified retention maximum generally covered by treaty reinsurance programs (in millions) as of January 1, 2016:

Coverage	Retention Maximum	Reinsurance Coverage (a)	
California Workers' Compensation	$2	$ 148	
Other Workers' Compensation	3	37	
Commercial Umbrella	7	43	
Property — General	5	45	
Property — Catastrophe	43	176	(b)

(a) Reinsurance covers substantial portions of losses in excess of retention. However, in general, losses resulting from terrorism are not covered.

(b) Includes coverage for $95 million of losses excess of $119 million (per occurrence) provided through the Riverfront Re Ltd. catastrophe bond.

In addition to the coverage shown above, AFG reinsures a portion of its crop insurance business through the Federal Crop Insurance Corporation ("FCIC"). The FCIC offers both proportional (or "quota share") and non-proportional coverages. The proportional coverage provides that a fixed percentage of risk is assumed by the FCIC. The non-proportional coverage allows AFG to select desired retention of risk on a state-by-state, county, crop or plan basis. AFG typically reinsures 15% to 25% of gross written premiums with the FCIC. AFG also purchases quota share reinsurance in the private market. This quota share provides for a ceding commission to AFG and a profit sharing provision. During both 2015 and 2014, AFG reinsured 52.5% of premiums not reinsured by the FCIC in the private market and purchased stop loss protection coverage for the remaining portion of the business. AFG expects to utilize similar levels of reinsurance in 2016.

The balance sheet caption “recoverables from reinsurers” included approximately $80 million on paid losses and LAE and $2.20 billion on unpaid losses and LAE at December 31, 2015. These amounts are net of allowances of approximately $22 million for doubtful collection of reinsurance recoverables. The collectibility of a reinsurance balance is based upon the financial condition of a reinsurer as well as individual claim considerations.

Reinsurance premiums ceded and assumed are presented in the following table (in millions):

	2015	2014	2013
Reinsurance ceded	$1,505	$1,457	$1,464
Reinsurance ceded, excluding crop	899	891	802
Reinsurance assumed — including involuntary pools and associations	119	90	61

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Loss and Loss Adjustment Expense Reserves

The consolidated financial statements include the estimated liability for unpaid losses and LAE of AFG's insurance subsidiaries. This liability represents estimates of the ultimate net cost of all unpaid losses and LAE and is determined by using case-basis evaluations, actuarial projections and management's judgment. These estimates are subject to the effects of changes in claim amounts and frequency and are periodically reviewed and adjusted as additional information becomes known. In accordance with industry practices, such adjustments are reflected in current year operations. Generally, reserves for reinsurance assumed and involuntary pools and associations are reflected in AFG's results at the amounts reported by those entities.

The following table presents the development of AFG's liability for losses and LAE, net of reinsurance, on a GAAP basis for the last ten years. The top line of the table shows the estimated liability (in millions) for unpaid losses and LAE recorded at the balance sheet date for the indicated years. The second line shows the re-estimated liability as of December 31, 2015. The remainder of the table presents intervening development as percentages of the initially estimated liability. The development results from additional information and experience in subsequent years, as detailed below. The middle line shows a cumulative deficiency (redundancy), which represents the aggregate percentage increase (decrease) in the liability initially estimated. The lower portion of the table indicates the cumulative amounts paid as of successive periods as a percentage of the original loss reserve liability. For purposes of this table, reserves of businesses sold are considered paid at the date of sale. See Note O — "Insurance — Property and Casualty Insurance Reserves" to the financial statements for an analysis of changes in AFG's estimated liability for losses and LAE, net and gross of reinsurance, over the past three years on a GAAP basis.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Liability for unpaid losses and loss adjustment expenses:										
As originally estimated	$3,619	$3,791	$3,868	$4,154	$3,899	$4,164	$4,282	$4,129	$4,288	$5,645
As re-estimated at December 31, 2015	$3,469	$3,394	$3,354	$3,838	$3,716	$4,107	$4,321	$4,201	$4,365	$5,678
Liability re-estimated:										
One year later	98.4 %	97.4 %	93.6 %	95.2 %	96.0 %	98.3 %	99.3 %	99.6 %	100.1 %	100.6 %
Two years later	98.8 %	92.3 %	89.7 %	91.6 %	94.2 %	97.2 %	99.3 %	100.0 %	101.8 %	
Three years later	95.2 %	89.5 %	85.8 %	90.4 %	93.9 %	97.0 %	99.5 %	101.7 %		
Four years later	93.6 %	87.0 %	84.5 %	90.8 %	94.0 %	97.0 %	100.9 %			
Five years later	92.1 %	86.5 %	84.7 %	91.1 %	93.6 %	98.6 %				
Six years later	92.1 %	87.0 %	85.2 %	90.9 %	95.3 %					
Seven years later	92.8 %	87.5 %	85.1 %	92.4 %						
Eight years later	93.7 %	87.9 %	86.7 %							
Nine years later	94.1 %	89.5 %								
Ten years later	95.9 %									

Cumulative deficiency (redundancy) (a)	(4.1 %)	(10.5 %)	(13.3 %)	(7.6 %)	(4.7 %)	(1.4 %)	0.9 %	1.7 %	1.8 %	0.6 %
Cumulative paid as of:										
One year later	23.5 %	22.3 %	21.0 %	24.0 %	21.3 %	23.3 %	27.7 %	27.4 %	27.3 %	27.9 %
Two years later	37.5 %	34.8 %	32.9 %	37.2 %	35.9 %	38.6 %	45.7 %	43.7 %	45.0 %	
Three years later	46.9 %	43.6 %	41.6 %	47.0 %	47.1 %	52.7 %	57.0 %	56.2 %		
Four years later	53.6 %	49.9 %	47.5 %	54.5 %	57.7 %	60.9 %	65.2 %			
Five years later	58.7 %	54.2 %	52.6 %	62.4 %	63.5 %	67.1 %				
Six years later	62.1 %	58.0 %	58.5 %	66.4 %	68.3 %					
Seven years later	65.3 %	63.2 %	61.4 %	70.0 %						
Eight years later	70.3 %	65.8 %	64.3 %							
Nine years later	72.5 %	68.3 %								
Ten years later	74.9 %									
(a) Cumulative deficiency (redundancy):										
Special A&E charges	7.8 %	7.4 %	6.1 %	5.4 %	5.8 %	5.3 %	4.1 %	3.5 %	2.1 %	1.2 %
Other	(11.9 %)	(17.9 %)	(19.4 %)	(13.0 %)	(10.5 %)	(6.7 %)	(3.2 %)	(1.8 %)	(0.3 %)	(0.6 %)
Total	(4.1 %)	(10.5 %)	(13.3 %)	(7.6 %)	(4.7 %)	(1.4 %)	0.9 %	1.7 %	1.8 %	0.6 %

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The following is a reconciliation of the net liability to the gross liability for unpaid losses and LAE.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
As originally estimated:										
Net liability shown above	$3,619	$3,791	$3,868	$4,154	$3,899	$4,164	$4,282	$4,129	$4,288	$5,645
Add reinsurance recoverables	2,243	2,309	2,300	2,610	2,513	2,249	2,238	2,716	2,122	2,227
Gross liability	$5,862	$6,100	$6,168	$6,764	$6,412	$6,413	$6,520	$6,845	$6,410	$7,872
As re-estimated at December 31, 2015:										
Net liability shown above	$3,469	$3,394	$3,354	$3,838	$3,716	$4,107	$4,321	$4,201	$4,365	$5,678
Add reinsurance recoverables	2,388	2,167	1,916	2,235	1,910	1,909	1,996	2,912	2,152	2,257
Gross liability	$5,857	$5,561	$5,270	$6,073	$5,626	$6,016	$6,317	$7,113	$6,517	$7,935
Gross cumulative deficiency (redundancy) (a)	(0.1 %)	(8.8 %)	(14.6 %)	(10.2 %)	(12.3 %)	(6.2 %)	(3.1 %)	3.9 %	1.7 %	0.8 %

(a) Gross cumulative deficiency (redundancy):										
Special A&E charges	6.3 %	6.2 %	5.1 %	4.5 %	4.6 %	4.7 %	3.8 %	3.1 %	1.9 %	1.1 %
Other	(6.4 %)	(15.0 %)	(19.7 %)	(14.7 %)	(16.9 %)	(10.9 %)	(6.9 %)	0.8 %	(0.2 %)	(0.3 %)
Total	(0.1 %)	(8.8 %)	(14.6 %)	(10.2 %)	(12.3 %)	(6.2 %)	(3.1 %)	3.9 %	1.7 %	0.8 %

In evaluating the re-estimated liability and cumulative deficiency (redundancy), it should be noted that each percentage includes the effects of changes in amounts for prior periods. For example, AFG's $67 million special A&E charge related to losses recorded in 2015, but incurred before 2005, is included in the re-estimated liability and cumulative deficiency (redundancy) percentage for each of the previous years shown. Conditions and trends that have affected development of the liability in the past may not necessarily exist in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

A significant portion of the adverse development in the tables is due to A&E exposures for which AFG has been held liable under general liability policies written prior to 1987, even though such coverage was not intended. Other factors affecting adverse development included changes in the legal environment, including more liberal coverage decisions and higher jury awards, higher legal fees, the general state of the economy and medical cost inflation.

The differences between the liability for losses and LAE reported in the annual statements filed with the state insurance departments in accordance with statutory accounting principles ("SAP") and that reported in the accompanying consolidated financial statements in accordance with GAAP at December 31, 2015 are as follows (in millions):

Liability reported on a SAP basis, net of $112 million of retroactive reinsurance	$5,260
Reinsurance recoverables, net of allowance	2,201
Other, including reserves of foreign insurers	666
Liability reported on a GAAP basis	$8,127

Asbestos and Environmental (“A&E”) Reserves AFG’s property and casualty group, like many others in the industry, has A&E claims arising in most cases from general liability policies written more than twenty-five years ago. The establishment of reserves for such A&E claims presents unique and difficult challenges and is subject to uncertainties significantly greater than those presented by other types of claims. For a discussion of these uncertainties, see Item 7 — Management’s Discussion and Analysis — “Uncertainties — Asbestos and Environmental-related (“A&E”) Insurance Reserves” and Note M — “Contingencies” to the financial statements.

Management has periodically conducted comprehensive external studies of its asbestos and environmental reserves with the aid of specialty actuarial, engineering and consulting firms and outside counsel, generally every two years, with an in-depth internal review during the intervening years. Charges resulting from these studies and reviews are included in “Incurred losses and LAE” in the table below. As a result of the 2015 external study, AFG recorded a $67 million pretax special charge in the third quarter of 2015 to increase the property and casualty group’s asbestos reserves by $25 million (net of reinsurance) and its environmental reserves by $42 million (net of reinsurance). As the overall industry exposure to asbestos has matured, the focus of litigation has shifted to smaller companies and companies with ancillary exposures. AFG’s insureds with these exposures have been the driver of the property and casualty segment’s asbestos reserve increases in recent years; AFG has seen increased estimates for indemnity and defense compared to prior studies. The increase in property and casualty environmental reserves was attributed primarily to AFG’s increased defense costs and a number of claims where the estimated costs of remediation

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have increased. There were no newly identified or emerging broad industry trends that were identified in this study. As a result of the in-depth internal review in 2014, AFG recorded a $24 million pretax special charge in the third quarter of 2014 to increase the property and casualty group's asbestos reserves by $4 million (net of reinsurance) and its environmental reserves by $20 million (net of reinsurance). The increase in environmental reserves was attributed primarily to AFG's increased defense costs and a number of claims where the estimated costs of remediation have increased. As a result of the 2013 external study, AFG recorded a $54 million pretax special charge in the third quarter of 2013 to increase the property and casualty group's asbestos reserves by $16 million (net of reinsurance) and its environmental reserves by $38 million (net of reinsurance). The increase in asbestos reserves was driven primarily by slightly higher than expected loss experience, higher defense costs and some increased claim severity. The increase in environmental reserves was attributed primarily to a small number of claims where the estimated costs of remediation have increased. In addition to the third quarter special charge, AFG increased A&E reserves for one claim by $5 million in early 2013 due to fact specific developments.

