

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 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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes 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 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

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 the negative version of those words or other comparable terminology. Such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings, investment activities, and the amount and timing of share repurchases; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate changes; and improved loss experience.

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

Company	Ratings		Gross Written Premiums
	AM Best	S&P	
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	%

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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 %									

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Cumulative deficiency (redundancy)	(4.1	%)	(10.5	%)	(13.3	%)	(7.6	%)	(4.7	%)	(1.4	%)	0.9	%	1.7	%	1.8	%	0.6	%	
(a)																					
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	%

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 Cincinnati 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

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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.

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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

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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	

Represents the remaining shares that may be repurchased under the Plans authorized by AFG's Board of Directors (a) 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.

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

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 (d) 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	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

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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.

GMIR	% of Reserves at December 31,	
	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

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 (a) 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. 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 (b) 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.

Collateral type	Amortized Cost	Fair Value	Fair Value as % of Cost	Unrealized Gain (Loss)	% Rated Investment Grade	
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:

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

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

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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	26	442	
Products liability — occurrence	66	130	117	313	
Commercial multi-peril	102	88	66	256	
Other lines	114	301	92	507	
Total Statutory Reserves	2,622	3,607	1,183	7,412	
Adjustments for GAAP:					
Reserves of foreign operations	324	362	14	700	
Deferred gains on retroactive reinsurance	—	40	—	40	
Loss reserve discounting	(12) —	—	(12)
Other	(15) 2	—	(13)
Total Adjustments for GAAP	297	404	14	715	

Total GAAP Reserves	\$2,919	\$4,011	\$1,197	\$8,127
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While current factors and reasonably likely changes in variable factors are considered in estimating the liability for unpaid losses, there is no method or system that can eliminate the risk of actual ultimate results differing from such estimates. As shown in the reserve development table (loss triangle) on page 7, the original estimates of AFG's liability for losses and loss adjustment expenses, net of reinsurance and including the effect of special charges for asbestos and environmental exposures, over the past 10 years have developed through December 31, 2015, to be deficient (for four years) by as much as 1.8% and

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redundant (for six years) by as much as 13.3%. Excluding the effect of special charges for asbestos and environmental exposures, the original estimates of AFG's liability for losses and loss adjustment expenses, net of reinsurance have developed through December 31, 2015 to be redundant (for ten years) by as much as 19.4%. This development illustrates the historical impact caused by variability in factors considered in estimating insurance reserves.

Following is a discussion of certain critical variables affecting the estimation of loss reserves of the more significant long-tail lines of business (asbestos and environmental liabilities are separately discussed below). Many other variables may also impact ultimate claim costs.

An important assumption underlying reserve estimates is that the cost trends implicitly built into development patterns will continue into the future. However, future results could vary due to an unexpected change in the underlying cost trends. This unexpected change could arise from a variety of sources including a general increase in economic inflation, inflation from social programs, new medical technologies, or other factors such as those listed below in connection with AFG's largest lines of business. It is not possible to isolate and measure the potential impact of just one of these variables, and future cost trends could be partially impacted by several such variables. However, it is reasonable to address the sensitivity of the reserves to potential impact from changes in these variables by measuring the effect of a possible overall 1% change in future cost trends that may be caused by one or more variables. Utilizing the effect of a 1% change in overall cost trends enables changes greater than 1% to be estimated by extrapolation. Each additional 1% change in the cost trend would increase the effect on net earnings by an amount slightly (about 5%) greater than the effect of the previous 1%. For example, if a 1% change in cost trends in a line of business would change net earnings by \$20 million, a 2% change would change net earnings by approximately \$41 million.

The estimated cumulative impact that a 1% change in cost trends in AFG's more significant lines of property and casualty business (exceeding 5% of total reserves) would have on net earnings is shown below (in millions).

Line of business	Effect of 1% Change in Cost Trends
Workers' compensation	\$59
Other liability — occurrence	23
Commercial auto/truck liability/medical	6
Other liability — claims made	9

The judgments and uncertainties surrounding management's reserve estimation process and the potential for reasonably possible variability in management's most recent reserve estimates may also be viewed by looking at how recent historical estimates of reserves have developed. The following table shows (dollars in millions) what the impact on AFG's net earnings would be on the more significant lines of business if the December 31, 2015, reserves (net of reinsurance) developed at the same rate as the average development of the most recent five years.

	5-yr. Average Development (a)(b)	Net Reserves (b) December 31, 2015	Effect on Net Earnings (b)
Workers' compensation	(0.6	%) \$ 2,160	\$14
Other liability — occurrence	(2.1	%) 881	19
Commercial auto/truck liability/medical	2.8	%) 405	(11
Other liability — claims made	(5.5	%) 401	22

(a) Adverse (favorable), net of tax effect.

(b) Excludes asbestos and environmental liabilities.

The following discussion describes key assumptions and important variables that affect the estimate of the reserve for loss and loss adjustment expenses of the more significant lines of business and explains what caused them to change

from assumptions used in the preceding period.

Workers' Compensation

This long-tail line of business provides coverage to employees who may be injured in the course of employment. Some of the important variables affecting estimation of loss reserves for workers' compensation include:

- Legislative actions and regulatory and legal interpretations
- Future medical cost inflation
- Economic conditions
- Timing of claims reporting

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In April 2014, AFG acquired Summit Holding Southeast, Inc. and related companies, a leading provider of workers' compensation solutions in the southeastern United States. The Summit acquisition significantly increased AFG's volume of workers' compensation business and improved its geographic diversity. Approximately 23% and 19% of AFG's workers' compensation reserves at December 31, 2015 relate to policies written in Florida and California, respectively. Over the past 12 years in both states, there have been numerous revisions to workers' compensation regulations and operating environments, adding difficulty and uncertainty to the estimation of related liabilities.