The following table (in millions) is a progression of the property and casualty group's A&E reserves.

	2015	2014	2013
Reserves at beginning of year	$289	$301	$373
Incurred losses and LAE	67	24	59
Paid losses and LAE — two large claims (*)	—	—	(106)
Paid losses and LAE — other	(29)	(36)	(25)
Reserves at end of year, net of reinsurance recoverable	327	289	301
Reinsurance recoverable, net of allowance	99	77	83
Gross reserves at end of year	$426	$366	$384

(*) Payments (net of reinsurance recoveries) associated with the settlement of the A.P. Green Industries claim and another large claim.

Marketing

The property and casualty insurance group directs its sales efforts primarily through independent insurance agents and brokers, although small portions are written through employee agents. Independent agents and brokers generally receive a commission on the sale of each policy. Some agents and brokers are eligible for a bonus commission based on the overall profitability of policies placed with AFG by the broker or agent in a particular year. The property and casualty insurance group writes insurance through several thousand agents and brokers.

Competition

AFG's property and casualty insurance businesses compete with other individual insurers, state funds and insurance groups of varying sizes, some of which are mutual insurance companies possessing competitive advantages in that all their profits inure to their policyholders. See Item 1A — Risk Factors. They also compete with self-insurance plans, captive programs and risk retention groups. Due to the specialty nature of these coverages, competition is based primarily on service to policyholders and agents, specific characteristics of products offered and reputation for claims handling. Financial strength ratings, price, commissions and profit sharing terms are also important factors. Management believes that sophisticated data analysis for refinement of risk profiles, extensive specialized knowledge and loss prevention service have helped AFG compete successfully.

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Annuity Segment

General

AFG sells traditional fixed and fixed-indexed annuities in the retail, financial institutions and education markets through independent producers and through direct relationships with certain financial institutions. The annuity operations employed approximately 500 people at December 31, 2015. These operations are conducted primarily through the subsidiaries listed in the following table, which includes 2015 statutory annuity premiums (in millions), annuity policies in force and independent ratings.

Company	Annuity Premiums	Annuity Policies In Force	Ratings AM Best	S&P
Great American Life Insurance Company	$3,923	366,000	A	A+
Annuity Investors Life Insurance Company	216	122,000	A	A+

AFG believes that the ratings assigned by independent insurance rating 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 device in considering annuity products. AFG believes that a rating in the "A" category by A.M. Best is necessary to successfully market tax-deferred annuities to public education employees and other non-profit groups and a rating in the "A" category by at least one rating agency is necessary to successfully compete in its other annuity markets. AFG believes that these entities can successfully compete in these markets with their respective ratings.

Statutory premiums of AFG's annuity operations the last three years were as follows (in millions):

	Premiums 2015	2014	2013
Financial institutions single premium annuities — indexed	$1,741	$1,489	$1,102
Financial institutions single premium annuities — fixed	229	332	628
Retail single premium annuities — indexed	1,864	1,533	1,879
Retail single premium annuities — fixed	70	101	165
Education market — fixed and indexed annuities	194	194	207
Total fixed annuity premiums	4,098	3,649	3,981
Variable annuities	42	47	52
Total annuity premiums	$4,140	$3,696	$4,033

Annuities are long-term retirement saving instruments that benefit from income accruing on a tax-deferred basis. The issuer of the annuity collects premiums, credits interest or earnings on the policy and pays out a benefit upon death, surrender or annuitization. Single premium annuities are generally issued in exchange for a one-time lump-sum premium payment. Certain annuities, primarily in the education market, have premium payments that are flexible in both amount and timing as determined by the policyholder and are generally made through payroll deductions.

Annuity contracts are generally classified as either fixed rate (including fixed-indexed) or variable. With a traditional fixed rate annuity, AFG seeks to maintain a desired spread between the yield on its investment portfolio and the rate it credits to policyholders. AFG accomplishes this by: (i) offering crediting rates that it has the option to change after any initial guarantee period (subject to minimum interest rate and other contractual guarantees); (ii) designing annuity products that encourage persistency; and (iii) maintaining an appropriate matching of assets and liabilities.

A fixed-indexed annuity provides policyholders with the opportunity to receive a crediting rate tied, in part, to the performance of an existing market index (generally the S&P 500) while protecting against the related downside risk through a guarantee of principal (excluding surrender charges, market value adjustments, and certain benefit charges).

AFG purchases call options designed to substantially offset the effect of the index participation in the liabilities associated with fixed-indexed annuities.

As an ancillary product in its education market, AFG offers a limited amount of variable annuities. With a variable annuity, the earnings credited to the policy vary based on the investment results of the underlying investment options chosen by the policyholder, generally without any guarantee of principal except in the case of death of the insured. Premiums directed to the underlying investment options maintained in separate accounts are invested in funds managed by various independent investment managers. AFG earns a fee on amounts deposited into separate accounts. Subject to contractual provisions,

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policyholders may also choose to direct all or a portion of their premiums to various fixed-rate options, in which case AFG earns a spread on amounts deposited.

The profitability of a fixed annuity business is largely dependent on the ability of a company to earn income on the assets supporting the business in excess of the amounts credited to policyholder accounts plus expenses incurred (earning a "spread"). Performance measures such as net spread earned are often presented by annuity businesses to help users of their financial statements better understand the company's performance. The table shows the earnings before income taxes, as well as the net spread earned on fixed annuities, for the annuity segment both before and after the impact of fair value accounting for derivatives related to fixed-indexed annuities ("FIAs") (dollars in millions):

	Year ended December 31,		
	2015	2014	2013
Annuity earnings before income taxes — before change in fair value of derivatives related to FIAs and special charge for guaranty fund assessments	$354	$362	$313
Impact of the change in fair value of derivatives related to FIAs (a)	(23)	(34)	15
Special charge for guaranty fund assessments	—	—	(5)
Annuity segment earnings before income taxes	$331	$328	$323
Net spread earned on fixed annuities — before impact of derivatives related to FIAs	1.35%	1.56%	1.52%
Impact of derivatives related to FIAs	(0.09%)	(0.15%)	0.08%
Impact of special charge for guaranty fund assessments	—%	—%	(0.03%)
Net spread earned on fixed annuities	1.26%	1.41%	1.57%

(a) Fixed-indexed annuities, which represented approximately 60% of annuity benefits accumulated at December 31, 2015, provide policyholders with a crediting rate tied, in part, to the performance of an existing stock market index. AFG attempts to mitigate the risk in the index-based component of these products through the purchase of call options on the appropriate index. AFG's strategy is designed so that the change in the fair value of the call option assets will generally offset the economic change in the liabilities from the index participation. Both the index-based component of the annuities (fair value of $1.37 billion at December 31, 2015) and the related call options (fair value of $241 million at December 31, 2015) are considered derivatives that must be marked-to-market through earnings each period. Fluctuations in interest rates and the stock market, among other factors, can cause volatility in the periodic measurement of fair value of the embedded derivative that management believes can be inconsistent with the long-term economics of these products.

Marketing

AFG sells its single premium annuities, excluding financial institution production (discussed below), primarily through a retail network of approximately 60 national marketing organizations ("NMOs") and managing general agents ("MGAs") who, in turn, direct nearly 1,400 actively producing agents.

AFG also sells single premium annuities in financial institutions through direct relationships with certain financial institutions and through independent agents and brokers. The table below shows the financial institutions that accounted for AFG's largest sources of annuity premiums in 2015:

	% of Total Annuity Premiums
Wells Fargo & Company	11.7%
BB&T Corporation	6.0%
The PNC Financial Services Group, Inc.	4.4%

Citizens Financial Group, Inc.	3.9%
LPL Financial	3.8%

In the education market, schools may allow employees to save for retirement through contributions made on a before-tax basis. Federal income taxes are not payable on pretax contributions or earnings until amounts are withdrawn. AFG sells its education market annuities directly through writing agents rather than through NMOs and MGAs.

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AFG is licensed to sell its fixed annuity products in all states except New York; it is licensed to sell its variable products in all states except New York and Vermont. At December 31, 2015, AFG had approximately 490,000 annuity policies in force. The states that accounted for 5% or more of AFG's annuity premiums in 2015 and the comparable preceding years are shown below:

	2015	2014	2013
Florida	9.2 %	9.2 %	8.9 %
California	8.3 %	8.5 %	7.3 %
Pennsylvania	6.6 %	6.0 %	6.9 %
Missouri	6.1 %	4.8 %	2.7 %
Ohio	5.5 %	5.7 %	6.6 %
North Carolina	5.4 %	6.2 %	5.1 %

Competition

AFG's annuity businesses operate in highly competitive markets. They compete with other insurers and financial institutions based on many factors, including: (i) ratings; (ii) financial strength; (iii) reputation; (iv) service to policyholders and agents; (v) product design (including interest rates credited, bonus features and index participation); (vi) commissions; and (vii) number of school districts in which a company has approval to sell. Since most policies are marketed and distributed through independent agents, the insurance companies must also compete for agents.

No single insurer dominates the markets in which AFG's annuity businesses compete. See Item 1A — Risk Factors. Competitors include (i) individual insurers and insurance groups, (ii) mutual funds and (iii) other financial institutions. In a broader sense, AFG's annuity businesses compete for retirement savings with a variety of financial institutions offering a full range of financial services. In the financial institution annuity market, AFG's annuities compete directly against competitors' annuities, certificates of deposit and other investment alternatives at the point of sale. In addition, over the last few years, several offshore and/or hedge fund companies have made significant acquisitions of annuity businesses, resulting in annuity groups that are larger in size than AFG's annuity business.

Sales of annuities, including renewal premiums, are affected by many factors, including: (i) competitive annuity products and rates; (ii) the general level and volatility of interest rates, including the slope of the yield curve; (iii) the favorable tax treatment of annuities; (iv) commissions paid to agents; (v) services offered; (vi) ratings from independent insurance rating agencies; (vii) other alternative investments; (viii) performance and volatility of the equity markets; (ix) media coverage of annuities; (x) regulatory developments regarding suitability and the sales process; and (xi) general economic conditions.

Run-off Long-term Care and Life Segment

AFG ceased new sales of long-term care insurance in January 2010 and sold substantially all of its run-off long-term care business in December 2015. See Note B — "Acquisitions and Sale of Businesses" to the financial statements. Renewal premiums on the remaining policies covering approximately 1,700 lives will be accepted unless those policies lapse. At December 31, 2015, AFG's long-term care insurance reserves were $34 million, net of reinsurance recoverables and excluding the impact of unrealized gains on securities.

Although AFG no longer actively markets new life insurance products, it continues to service and receive renewal premiums on its in-force block of approximately 126,000 policies and $14.67 billion gross ($3.48 billion net of reinsurance) of life insurance in force at December 31, 2015. Renewal premiums, net of reinsurance, were $28 million in 2015, $30 million in 2014 and $33 million in 2013. At December 31, 2015, AFG's life insurance reserves were $320 million, net of reinsurance recoverables.

Other Operations

Through subsidiaries, AFG is engaged in a variety of other operations, including commercial real estate operations in Cincinnati (office buildings and The Cincinnatian Hotel), Whitefield, New Hampshire (Mountain View Grand Resort), Chesapeake Bay (Skipjack Cove Yachting Resort and Bay Bridge Marina), Charleston (Charleston Harbor Resort and Marina), Palm Beach (Sailfish Marina and Resort), greater Chicago (KeyLime Cove Indoor Waterpark Resort) and apartments in Pittsburgh. These operations employed approximately 400 full-time employees at December 31, 2015.

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Investment Portfolio

General

A summary of AFG's fixed maturities and equity securities is shown in Note E to the financial statements. For additional information on AFG's investments, see Item 7 — Management's Discussion and Analysis — "Investments." Portfolio yields are shown below.

	2015	2014	2013
Yield on Fixed Maturities (a):			
Excluding realized gains and losses	4.7 %	4.9 %	5.2 %
Including realized gains and losses	4.6 %	5.0 %	5.3 %
Yield on Equity Securities (a):			
Excluding realized gains and losses	5.4 %	5.4 %	5.5 %
Including realized gains and losses	5.4 %	7.7 %	26.4 %

(a) Based on amortized cost; excludes effects of changes in unrealized gains and losses. Realized losses include impairment charges.

The table below compares total returns, which include changes in fair value, on AFG's fixed maturities and equity securities to comparable public indices. While there are no directly comparable indices to AFG's portfolio, the two shown below are widely used benchmarks in the financial services industry.

	2015	2014	2013
Total return on AFG's fixed maturities	1.5 %	6.9 %	1.3 %
Barclays Capital U.S. Universal Bond Index	0.4 %	5.6 %	(1.3 %)
Total return on AFG's equity securities	(3.4 %)	8.7 %	27.1 %
Standard & Poor's 500 Index	1.4 %	13.7 %	32.4 %

Fixed Maturity Investments

AFG's bond portfolio is invested primarily in taxable bonds. The following table shows AFG's available for sale fixed maturity investments by Standard & Poor's Corporation or comparable rating as of December 31, 2015 (dollars in millions).

	Amortized Cost	Fair Value Amount	%
S&P or comparable rating			
AAA, AA, A	$20,870	$21,365	66 %
BBB	7,449	7,478	23 %
Total investment grade	28,319	28,843	89 %
BB	786	761	3 %
B	438	417	1 %
CCC, CC, C	813	917	3 %
D	372	447	1 %
Total non-investment grade	2,409	2,542	8 %
Not rated	837	899	3 %
Total	$31,565	$32,284	100 %

The National Association of Insurance Commissioners (“NAIC”) has retained third-party investment management firms to assist in the determination of appropriate NAIC designations for mortgage-backed securities (“MBS”) based not only on the probability of loss (which is the primary basis of ratings by the major ratings firms), but also on the severity of loss and statutory carrying value. Approximately 18% of AFG’s fixed maturity investments are MBS. At December 31, 2015, 97% (based on statutory carrying value of $31.58 billion) of AFG’s fixed maturity investments held by its insurance companies had an NAIC designation of 1 or 2 (the highest of the six designations).

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Equity Investments

At December 31, 2015, AFG held common and perpetual preferred stocks classified as available for sale with a fair value of $1.55 billion.

Regulation

AFG’s insurance company subsidiaries are subject to regulation in the jurisdictions where they do business. In general, the insurance laws of the various states establish regulatory agencies with broad administrative powers governing, among other things, premium rates, solvency standards, licensing of insurers, agents and brokers, trade practices, forms of policies, maintenance of specified reserves and capital for the protection of policyholders, deposits of securities for the benefit of policyholders, investment activities and relationships between insurance subsidiaries and their parents and affiliates. Material transactions between insurance subsidiaries and their parents and affiliates generally must receive prior approval of the applicable insurance regulatory authorities and be disclosed. In addition, while differing from state to state, these regulations typically restrict the maximum amount of dividends that may be paid by an insurer to its shareholders in any twelve-month period without advance regulatory approval. Such limitations are generally based on net earnings or statutory surplus. Under applicable restrictions, the maximum amount of dividends available to AFG in 2016 from its insurance subsidiaries without seeking regulatory clearance is approximately $809 million.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”), among other things, established a Federal Insurance Office (“FIO”) within the U.S. Treasury. Under this law, regulations will need to be created for the FIO to carry out its mandate to focus on systemic risk oversight. The FIO has gathered information regarding the insurance industry and submitted a report to Congress in December 2013. The report concluded that a hybrid approach to regulation, involving a combination of state and federal government action, could improve the U.S. insurance system by attaining uniformity, efficiency and consistency, particularly with respect to solvency and market conduct regulation. We cannot predict the extent to which the report’s recommendations might result in changes to the current state-based system of insurance industry regulation or ultimately impact AFG’s operations.

Marketform, AFG’s UK-based Lloyd’s insurer, is subject to regulation by the European Union’s executive body, the European Commission. In 2016, Marketform will be required to adopt new capital adequacy and risk management regulations known as Solvency II. Because Lloyd’s insurers are already operating under the proposed Solvency II guidelines, implementation is not expected to be material to AFG.

Most states have created insurance guaranty associations that assess solvent insurers to pay claims of insurance companies that become insolvent. Annual guaranty assessments for AFG’s insurance companies have not been material.

ITEM 1A
Risk Factors

In addition to the other information set forth in this report, the following factors could materially affect AFG’s business, financial condition, cash flows or future results. Any one of these factors could cause AFG’s actual results to vary materially from recent results or from anticipated future results. The risks described below are not the only risks facing AFG. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect AFG’s business, financial condition and/or operating results.

Adverse developments in the financial markets and deterioration in global economic conditions could have a material adverse effect on AFG’s results of operations and financial condition.

The highly volatile debt and equity markets, lack of liquidity, widening credit spreads and the collapse of several financial institutions during 2008 and early 2009 resulted in significant realized and unrealized losses in AFG's investment portfolio. Although global economic conditions and financial markets have improved, there is continued uncertainty regarding the duration and strength of the economic recovery, particularly slowing growth in China and the ongoing turmoil in parts of Europe. Economic growth in the U.S. and internationally may not continue or may be slow for an extended period of time. In addition, continued low oil prices or other developments may put additional strain on the economy. See Item 7A — Quantitative and Qualitative Disclosures about Market Risk — "Fixed Maturity Portfolio." At December 31, 2015, AFG's net unrealized gain on fixed maturity investments was $719 million consisting of gross gains of $1.09 billion and gross losses of $374 million. Although AFG intends to hold its investments with unrealized losses until they recover in value, its intent may change for a

variety of reasons as discussed in Item 7 — Management's Discussion and Analysis — "Investments." A change in AFG's ability or intent with regard to a security in an unrealized loss position would result in the recognition of a realized loss.

AFG's investment performance could also be adversely impacted by the types of investments, industry groups and/or individual securities in which it invests. As of December 31, 2015, 86% of AFG's investment portfolio was invested in fixed maturity securities. Certain risks are inherent in connection with fixed maturity securities including loss upon default and price volatility in reaction to changes in interest rates and general market factors.

MBS represented about 18% of AFG's fixed maturity securities at December 31, 2015. AFG's MBS portfolio will continue to be impacted by general economic conditions, including unemployment levels, real estate values and other factors that could negatively affect the creditworthiness of borrowers. MBS in which the underlying collateral is subprime mortgages represented 2% of AFG's total fixed maturity portfolio at December 31, 2015; MBS in which the underlying collateral is Alt-A mortgages (risk profile between prime and subprime) represented 3%. See Item 7A — Quantitative and Qualitative Disclosures about Market Risk — "Fixed Maturity Portfolio."

AFG cannot predict whether, and the extent to which, industry sectors in which it maintains investments may suffer losses as a result of potential declines in commercial and economic activity, or how any such decline might impact the ability of companies within the affected industry sectors to pay interest or principal on their securities, or how the value of any underlying collateral might be affected.

Investment returns are an important part of AFG's overall profitability. Accordingly, adverse fluctuations in the fixed income or equity markets could adversely impact AFG's profitability, financial condition or cash flows. Although equity securities only represent 5% of AFG's investment portfolio, these investments are carried at fair value for statutory accounting purposes. Accordingly, market price volatility has an immediate impact on statutory capital and adverse changes in the equity markets could impact the ability of AFG's insurance subsidiaries to pay dividends to AFG.

In addition, should economic conditions deteriorate, it could have a material adverse effect on AFG's insureds and reinsurers. However, the impact that this would have on AFG's business cannot be predicted.

Changes in interest rates could adversely affect AFG's profitability.

Recent periods have been characterized by low interest rates as compared to historical levels. If a low interest rate environment persists, the investment of new premium dollars as well as the reinvestment of proceeds from the maturity and redemption of existing securities at the lower yields available in the current financial markets may slow investment income growth and/or reduce investment income earned by AFG's insurance operations.

The profitability of AFG's annuity business is largely dependent on spread (the difference between what it earns on its investments and the crediting rate it pays on its annuity contracts plus expenses incurred). Most of AFG's annuity products have guaranteed minimum crediting rates (ranging from 4% down to currently 1% on new business). Although AFG could reduce the average crediting rate on approximately $20 billion of traditional fixed and fixed-indexed deferred annuities without guaranteed withdrawal benefits by approximately 72 basis points (as of December 31, 2015, on a weighted average basis), during periods of falling interest rates, AFG may not be able to fully offset the decline in investment earnings with lower crediting rates. During periods of rising rates, there may be competitive pressure to increase crediting rates to avoid a decline in sales or increased surrenders, thus resulting in lower spreads. In addition, an increase in surrenders could require the sale of investments at a time when the prices of those assets are lower due to the increase in market rates, which may result in realized investment losses.

Intense competition could adversely affect AFG's profitability.

The property and casualty insurance segment operates in a highly competitive industry that is affected by many factors that can cause significant fluctuations in its results of operations. The trend of AFG's underwriting results typically follows that of the industry and a prolonged downcycle could adversely affect AFG's results of operations. The businesses in this segment compete with other individual insurers, state funds and insurance groups of varying sizes, some of which are mutual insurance companies possessing competitive advantages in that all their profits inure to their policyholders. In addition, certain foreign insurers can write business in the U.S. on a tax-advantaged basis and therefore hold a competitive advantage over AFG. AFG also competes with self-insurance plans, captive programs and risk retention groups. Peer companies and competitors in some or all of AFG's specialty lines include the following companies and/or their subsidiaries: Alleghany Corp., American International Group Inc., American National Insurance Company, AmTrust Financial Services, Inc., Arch Capital Group Ltd., Baldwin & Lyons, Inc., Chubb Ltd., Cincinnati Financial Corp., CNA Financial Corp., Fairfax Financial Holdings Ltd. (Zenith

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National), The Hartford Financial Services Group, Inc., Ironshore Insurance Ltd., Lancer Insurance Company, Liberty Mutual, Markel Corp., Munich Re Group (American Modern Insurance), RLI Corp., The Travelers Companies Inc., Tokio Marine Holdings, Inc. (HCC Insurance, Philadelphia Consolidated), W.R. Berkley Corp., XL Group Plc and Zurich Financial Services Group.

AFG’s annuity segment competes with individual insurers and insurance groups, mutual funds and other financial institutions. Competitors include the following companies and/or their subsidiaries: Allianz Life Insurance Company of North America, American Equity Investment Life Holding Company (Eagle Life Insurance Company), American International Group Inc., Apollo Global Management (Aviva Life and Annuity Company and Athene), Global Atlantic Financial Group Ltd. (Forethought Life Insurance Company), Lincoln National Corp., MetLife, Inc., Nationwide Mutual Insurance Company, Pacific Life Insurance Company, Symetra Financial Corp. and Voya Financial. Financial institutions annuity premiums represented almost half of AFG’s annuity premiums in 2015 and have been a key driver in the growth of AFG’s annuity business since 2009. In 2015, two large financial institutions accounted for 37% of AFG’s total sales through financial institutions. Although AFG has been able to add several new financial institutions in the last few years, the failure to replace these financial institutions if they significantly reduce sales of AFG annuities could reduce AFG’s future growth and profitability. In the financial institutions annuity market, AFG competes directly against competitors’ annuities, certificates of deposit and other investment alternatives at the point of sale.

Competition is based on many factors, including service to policyholders and agents, product design, reputation for claims handling, ratings and financial strength. Price, commissions, fees, profit sharing terms, interest crediting rates, technology and distribution channels are also important factors. Some of AFG’s competitors have more capital and greater resources than AFG, and may offer a broader range of products and lower prices than AFG offers. If competition limits AFG’s ability to write new or renewal business at adequate rates, its results of operations will be adversely affected.

AFG’s revenues could be negatively affected if it is not able to attract and retain independent agents.

AFG’s reliance on the independent agency market makes it vulnerable to a reduction in the amount of business written by agents. Many of AFG’s competitors also rely significantly on the independent agency market. Accordingly, AFG must compete with other insurance carriers for independent agents’ business. Some of its competitors offer a wider variety of products, lower price for insurance coverage or higher commissions. Loss of a substantial portion of the business that AFG writes through independent agents could adversely affect AFG’s revenues and profitability.

The inability to obtain reinsurance or to collect on ceded reinsurance could adversely impact AFG’s results.

AFG relies on the use of reinsurance to limit the amount of risk it retains. The following amounts of gross property and casualty premiums have been ceded to other insurers: 2015 — $1.51 billion (26%), 2014 — $1.46 billion (27%) and 2013 — $1.46 billion (30%). The availability and cost of reinsurance are subject to prevailing market conditions, which are beyond AFG’s control and which may affect AFG’s level of business and profitability. Outside of its property and casualty operations, AFG also has reinsurance recoverables totaling $355 million, nearly 90% of which related to the run-off life business. These recoverables include $184 million from Hannover Life Reassurance Company of America (rated A+ by A.M. Best). AFG is also subject to credit risk with respect to its reinsurers, as AFG will remain liable to its insureds if any reinsurer is unable to meet its obligations under agreements covering the reinsurance ceded.

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

As previously discussed under Item 1 — Business — “Regulation,” AFG is subject to comprehensive regulation by government agencies in the states and countries where its insurance company subsidiaries are domiciled and where

these subsidiaries issue policies and handle claims. AFG must obtain prior approval for certain corporate actions. The regulations may limit AFG's ability to obtain rate increases or take other actions designed to increase AFG's profitability. Such regulation is primarily intended for the protection of policyholders rather than securityholders.

In July 2010, the Dodd-Frank Act was signed into law. Among other things, this law established the Federal Insurance Office within the U.S. Treasury and authorizes it to gather information regarding the insurance industry and submit to Congress a plan to modernize and improve insurance regulation in the U.S.

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

Existing insurance-related laws and regulations may become more restrictive in the future or new restrictive laws may be enacted; it is not possible to predict the potential effects of these laws and regulations. The costs of compliance or the failure to comply with existing or future regulations could harm AFG's financial results and its reputation with customers.

The failure of AFG's insurance subsidiaries to maintain a commercially acceptable financial strength rating would have a significant negative effect on their ability to compete successfully.

As discussed under Item 1 — Business — "Property and Casualty Insurance Segment" and "Annuity Segment — General," financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's sales. A downgrade out of the "A" category in AFG's insurers' claims-paying and financial strength ratings could significantly reduce AFG's business volumes in certain lines of business, adversely impact AFG's ability to access the capital markets and increase AFG's borrowing costs.

The continued threat of terrorism and ongoing military and other actions, as well as civil unrest, may adversely affect AFG's financial results.

The continued threat of terrorism, both within the United States and abroad, and the ongoing military and other actions and heightened security measures in response to these types of threats, as well as civil unrest, may cause significant volatility and declines in the equity markets in the United States, Europe and elsewhere, loss of life, property damage, additional disruptions to commerce and reduced economic activity. Actual terrorist attacks could cause losses from insurance claims related to AFG's property and casualty and life insurance operations with adverse financial consequences. In addition, some of the assets in AFG's investment portfolios may be adversely affected by declines in the capital markets and economic activity caused by the continued threat of terrorism, ongoing military and other action, heightened security measures and civil unrest.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 extends the Federal Terrorism Risk Insurance Program, which provides for a system of shared public and private responsibility for certain insured losses resulting from defined acts of terrorism. AFG did not incur any losses due to "acts of terrorism" in 2015, 2014 or 2013. In 2016, AFG would have to sustain terrorism losses of approximately $625 million to be eligible for reinsurance under the program, which also has a total industry cap of $100 billion. The program will expire at the end of 2020. If Congress eliminates or modifies the program, such action could adversely affect AFG's property and casualty business through increased exposure to a catastrophic level of terrorism losses.

AFG may experience difficulties with technology or data security, which could have an adverse effect on its business or reputation.

AFG uses computer systems to store, retrieve, evaluate and utilize company and customer data and information. Systems failures or outages could compromise AFG's ability to perform business functions in a timely manner, which could harm its ability to conduct business and hurt its relationships with business partners and customers. In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, AFG's systems may be inaccessible to employees, customers or business partners for an extended period of time. Even if AFG's employees are able to report to work, they may be unable to perform their duties for an extended period of time if the Company's data or systems are disabled or destroyed.

AFG's computer systems are vulnerable to security breaches due to the sophistication of cyber-attacks, viruses, malware, hackers and other external hazards, as well as inadvertent errors, equipment and system failures, and employee misconduct. In addition, over time, and particularly recently, the sophistication of these threats continues to

increase. AFG's administrative and technical controls as well as other preventative actions it takes to reduce the risk of cyber incidents and protect AFG's information may be insufficient to detect or prevent unauthorized access, other physical and electronic break-ins, cyber-attacks or other security breaches to AFG's computer systems or those of third parties with whom AFG does business.

The increased risks identified above could expose AFG to data loss, disruption of service, monetary and reputational damages and significant increases in compliance costs and costs to improve the security and resiliency of its computer systems. The compromise of personal, confidential or proprietary information could also subject AFG to legal liability or regulatory action under evolving cyber-security, data protection and privacy laws and regulations enacted by the U.S. federal and state governments or other jurisdictions or by various regulatory organizations or exchanges. As a result, AFG's ability to conduct its business and our results of operations might be materially and adversely affected.

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AFG’s property and casualty reserves may be inadequate, which could significantly affect AFG’s financial results.

AFG’s property and casualty insurance subsidiaries record reserve liabilities for the estimated payment of losses and loss adjustment expenses for both reported and unreported claims. Due to the inherent uncertainty of estimating reserves, it has been necessary in the past, and will continue to be necessary in the future, to revise estimated liabilities as reflected in AFG’s reserves for claims and related expenses. The historic development of reserves for losses and loss adjustment expense may not necessarily reflect future trends in the development of these amounts. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on historical information. To the extent that reserves are inadequate and are strengthened, the amount of such increase is treated as a charge to earnings in the period in which the deficiency is recognized.

AFG’s results could be negatively impacted by severe weather conditions or other catastrophes.

AFG recorded current accident year catastrophe losses of $35 million in 2015 (primarily from winter storms in the first quarter, multiple storms in the midwestern and central United States in the second and third quarters and flooding in the midwestern United States in the fourth quarter), $28 million in 2014 (primarily from winter storms in the month of January and multiple storms in the midwestern and central United States in the second quarter) and $31 million in 2013 (primarily from spring storms in the southeastern United States). Catastrophes (some of which are seasonal) can be caused by natural events such as hurricanes, windstorms, severe storms, tornadoes, floods, hailstorms, severe winter weather, earthquakes, explosions and fire, and by man-made events, such as terrorist attacks and riots. While not considered a catastrophe by industry standards, droughts can have a significant adverse impact on AFG’s crop insurance results. The extent of losses from a catastrophe is a function of the amount of insured exposure in the area affected by the event and the severity of the event. In addition, certain catastrophes could result in both property and non-property claims from the same event. A severe catastrophe or a series of catastrophes could result in losses exceeding AFG’s reinsurance protection and may have a material adverse impact on its results of operations or financial condition.

Climate change and related regulation could adversely affect AFG’s property and casualty insurance operations.

While AFG does not believe that its operations are likely to be significantly impacted by existing laws and regulations regarding climate change, it is possible that future regulation in this area could result in additional compliance costs and demands on management time.

To the extent that global climate change meaningfully alters weather and tidal patterns, or sea levels, it is possible that AFG’s property and casualty insurance operations could experience an increase in claims, primarily in coastal areas and in the crop and agricultural businesses.

Volatility in crop prices could negatively impact AFG’s financial results.

Weather conditions and the level of crop prices in the commodities market heavily impact AFG’s crop insurance business. These factors are inherently unpredictable and could result in significant volatility in the results of the crop insurance business from one year to the next. AFG’s crop results could also be negatively impacted by pests and disease.

Exposure to asbestos or environmental claims could materially adversely affect AFG’s results of operations and financial condition.

AFG has asbestos and environmental (“A&E”) exposures arising from its insurance operations and former railroad and manufacturing operations. A&E liabilities are especially difficult to estimate for many reasons, including the long

delays between exposure and manifestation of any bodily injury or property damage, difficulty in identifying the source of the asbestos or environmental contamination, long reporting delays and difficulty in properly allocating liability for the asbestos or environmental damage. Claimants continue to assert new theories of recovery, and from time to time, there is proposed state and federal legislation regarding A&E liability, which would also affect AFG's exposure. If AFG has not established adequate reserves to cover future claims, AFG's results of operations and financial condition could be materially adversely affected.

Variations from the actuarial assumptions used to establish certain assets and liabilities in AFG's annuity business could negatively impact AFG's reported financial results.

The earnings on AFG's annuity products depend significantly upon the extent to which actual experience is consistent with the assumptions used in setting reserves and establishing and amortizing deferred policy acquisition costs ("DPAC"). These assumptions relate to investment yields (and spreads over fixed annuity crediting rates), benefit utilization rates, equity market performance, mortality, surrenders, annuitizations and other withdrawals. Developing such assumptions is complex and

involves information obtained from company-specific and industry-wide data, as well as general economic information. These assumptions, and therefore AFG's results of operations, could be negatively impacted by changes in any of the factors listed above.

As a holding company, AFG is dependent on the operations of its insurance company subsidiaries to meet its obligations and pay future dividends.

AFG is a holding company and a legal entity separate and distinct from its insurance company subsidiaries. As a holding company without significant operations of its own, AFG's principal sources of funds are dividends and other distributions from its insurance company subsidiaries. As discussed under Item 1 — Business — "Regulation," state insurance laws limit the ability of insurance companies to pay dividends or other distributions and require insurance companies to maintain specified levels of statutory capital and surplus. AFG's rights to participate in any distribution of assets of its insurance company subsidiaries are subject to prior claims of policyholders and creditors (except to the extent that its rights, if any, as a creditor are recognized). Consequently, AFG's ability to pay debts, expenses and cash dividends to its shareholders may be limited.

Adverse developments in the financial markets may limit AFG's access to capital.

Financial markets in the U.S. and elsewhere can experience extreme volatility, which exerts downward pressure on stock prices and limits access to the equity and debt markets for certain issuers, including AFG.

AFG can borrow up to $500 million under its revolving credit facility which expires in December 2016. There is no assurance that this facility will be renewed. In addition, AFG's access to funds through this facility is dependent on the ability of its banks to meet their funding commitments. There were no borrowings outstanding under AFG's bank credit line or any other parent company short-term borrowing arrangements during 2015.

If AFG cannot obtain adequate capital or sources of credit on favorable terms, or at all, its business, operating results and financial condition would be adversely affected.

AFG may be adversely impacted by a downgrade in the ratings of its debt securities.

AFG's debt securities are rated by Standard & Poor's and Moody's independent corporate credit rating agencies. AFG's senior indebtedness is currently rated BBB+ by Standard & Poor's and Baa1 by Moody's and AFG's subordinated debentures are currently rated BBB– by Standard & Poor's and Baa2 by Moody's. Securities ratings are subject to revision or withdrawal at any time by the assigning rating organization. A security rating is not a recommendation to buy, sell or hold securities. An unfavorable change in either of these ratings could make it more expensive to access the capital markets and may increase the interest rate charged under AFG's current bank credit line.

AFG is a party to litigation which, if decided adversely, could impact its financial results.

AFG and its subsidiaries are named as defendants in a number of lawsuits. See Item 1 — Business — "Property and Casualty Insurance Segment — Asbestos and Environmental ("A&E") Reserves," Item 3 — Legal Proceedings, and Item 7 — Management's Discussion and Analysis — "Uncertainties." Litigation, by its very nature, is unpredictable and the outcome of these cases is uncertain and could result in liabilities that may vary from amounts AFG has currently recorded and a material variance could have a material effect on AFG's business, operations, profitability or financial condition.

Certain shareholders exercise substantial control over AFG's affairs, which may impede a change of control transaction.

Carl H. Lindner III and S. Craig Lindner are each Co-Chief Executive Officers and Directors of AFG. Together, Carl H. Lindner III and S. Craig Lindner beneficially own 13.8% of AFG’s outstanding Common Stock as of February 1, 2016. As a result, certain members of the Lindner family have the ability to exercise significant influence over AFG’s management, including over matters requiring shareholder approval.

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The price of AFG Common Stock may fluctuate significantly, which may make it difficult for holders to resell common stock when they want or at a price they find attractive.

The price of AFG's Common Stock, which is listed on the NYSE, constantly changes. During 2015, AFG's Common Stock traded at prices ranging between $57.50 and $75.68. AFG's Common Stock price can fluctuate as a result of a variety of factors, many of which are beyond its control. These factors include but are not limited to:

- actual or anticipated variations in quarterly operating results;
- actual or anticipated changes in the dividends paid on AFG Common Stock;
- rating agency actions;
- recommendations by securities analysts;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving AFG or its competitors;
- operating and stock price performance of other companies that investors deem comparable to AFG;
- news reports relating to trends, concerns and other issues in AFG's lines of business;
- general economic conditions, including volatility in the financial markets; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

ITEM 2

Properties

Subsidiaries of AFG own several buildings in downtown Cincinnati. AFG and its affiliates occupy approximately half of the aggregate 675,000 square feet of commercial and office space in these buildings.

AFG and its insurance subsidiaries lease the majority of their office and storage facilities in numerous cities throughout the United States, including the Company's home offices in Cincinnati. National Interstate occupies approximately 87% of the 164,000 square feet of rentable office space on 17.5 acres of land that it owns in Richfield, Ohio. See Item 1 — Business — "Other Operations" for a discussion of AFG's other commercial real estate operations.

ITEM 3

Legal Proceedings

AFG and its subsidiaries are involved in litigation from time to time, generally arising in the ordinary course of business. This litigation may include, but is not limited to, general commercial disputes, lawsuits brought by policyholders, employment matters, reinsurance collection matters and actions challenging certain business practices of insurance subsidiaries. Except for the following, management believes that none of the litigation meets the threshold for disclosure under this Item.

AFG's insurance company subsidiaries and its 100%-owned subsidiary, American Premier Underwriters (including its subsidiaries, "American Premier"), are parties to litigation and receive claims alleging injuries and damages from asbestos, environmental and other substances and workplace hazards and have established loss accruals for such potential liabilities. None of such litigation or claims is individually material to AFG; however, the ultimate loss for these claims may vary materially from amounts currently recorded as the conditions surrounding resolution of these claims continue to change.

American Premier is a party or named as a potentially responsible party in a number of proceedings and claims by regulatory agencies and private parties under various environmental protection laws, including the Comprehensive

Environmental Response, Compensation and Liability Act (“CERCLA”), seeking to impose responsibility on American Premier for hazardous waste or discharge remediation costs at certain railroad sites formerly owned by its predecessor, Penn Central Transportation Company (“PCTC”), and at certain other sites where hazardous waste or discharge allegedly generated by PCTC’s railroad operations and American Premier’s former manufacturing operations is present. It is difficult to estimate American Premier’s liability for remediation costs at these sites for a number of reasons, including the number and financial resources of other potentially responsible parties involved at a given site, the varying availability of evidence by which to allocate responsibility among such parties, the wide range of costs for possible remediation alternatives, changing technology and the period of time over which these matters develop. Nevertheless, American Premier believes that its accruals for potential environmental liabilities are adequate to cover the probable amount of such liabilities, based on American Premier’s estimates of remediation costs and related expenses and its estimates of the portions of such costs that will be borne by other parties. Such estimates are based on information currently available to American Premier and are subject to future change as additional information becomes available.

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PART II
ITEM 5
Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
AFG Common Stock is listed and traded on the New York Stock Exchange under the symbol AFG. The information presented in the table below represents the high and low sales prices per share reported on the NYSE Composite Tape.

	2015		2014	
	High	Low	High	Low
First Quarter	$65.51	$57.50	$58.26	$52.89
Second Quarter	66.72	62.98	60.00	55.49
Third Quarter	73.65	65.43	60.64	55.57
Fourth Quarter	75.68	67.39	62.55	54.63

There were approximately 5,700 shareholders of record of AFG Common Stock at February 1, 2016. AFG declared and paid regular quarterly dividends of $0.25 per share in January, April and July 2015. In August 2015, AFG increased its quarterly dividend to $0.28 per share and declared and paid its first dividend at that rate in October 2015. In 2014, AFG declared and paid regular quarterly dividends of $0.22 per share in January, April and July and $0.25 per share in October. In December 2015 and 2014, AFG declared and paid additional special cash dividends of $1.00 per share of AFG Common Stock. The ability of AFG to pay dividends will be dependent upon, among other things, the availability of dividends and payments under intercompany tax allocation agreements from its insurance company subsidiaries.

Issuer Purchases of Equity Securities AFG repurchased shares of its Common Stock during 2015 as follows:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (a)
First Nine Months	1,767,240	$63.92	1,767,240	3,232,760
Fourth Quarter:				
October	22,500	68.24	22,500	3,210,260
November	—	—	—	3,210,260
December	165,446	70.46	165,446	3,044,814
Total	1,955,186	$64.52	1,955,186	

(a) Represents the remaining shares that may be repurchased under the Plans authorized by AFG’s Board of Directors in December 2014. In February 2016, AFG’s Board of Directors authorized the repurchase of three million additional shares.

In addition, AFG acquired 33,795 shares of its Common Stock (at an average of $62.77 per share) in the first nine months of 2015, 900 shares (at $73.11 per share) in November 2015 and 11,070 shares (at an average of $72.65 per share) in December 2015 in connection with its stock incentive plans.

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ITEM 6

Selected Financial Data

The following table sets forth certain data for the periods indicated (dollars in millions, except per share data).

	2015	2014	2013	2012	2011
Earnings Statement Data:					
Total revenues	$6,145	$5,733	$5,103	$4,982	$4,642
Earnings before income taxes	565	626	689	537	558
Net earnings, including noncontrolling interests	370	406	453	402	319
Less: Net earnings (loss) attributable to noncontrolling interests	18	(46)	(18)	(86)	(23)
Net earnings attributable to shareholders	352	452	471	488	342
Earnings attributable to shareholders per Common Share:					
Basic	$4.02	$5.07	$5.27	$5.18	$3.37
Diluted	3.94	4.97	5.16	5.09	3.32
Cash dividends paid per share of Common Stock (a)	$2.03	$1.91	$1.805	$0.97	$0.6625
Ratio of earnings to fixed charges including annuity benefits (b)	1.66	1.90	2.15	1.98	1.95
Balance Sheet Data:					
Cash and investments	$37,736	$36,210	$31,313	$28,449	$25,577
Total assets	49,859	47,535	42,087	39,171	35,838
Property and casualty insurance reserves:					
Unpaid losses and loss adjustment expenses	8,127	7,872	6,410	6,845	6,520
Unearned premiums	2,060	1,956	1,757	1,651	1,484
Annuity benefits accumulated	26,622	23,764	20,944	17,609	15,420
Life, accident and health reserves	705	2,175	2,008	2,059	1,727
Long-term debt	1,020	1,061	913	953	934
Shareholders' equity	4,592	4,879	4,599	4,578	4,411
Less:					
Net unrealized gain on fixed maturities (c)	278	604	441	719	459
Appropriated retained earnings	—	(2)	49	75	173
Adjusted shareholders' equity (d)	4,314	4,277	4,109	3,784	3,779
Book value per share	$52.50	$55.62	$51.38	$51.45	$45.08
Adjusted book value per share (d)	49.33	48.76	45.90	42.52	38.63

(a) Includes special cash dividends of $1.00 per share paid in December 2015, 2014 and 2013 and $0.25 per share paid in December 2012.

(b) Fixed charges are computed on a "total enterprise" basis. For purposes of calculating the ratios, "earnings" have been computed by adding to pretax earnings the fixed charges and the noncontrolling interests in earnings of subsidiaries having fixed charges and the undistributed equity in earnings or losses of investees. Fixed charges include interest (including annuity benefits as indicated), amortization of debt premium/discount and expense, preferred dividend and distribution requirements of subsidiaries and a portion of rental expense deemed to be representative of the interest factor. The ratio of earnings to fixed charges excluding annuity benefits was 6.58, 7.95, 8.86, 7.16 and 6.59 for 2015, 2014, 2013, 2012 and 2011, respectively. Although the ratio of earnings to fixed charges excluding

annuity benefits is not required or encouraged to be disclosed under Securities and Exchange Commission rules, some investors and lenders may not consider interest credited to annuity policyholders' accounts a borrowing cost for an insurance company, and accordingly, believe this ratio is meaningful.

(c) The net unrealized gain on fixed maturities is a component of accumulated other comprehensive income and is shown net of related adjustments to deferred policy acquisition costs and certain liabilities in the annuity, long-term care and life businesses.

(d) Adjusted shareholders' equity and adjusted book value per share exclude appropriated retained earnings and net unrealized gains related to fixed maturity securities. Management believes that investors find a measurement of shareholders' equity excluding these items to be meaningful as (i) the unrealized gain on fixed maturities fluctuates with changes in interest rates in a way that is primarily only meaningful to AFG if it sells those investments and (ii) appropriated retained earnings represents amounts that will ultimately inure to the debt holders of the collateralized loan obligations managed by AFG (see Note A — "Accounting Policies — Managed Investment Entities" to the financial statements).

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ITEM 7
Management's Discussion and Analysis of Financial Condition and Results of Operations
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GENERAL

Following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of AFG's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page F-1.

OVERVIEW

Financial Condition

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

At December 31, 2015, AFG (parent) held approximately $252 million in cash and securities and had $500 million available under a bank line of credit expiring in December 2016.

Results of Operations

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

Fourth quarter 2015 net earnings attributable to AFG's shareholders were $129 million ($1.45 per share, diluted) compared to $127 million ($1.41 per share) in the fourth quarter of 2014, reflecting:

- higher underwriting profit in the property and casualty insurance segment,
- higher net operating earnings in the annuity segment,
- improved core net operating results in the run-off long-term care and life segment,
- the fourth quarter 2015 gain on the sale of an apartment property,
- the fourth quarter loss reported upon closing of the sale of the long-term care business, and
- realized losses on securities in the fourth quarter of 2015 compared to realized gains in the fourth quarter of 2014.

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Full year 2015 net earnings attributable to AFG's shareholders were $352 million ($3.94 per share, diluted) compared to $452 million ($4.97 per share) in 2014, reflecting:

- higher core underwriting profit and net investment income in the property and casualty insurance segment,
- higher special A&E charges recorded in 2015 compared to 2014,
- improved core net operating earnings in the run-off long-term care and life segment,
- the fourth quarter 2015 gain on the sale of an apartment property,
- the second quarter 2015 gain on the sale of Le Pavillon Hotel,
- the loss on the sale of substantially all of AFG's run-off long-term care business, and
- realized losses on securities in 2015 compared to realized gains in 2014.

CRITICAL ACCOUNTING POLICIES

Significant accounting policies are summarized in Note A — "Accounting Policies" to the financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that can have a significant effect on amounts reported in the financial statements. As more information becomes known, these estimates and assumptions change and, thus, impact amounts reported in the future. The areas where management believes the degree of judgment required to determine amounts recorded in the financial statements is most significant are as follows:

- the establishment of insurance reserves, especially asbestos and environmental-related reserves,
- the recoverability of reinsurance,
- the recoverability of deferred acquisition costs,
- the establishment of asbestos and environmental reserves of former railroad and manufacturing operations, and
- the valuation of investments, including the determination of "other-than-temporary" impairments.

See "Liquidity and Capital Resources — Uncertainties" for a discussion of insurance reserves, recoverables from reinsurers, and contingencies related to American Premier's former operations and "Liquidity and Capital Resources — Investments" for a discussion of impairments on investments. DPAC and certain liabilities related to annuities and universal life insurance products are amortized in relation to the present value of expected gross profits on the policies. Assumptions considered in determining expected gross profits involve significant judgment and include management's estimates of interest rates and investment spreads, surrenders, annuitizations, renewal premiums and mortality. Should actual experience require management to change its assumptions (commonly referred to as "unlocking"), a charge or credit would be recorded to adjust DPAC or annuity liabilities to the levels they would have been if the new assumptions had been used from the inception date of each policy.

LIQUIDITY AND CAPITAL RESOURCES

Ratios AFG's debt to total capital ratio on a consolidated basis is shown below (dollars in millions). Management intends to maintain the ratio of debt to capital at or below 25% and intends to maintain the capital of its significant insurance subsidiaries at or above levels currently indicated by rating agencies as appropriate for the current ratings.

	December 31, 2015	December 31, 2014
Long-term debt	$1,020	$1,061
Total capital	5,512	5,513
Ratio of debt to total capital:		
Including subordinated debt and debt secured by real estate	18.5 %	19.2 %
Excluding subordinated debt and debt secured by real estate	13.1 %	15.6 %

The ratio of debt to total capital is a non-GAAP measure that management believes is useful for investors, analysts and independent ratings agencies to evaluate AFG's financial strength and liquidity and to provide insight into how AFG finances its operations. 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).

AFG's ratio of earnings to fixed charges, including annuity benefits as a fixed charge, was 1.66 for the year ended December 31, 2015. Excluding annuity benefits, this ratio was 6.58. Although the ratio excluding annuity benefits is not

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required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholder accounts is not always considered a borrowing cost for an insurance company.

The NAIC's model law for risk based capital ("RBC") applies to both life and property and casualty companies. RBC formulas determine the amount of capital that an insurance company needs so that it has an acceptable expectation of not becoming financially impaired. At December 31, 2015, the capital ratios of all AFG insurance companies substantially exceeded the RBC requirements.

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

	Year ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	$1,357	$1,222	$760
Net cash used in investing activities	(4,577)	(3,619)	(2,915)
Net cash provided by financing activities	3,097	2,101	2,089
Net change in cash and cash equivalents	$(123)	$(296)	$(66)

Net Cash Provided by Operating Activities AFG's property and casualty insurance operations typically produce positive net operating cash flows as premiums collected and investment income exceed policy acquisition costs, claims payments and operating expenses. AFG's net cash provided by operating activities is impacted by the level and timing of property and casualty premiums, claim and expense payments and recoveries from reinsurers. AFG's annuity operations typically produce positive net operating cash flows as investment income exceeds acquisition costs and operating expenses. Interest credited on annuity policyholder funds is a non-cash increase in AFG's annuity benefits accumulated liability and annuity premiums, benefits and withdrawals are considered financing activities due to the deposit-type nature of annuities. Net cash provided by operating activities was $1.36 billion, $1.22 billion and $760 million in 2015, 2014 and 2013, respectively.

Net Cash Used in Investing Activities AFG's investing activities consist primarily of the investment of funds provided by its property and casualty and annuity products. Net cash used in investing activities was $4.58 billion in 2015 compared to $3.62 billion in 2014, an increase of $958 million. The $537 million increase in net cash flows from annuity policyholders in 2015 as compared to 2014 (discussed below under net cash provided by financing activities) increased the amount of cash available for investment in 2015 compared to 2014. In addition to the investment of funds provided by the insurance operations, investing activities also include the purchase and disposal of managed investment entity investments (collateralized loan obligations), which are presented separately in AFG's Balance Sheet. Net investment activity in the managed investment entities was a $675 million use of cash in 2015 compared to a $275 million use of cash in 2014, accounting for a $400 million increase in net cash used in investing activities in 2015 compared to 2014. See Note A — "Accounting Policies — Managed Investment Entities" and Note H — "Managed Investment Entities" to the financial statements.

Net cash used in investing activities was $3.62 billion in 2014 compared to $2.92 billion in 2013, an increase of $704 million. Net investment activity in the managed investment entities was a $275 million use of cash in 2014 compared to a $478 million source of cash in 2013, accounting for a $753 million increase in net cash used in investing activities in 2014 compared to 2013.

Net Cash Provided by Financing Activities   AFG's financing activities consist primarily of transactions with annuity policyholders, issuances and retirements of long-term debt, repurchases of common stock and dividend payments. Net cash provided by financing activities was $3.10 billion in 2015 compared to $2.10 billion in 2014, an increase of $996 million. Annuity receipts exceeded annuity surrenders, benefits, withdrawals and transfers by $2.50 billion in 2015 compared to $1.97 billion in 2014, resulting in a $537 million increase in net cash provided by financing activities. Redemptions of long-term debt resulted in a $192 million use of cash in 2015. AFG issued $150 million of 6% Subordinated Debentures in 2015 and $150 million of 6-1/4% Subordinated Debentures in 2014, the net proceeds of each issuance contributed $145 million to net cash provided by financing activities in those years. During 2015, AFG repurchased 2.0 million shares of its Common Stock for $126 million compared to 3.3 million shares repurchased in 2014 for $191 million, which accounted for a $65 million increase in net cash provided by financing activities in 2015 compared to 2014. Financing activities also include issuances and

retirements of managed investment entity liabilities, which are nonrecourse to AFG and presented separately in AFG's Balance Sheet. Issuances of managed investment entity liabilities exceeded retirements by $890 million in 2015 while issuances of managed investment entity liabilities exceeded retirements by $306 million in 2014, accounting for a $584 million increase in net cash provided by financing activities in 2015 compared to 2014. See Managed Investment Entities in Note A — "Accounting Policies" and Note H — "Managed Investment Entities" to the financial statements.

Net cash provided by financing activities was $2.10 billion in 2014 compared to $2.09 billion in 2013, an increase of $12 million. Annuity receipts exceeded annuity surrenders, benefits, withdrawals and transfers by $1.97 billion in 2014 compared to $2.68 billion in 2013, resulting in a $711 million decrease in net cash provided by financing activities. During 2014, AFG repurchased 3.3 million shares of its Common Stock for $191 million compared to 1.4 million shares repurchased in 2013 for $70 million, which accounted for a $121 million decrease in net cash provided by financing activities in 2014 compared to 2013. AFG issued $150 million of 6-1/4% Subordinated Debentures in 2014, the net proceeds of which contributed $145 million to net cash provided by financing activities. Issuances of managed investment entity liabilities exceeded retirements by $306 million in 2014 while retirements of managed investment entity liabilities exceeded issuances by $368 million in 2013, accounting for a $674 million increase in net cash provided by financing activities in 2014 compared to 2013.

Parent and Subsidiary Liquidity

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

AFG can borrow up to $500 million under its revolving credit facility which expires in December 2016. Amounts borrowed under this agreement bear interest at rates ranging from 1.00% to 1.875% (currently 1.375%) over LIBOR based on AFG's credit rating. There were no borrowings under this agreement, or under any other parent company short-term borrowing arrangements, during 2015.

In November 2015, AFG issued $150 million of 6% Subordinated Debentures due 2055. AFG intends to use the net proceeds from the offering for general corporate purposes, which may include repurchases of outstanding common stock. In September 2015, AFG redeemed its $132 million of 7% Senior Notes due 2050 at par using cash on hand at the parent company.

During 2015, AFG repurchased 2.0 million shares of its Common Stock for $126 million. In December 2015, AFG paid a special cash dividend of $1.00 per share of AFG Common Stock totaling approximately $88 million. In January 2016, AFG repurchased 951,394 additional shares of its Common Stock for $64 million.

In April 2014, AFG completed the purchase of Summit Holding Southeast, Inc. and its related companies ("Summit") from Liberty Mutual Insurance for $259 million using cash on hand at the parent company. In addition, AFG made a capital contribution of approximately $140 million, bringing its capital investment in the Summit business to $399 million. Summit's results of operations are included in AFG's consolidated results beginning in April of 2014.

In September 2014, AFG issued $150 million of 6-1/4% Subordinated Debentures due 2054. During 2014, AFG repurchased 3.3 million shares of its Common Stock for $191 million. In December 2014, AFG paid a special cash dividend of $1.00 per share of AFG Common Stock totaling approximately $88 million.

During 2013, AFG repurchased 1.4 million shares of its Common Stock for $70 million. In December 2013, AFG paid a special cash dividend of $1.00 per share of AFG Common Stock totaling approximately $89 million.

All debentures and notes issued by AFG are rated investment grade by two nationally recognized rating agencies. Under a currently effective shelf registration statement, AFG can offer additional equity or debt securities. The shelf registration provides AFG with flexibility to access the capital markets from time to time as market and other conditions permit.

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

Subsidiary Liquidity Great American Life Insurance Company ("GALIC"), a wholly-owned annuity subsidiary, is a member of the Federal Home Loan Bank of Cincinnati ("FHLB"). The FHLB makes advances and provides other banking services to

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member institutions, which provides the annuity operations with a substantial additional source of liquidity. These advances further the FHLB's mission of improving access to housing by increasing liquidity in the residential mortgage-backed securities market. At December 31, 2015, GALIC had $785 million in outstanding advances from the FHLB (included in annuity benefits accumulated), bearing interest at rates ranging from 0.02% to 0.49% over LIBOR (average rate of 0.58% at December 31, 2015). While these advances must be repaid between 2016 and 2020, GALIC has the option to prepay all or a portion of the advances. GALIC has invested the proceeds from the advances in fixed maturity securities for the purpose of earning a spread over the interest payments due to the FHLB. At December 31, 2015, GALIC estimated that it had additional borrowing capacity of approximately $750 million from the FHLB.

National Interstate Corporation ("NATL"), a 51%-owned property and casualty insurance subsidiary, can borrow up to $100 million under its unsecured credit agreement, which expires in November 2017. There was $12 million borrowed under this agreement at December 31, 2015, bearing interest at 1.40% (six-month LIBOR plus 0.875%). The maximum outstanding balance in 2015 was $12 million.

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

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

In the annuity business, where profitability is largely dependent on earning a spread between invested assets and annuity liabilities, the duration of investments is generally maintained close to that of liabilities. In a rising interest rate environment, significant protection from withdrawals exists in the form of temporary and permanent surrender charges on AFG's annuity products. With declining rates, AFG receives some protection (from spread compression) due to the ability to lower crediting rates, subject to contractually guaranteed minimum interest rates ("GMIRs"). AFG began selling policies with GMIRs below 2% in 2003; almost all new business since late 2010 has been issued with a 1% GMIR. At December 31, 2015, AFG could reduce the average crediting rate on approximately $20 billion of traditional fixed and fixed-indexed deferred annuities without guaranteed withdrawal benefits by approximately 72 basis points (on a weighted average basis). Annuity policies are subject to Guaranteed Minimum Interest Rates ("GMIRs") at policy issuance. The table below shows the breakdown of annuity reserves by GMIR. The current interest crediting rates on substantially all of AFG's annuities with a GMIR of 3% or higher are at their minimum.

	% of Reserves at December 31,	
GMIR	2015	2014
1 — 1.99%	67%	59%
2 — 2.99%	7%	9%
3 — 3.99%	14%	18%
4.00% and above	12%	14%
Annuity benefits accumulated (in millions)	$26,622	$23,764

For statutory accounting purposes, equity securities of non-affiliates and equity call options used in the fixed-indexed annuity business are generally carried at fair value. At December 31, 2015, AFG's insurance companies owned

publicly traded equity securities with a fair value of $1.67 billion and equity call options with a fair value of $241 million. In addition, GAI's investment in NATL common stock had a fair value of $272 million and a statutory carrying value of $217 million at December 31, 2015. Decreases in market prices could adversely affect the insurance group's capital, potentially impacting the amount of dividends available or necessitating a capital contribution. Conversely, increases in market prices could have a favorable impact on the group's dividend-paying capability.

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

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Condensed Parent Only Cash Flows AFG's parent holding company only condensed cash flows from operating, investing and financing activities are shown below (in millions):

	Year ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	$162	$372	$428
Net cash used in investing activities	(33)	(432)	(4)
Net cash used in financing activities	(232)	(171)	(180)
Net change in cash and cash equivalents	$(103)	$(231)	$244

Parent Net Cash Provided by Operating Activities Parent holding company cash flows from operating activities consist primarily of dividends and tax payments received from AFG's insurance subsidiaries, reduced by tax payments to the IRS and holding company interest and other expenses. Parent holding company net cash provided by operating activities was $162 million in 2015 compared to $372 million in 2014 and $428 million in 2013. Lower dividends from subsidiaries received in 2015 as compared to 2014 and 2014 as compared to 2013 were the primary driver of the $210 million decrease in net cash provided by operating activities in 2015 compared to 2014 and the $56 million decrease in net cash provided by operating activities in 2014 compared to 2013.

Parent Net Cash Used in Investing Activities Parent holding company investing activities consist of capital contributions to and returns of capital from subsidiaries and, to a much lesser extent, parent company investment activity. Parent holding company net cash used in investing activities was $33 million in 2015 compared to $432 million in 2014 and $4 million in 2013. The $33 million in net cash used in investing activities in 2015 and the $4 million in 2013 are significantly lower than the $432 million in net cash used in investing activities in 2014 due primarily to capital contributions made to a subsidiary to fund the $399 million investment in Summit in 2014.

Parent Net Cash Used in Financing Activities Parent company financing activities consist primarily of repurchases of AFG Common Stock, dividends to shareholders, the issuance and retirement of long-term debt and, to a lesser extent, proceeds from employee stock option exercises. Significant long-term debt and common stock transactions are discussed above under "Parent Holding Company Liquidity." Parent holding company net cash used in financing activities was $232 million in 2015 compared to $171 million in 2014 and $180 million in 2013. The $61 million increase in net cash used in financing activities in 2015 as compared to 2014 reflects the 2015 redemption of $132 million of 7% Senior Notes due 2050, partially offset by a $65 million decrease in common stock repurchases. The $9 million decrease in net cash used in financing activities in 2014 as compared to 2013 reflects net proceeds of $145 million received in 2014 from the issuance of 6-1/4% Subordinated Debentures due in 2054, partially offset by a $121 million increase in common stock repurchases.

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Contractual Obligations The following table shows an estimate (based on historical patterns and expected trends) of payments to be made for insurance reserve liabilities, as well as scheduled payments for major contractual obligations (in millions).

	Total	Within One Year	2-3 Years	4-5 Years	More than 5 Years
Annuities (a)	$32,280	$2,070	$5,090	$5,852	$19,268
Life, accident and health liabilities (a)	1,503	124	239	201	939
Property and casualty unpaid losses and loss adjustment expenses (b)	8,127	2,000	2,000	900	3,227
Long-term debt, including interest	2,445	75	162	448	1,760
Operating leases	403	64	112	79	148
Total	$44,758	$4,333	$7,603	$7,480	$25,342

(a) Amounts presented in the table represent estimated cash payments under such contracts, based on significant assumptions related to mortality, morbidity, lapse, renewal, retirement and annuitization. These assumptions also include interest and index crediting consistent with assumptions used to amortize DPAC and assess loss recognition. All estimated cash payments are undiscounted for the time value of money. As a result, total outflows for all years exceed the corresponding liabilities of $26.62 billion for annuity benefits accumulated and $705 million for life, accident and health reserves included in AFG's Balance Sheet as of December 31, 2015. Based on the same assumptions, AFG projects reinsurance recoveries related to life, accident and health reserves totaling $851 million as follows: Within 1 year — $86 million; 2-3 years — $146 million; 4-5 years — $121 million; and thereafter — $498 million. Actual payments and their timing could differ significantly from these estimates.

(b) Dollar amounts and time periods are estimates based on historical net payment patterns applied to the gross reserves and do not represent actual contractual obligations. Based on the same assumptions, AFG projects reinsurance recoveries related to these reserves totaling $2.20 billion as follows: Within 1 year — $500 million; 2-3 years — $500 million; 4-5 years — $200 million; and thereafter — $1.00 billion. Actual payments and their timing could differ significantly from these estimates.

AFG has no material contractual purchase obligations or other long-term liabilities at December 31, 2015.

Off-Balance Sheet Arrangements See Note P — "Additional Information — Financial Instruments — Unfunded Commitments" to the financial statements.

Investments AFG attempts to optimize investment income while building the value of its portfolio, placing emphasis upon total long-term performance.

AFG's investment portfolio at December 31, 2015, contained $32.28 billion in fixed maturity securities and $1.55 billion in equity securities classified as available for sale and carried at fair value with unrealized gains and losses included in a separate component of shareholders' equity on an after-tax basis. In addition, $254 million in fixed maturities and $166 million in equity securities were classified as trading with changes in unrealized holding gains or losses included in net investment income.

As detailed in Note E — "Investments — Net Unrealized Gain on Marketable Securities" to the financial statements, unrealized gains and losses on AFG's fixed maturity and equity securities are included in shareholders' equity after adjustments for related changes in DPAC and certain liabilities related to annuity, long-term care and life businesses, noncontrolling interests and deferred income taxes. DPAC and certain other balance sheet amounts applicable to annuity, long-term care and life businesses are adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding increases or decreases (net of tax) included in accumulated other comprehensive income in AFG's Balance Sheet.

Fixed income investment funds are generally invested in securities with intermediate-term maturities with an objective of optimizing total return while allowing flexibility to react to changes in market conditions. At December 31, 2015, the average life of AFG's fixed maturities was about 6-1/2 years.

Fair values for AFG's portfolio are determined by AFG's internal investment professionals using data from nationally recognized pricing services as well as non-binding broker quotes. Fair values of equity securities are generally based on published closing prices. For mortgage-backed securities ("MBS"), which comprise approximately 18% of AFG's fixed maturities, prices for each security are generally obtained from both pricing services and broker quotes. For the remainder of AFG's fixed maturity portfolio, approximately 80% are priced using pricing services and the balance is priced primarily by

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using non-binding broker quotes. When prices obtained for the same security vary, AFG's internal investment professionals select the price they believe is most indicative of an exit price.

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

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

In general, the fair value of AFG's fixed maturity investments is inversely correlated to changes in interest rates. The following table demonstrates the sensitivity of such fair values to reasonably likely changes in interest rates by illustrating the estimated effect on AFG's fixed maturity portfolio and accumulated other comprehensive income that an immediate increase of 100 basis points in the interest rate yield curve would have at December 31, 2015 (dollars in millions). Effects of increases or decreases from the 100 basis points illustrated would be approximately proportional.

Fair value of fixed maturity portfolio	$32,538	
Percentage impact on fair value of 100 bps increase in interest rates	(5.0	%)
Pretax impact on fair value of fixed maturity portfolio	$(1,627	)
Offsetting adjustments to deferred policy acquisition costs and other balance sheet amounts	700	
Estimated pretax impact on accumulated other comprehensive income	(927	)
Deferred income tax	325	
Noncontrolling interests	13	
Estimated after-tax impact on accumulated other comprehensive income	$(589	)

Approximately 89% of the fixed maturities held by AFG at December 31, 2015, were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and non-investment grade. Management believes that the high quality investment portfolio should generate a stable and predictable investment return.

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

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Summarized information for AFG's MBS (including those classified as trading) at December 31, 2015, is shown in the table below (dollars in millions). Agency-backed securities are those issued by a U.S. government-backed agency; Alt-A mortgages are those with risk profiles between prime and subprime. The majority of the Alt-A securities and substantially all of the subprime securities are backed by fixed-rate mortgages. The average life of the residential and commercial MBS is approximately 4-1/2 years and 3 years, respectively.

	Amortized Cost	Fair Value	Fair Value as % of Cost	Unrealized Gain (Loss)	% Rated Investment Grade
Collateral type					
Residential:					
Agency-backed	$260	$269	103 %	$9	100 %
Non-agency prime	1,489	1,651	111 %	162	39 %
Alt-A	794	872	110 %	78	18 %
Subprime	698	742	106 %	44	20 %
Commercial	2,112	2,188	104 %	76	100 %
	$5,353	$5,722	107 %	$369	59 %

The National Association of Insurance Commissioners ("NAIC") assigns creditworthiness designations on a scale of 1 to 6 with 1 being the highest quality and 6 being the lowest quality. The NAIC retains third-party investment management firms to assist in the determination of appropriate NAIC designations for mortgage-backed securities based not only on the probability of loss (which is the primary basis of ratings by the major ratings firms), but also on the severity of loss and statutory carrying value. At December 31, 2015, 97% (based on statutory carrying value of $5.28 billion) of AFG's MBS securities had an NAIC designation of 1.

Municipal bonds represented approximately 21% of AFG's fixed maturity portfolio at December 31, 2015. AFG's municipal bond portfolio is high quality, with 98% of the securities rated investment grade at that date. The portfolio is well diversified across the states of issuance and individual issuers. At December 31, 2015, approximately 75% of the municipal bond portfolio was held in revenue bonds, with the remaining 25% held in general obligation bonds. General obligation securities of California, Illinois, Michigan, New Jersey, New York and Puerto Rico collectively represented approximately 1% of this portfolio.

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Summarized information for the unrealized gains and losses recorded in AFG's Balance Sheet at December 31, 2015, is shown in the following table (dollars in millions). Approximately $559 million of available for sale fixed maturity securities and $99 million of available for sale equity securities had no unrealized gains or losses at December 31, 2015.

	Securities With Unrealized Gains		Securities With Unrealized Losses	
Available for Sale Fixed Maturities				
Fair value of securities	$21,380		$10,345	
Amortized cost of securities	$20,287		$10,719	
Gross unrealized gain (loss)	$1,093		$(374	)
Fair value as % of amortized cost	105	%	97	%
Number of security positions	3,740		1,284	
Number individually exceeding $2 million gain or loss	49		30	
Concentration of gains (losses) by type or industry (exceeding 5% of unrealized):				
Mortgage-backed securities	$385		$(16	)
States and municipalities	249		(35	)
Banks, savings and credit institutions	84		(25	)
Gas and electric services	62		(37	)
Asset-backed securities	25		(52	)
Oil and gas extraction	6		(55	)
Metal mining	3		(34	)
Percentage rated investment grade	89	%	91	%
Available for Sale Equity Securities				
Fair value of securities	$832		$622	
Cost of securities	$663		$707	
Gross unrealized gain (loss)	$169		$(85	)
Fair value as % of cost	125	%	88	%
Number of security positions	146		82	
Number individually exceeding $2 million gain or loss	24		12	

The table below sets forth the scheduled maturities of AFG's available for sale fixed maturity securities at December 31, 2015, based on their fair values. Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Securities With Unrealized Gains		Securities With Unrealized Losses	
Maturity				
One year or less	4	%	1	%
After one year through five years	22	%	7	%
After five years through ten years	32	%	41	%
After ten years	13	%	14	%
	71	%	63	%
Asset-backed securities (average life of approximately 5 years)	7	%	30	%
Mortgage-backed securities (average life of approximately 4 years)	22	%	7	%

	100	%	100	%

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

	Aggregate Fair Value	Aggregate Unrealized Gain (Loss)	Fair Value as % of Cost Basis
Fixed Maturities at December 31, 2015			
Securities with unrealized gains:			
Exceeding $500,000 (653 securities)	$7,888	$675	109 %
$500,000 or less (3,087 securities)	13,492	418	103 %
	$21,380	$1,093	105 %
Securities with unrealized losses:			
Exceeding $500,000 (167 securities)	$2,228	$(241)	90 %
$500,000 or less (1,117 securities)	8,117	(133)	98 %
	$10,345	$(374)	97 %

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

	Aggregate Fair Value	Aggregate Unrealized Loss	Fair Value as % of Cost Basis
Securities with Unrealized Losses at December 31, 2015			
Investment grade fixed maturities with losses for:			
Less than one year (972 securities)	$8,724	$(254)	97 %
One year or longer (121 securities)	670	(34)	95 %
	$9,394	$(288)	97 %
Non-investment grade fixed maturities with losses for:			
Less than one year (122 securities)	$707	$(58)	92 %
One year or longer (69 securities)	244	(28)	90 %
	$951	$(86)	92 %
Common equity securities with losses for:			
Less than one year (63 securities)	$509	$(79)	87 %
One year or longer (none)	—	—	— %
	$509	$(79)	87 %
Perpetual preferred equity securities with losses for:			
Less than one year (16 securities)	$91	$(3)	97 %
One year or longer (3 securities)	22	(3)	88 %
	$113	$(6)	95 %

When a decline in the value of a specific investment is considered to be "other-than-temporary," a provision for impairment is charged to earnings (accounted for as a realized loss) and the cost basis of that investment is reduced by the amount of the charge. The determination of whether unrealized losses are "other-than-temporary" requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

a) whether the unrealized loss is credit-driven or a result of changes in market interest rates,
b) the extent to which fair value is less than cost basis,
c) cash flow projections received from independent sources,
d)

historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases,

e) near-term prospects for improvement in the issuer and/or its industry,
f) third party research and communications with industry specialists,
g) financial models and forecasts,
h) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments,
i) discussions with issuer management, and
j) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

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Based on its analysis of the factors listed above, management believes AFG will recover its cost basis in the securities with unrealized losses and that AFG has the ability to hold the securities until they recover in value and had no intent to sell them at December 31, 2015. Although AFG has the ability to continue holding its investments with unrealized losses, its intent to hold them may change due to deterioration in the issuers' creditworthiness, decisions to lessen exposure to a particular issuer or industry, asset/liability management decisions, market movements, changes in views about appropriate asset allocation or the desire to offset taxable realized gains. Should AFG's ability or intent change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, charges for other-than-temporary impairment could be material to results of operations in future periods. Significant declines in the fair value of AFG's investment portfolio could have a significant adverse effect on AFG's liquidity. For information on AFG's realized gains (losses) on securities, including charges for "other-than-temporary" impairment, see "Results of Operations — Consolidated Realized Gains (Losses) on Securities."

Uncertainties   As more fully explained in the following paragraphs, management believes that the areas posing the greatest risk of material loss are the adequacy of its insurance reserves and contingencies arising out of its former railroad and manufacturing operations.

Property and Casualty Insurance Reserves   Estimating the liability for unpaid losses and loss adjustment expenses ("LAE") is inherently judgmental and is influenced by factors that are subject to significant variation. Determining the liability is a complex process incorporating input from many areas of the Company including actuarial, underwriting, pricing, claims and operations management.

The estimates of liabilities for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon: (i) the accumulation of case estimates for losses reported prior to the close of the accounting periods on direct business written ("case reserves"); (ii) estimates received from ceding reinsurers and insurance pools and associations; (iii) estimates of claims incurred but not reported or "IBNR" (including possible development on known claims); (iv) estimates (based on experience) of expense for investigating and adjusting claims; and (v) the current state of law and coverage litigation.

The process used to determine the total reserve for liabilities involves estimating the ultimate incurred losses and LAE, adjusted for amounts already paid on the claims. The IBNR reserve is derived by first estimating the ultimate unpaid reserve liability and subtracting case reserves for loss and LAE.

In determining management's best estimate of the ultimate liability, management (including Company actuaries) considers items such as the effect of inflation on medical, hospitalization, material, repair and replacement costs, the nature and maturity of lines of insurance, general economic trends and the legal environment. In addition, historical trends adjusted for changes in underwriting standards, policy provisions, product mix and other factors are analyzed using actuarial reserve development techniques. Weighing all of the factors, the management team determines a single or "point" estimate that it records as its best estimate of the ultimate liability. Ranges of loss reserves are not developed by Company actuaries. This reserve analysis and review is completed each quarter and for almost every line of business.

Each quarterly review includes in-depth analysis of several hundred subdivisions of the business, employing multiple actuarial techniques. For each subdivision, actuaries use informed, professional judgment to adjust these techniques as necessary to respond to specific conditions in the data or within the business.

Some of the standard actuarial methods employed for the quarterly reserve analysis may include (but may not be limited to):

- Case Incurred Development Method

- Paid Development Method
- Bornhuetter-Ferguson Method
- Incremental Paid LAE to Paid Loss Methods

Management believes that each method has particular strengths and weaknesses and that no single estimation method is most accurate in all situations. When applied to a particular group of claims, the relative strengths and weaknesses of each method can change over time based on the facts and circumstances. Ultimately, the estimation methods chosen are those which management believes produce the most reliable indication for the particular liabilities under review.

The period of time from the occurrence of a loss through the settlement of the liability is referred to as the “tail”. Generally, the same actuarial methods are considered for both short-tail and long-tail lines of business because most of them work properly for both. The methods are designed to incorporate the effects of the differing length of time to settle particular claims. For short-tail lines, management tends to give more weight to the Case Incurred and Paid Development methods, although the various

methods tend to produce similar results. For long-tail lines, more judgment is involved, and more weight may be given to the Bornhuetter-Ferguson method. Liability claims for long-tail lines are more susceptible to litigation and can be significantly affected by changing contract interpretation and the legal environment. Therefore, the estimation of loss reserves for these classes is more complex and subject to a higher degree of variability.

The level of detail in which data is analyzed varies among the different lines of business. Data is generally analyzed by major product or by coverage within product, using countrywide data; however, in some situations, data may be reviewed by state or region. Appropriate segmentation of the data is determined based on data credibility, homogeneity of development patterns, mix of business, and other actuarial considerations.

Supplementary statistical information is also reviewed to determine which methods are most appropriate to use or if adjustments are needed to particular methods. Such information includes:

- Open and closed claim counts
- Average case reserves and average incurred on open claims
- Closure rates and statistics related to closed and open claim percentages
- Average closed claim severity
- Ultimate claim severity
- Reported loss ratios
- Projected ultimate loss ratios
- Loss payment patterns

Within each line, results of individual methods are reviewed, supplementary statistical information is analyzed, and data from underwriting, operating and claim management are considered in deriving management’s best estimate of the ultimate liability. This estimate may be the result of one method, a weighted average of several methods, or a judgmental selection as the management team determines is appropriate.

The following table shows (in millions) the breakdown of AFG’s property and casualty reserves between case reserves, IBNR reserves and LAE reserves (estimated amounts required to adjust, record and settle claims, other than the claim payments themselves).

	Gross Loss Reserves at December 31, 2015			
	Case	IBNR	LAE	Total Reserve
Statutory Line of Business				
Workers’ compensation	$1,053	$1,235	$324	$2,612
Other liability — occurrence	559	1,355	308	2,222
Other liability — claims made	154	215	163	532
Commercial auto/truck liability/medical	212	229	87	528
Special property (fire, allied lines, inland marine, earthquake)	362	54		