AFG recorded favorable prior year reserve development of \$45 million in 2015 due to lower than anticipated claim severity across all regions of the country. AFG recorded favorable prior year reserve development of \$7 million in both 2014 and 2013, as favorable reserve development in the business written in California was partially offset by adverse reserve development in other states.

Other Liability — Occurrence

This long-tail line of business consists of coverages protecting the insured against legal liability resulting from negligence, carelessness, or a failure to act causing property damage or personal injury to others. Some of the important variables affecting estimation of loss reserves for other liability — occurrence include:

- Litigious climate
- Unpredictability of judicial decisions regarding coverage issues
- Magnitude of jury awards
- Outside counsel costs
- Timing of claims reporting

AFG recorded favorable prior year reserve development of \$7 million in 2015, \$15 million in 2014 and \$11 million in 2013 related to its other liability — occurrence coverage where both the frequency and severity of claims in excess and umbrella liability coverages were lower than previously projected.

While management applies the actuarial methods mentioned above, more judgment is involved in arriving at the final reserve to be held. For recent accident years, more weight is given to the Bornhuetter-Ferguson method.

Commercial Auto/Truck Liability/Medical

This line of business is a mix of coverage protecting the insured against legal liability for property damage or personal injury to others arising from the operation of commercial motor vehicles. The property damage liability exposure is usually short-tail with relatively quick reporting and settlement of claims. The bodily injury and medical payments exposures are longer-tailed; although the claim reporting is relatively quick, the final settlement can take longer to achieve. Some of the important variables affecting estimation of loss reserves for commercial auto/truck liability/medical are similar to other liability — occurrence and include:

- Magnitude of jury awards
- Unpredictability of judicial decisions regarding coverage issues
- Litigious climate and trends
- Change in frequency of severe accidents
- Health care costs and utilization of medical services by injured parties

AFG recorded adverse prior year reserve development of \$20 million in 2015, \$28 million in 2014 and \$37 million in 2013 for this line of business as claim severity has been significantly higher than expected in accident years 2010 and subsequent.

Other Liability — Claims Made

This long-tail line of business consists mostly of directors' and officers' liability ("D&O"). Some of the important variables affecting estimation of loss reserves for other liability — claims made include:

- Litigious climate
- Economic conditions
- Variability of stock prices
- Magnitude of jury awards

The general state of the economy and the variability of the stock price of the insured can affect the frequency and severity of shareholder class action suits and other situations that trigger coverage under D&O policies. For example, from 2008 to 2010,

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economic conditions led to higher frequency of claims, particularly in the D&O policies for small account and not-for-profit organizations. Since then, claim frequency has continually decreased from its peak in 2010, offsetting increased claim severity.

AFG recorded favorable prior year reserve development of \$12 million in 2015, \$18 million in 2014 and \$41 million in 2013 on its D&O business as claim severity was less than expected across several prior accident years.

While management applies the actuarial methods mentioned above, more judgment may be needed to determine appropriate reserves due to the complexity of claims, litigation and the length of time necessary to determine exposure.

Reserves of Foreign Operations

Reserves of foreign operations relate primarily to the operations of Marketform Group, Limited, AFG's wholly-owned United Kingdom-based Lloyd's insurer. Historically, the largest line of business written by Marketform has been non-U.S. medical malpractice, which provides coverage for injuries and damages caused by medical care providers, including but not limited to, hospitals and their physicians. Although Marketform offers this product in approximately 30 countries, the majority of the business has been written in the United Kingdom, Australia and Italy. In addition, Marketform writes general liability, marine, equine, professional indemnity and directors and officers liability insurance. Significant variables in estimating the loss reserves include:

- Litigious environment
- Magnitude of court awards
- A slow moving judicial system including varying approaches to medical malpractice claims among courts
- Trends in claim costs, including medical cost inflation

Marketform recorded adverse prior year reserve development of \$44 million in 2015, \$14 million in 2014 and \$1 million in 2013. The adverse development in 2015 and 2014 was attributable to reserve strengthening in several lines of business, primarily Dutch hospital medical malpractice, Australian and other general liability and personal accident insurance. 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.

Recoverables from Reinsurers and Availability of Reinsurance AFG is subject to credit risk with respect to its reinsurers, as reinsurance contracts do not relieve AFG of its liability to policyholders. To mitigate this risk, substantially all reinsurance is ceded to companies with investment grade S&P ratings or is secured by "funds withheld" or other collateral.

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. Although the cost of certain reinsurance programs may increase, management believes that AFG will be able to maintain adequate reinsurance coverage at acceptable rates without a material adverse effect on AFG's results of operations. AFG's gross and net combined ratios are shown in the table below.

See Item 1 — Business — "Property and Casualty Insurance Segment — Reinsurance" for more information on AFG's reinsurance programs. For additional information on the effect of reinsurance on AFG's historical results of operations see Note O — "Insurance — Reinsurance" to the financial statements and the gross loss development table under Item 1 — Business — "Property and Casualty Insurance Segment — Loss and Loss Adjustment Expense Reserves."

The following table illustrates the effect that purchasing property and casualty reinsurance has had on AFG's combined ratio over the last three years.

	2015	2014	2013	
Before reinsurance (gross)	92.8	% 90.8	% 93.3	%
Effect of reinsurance	1.9	% 3.7	% 2.2	%
Actual (net of reinsurance)	94.7	% 94.5	% 95.5	%

Outside of its property and casualty operations, AFG also has reinsurance recoverables totaling \$355 million, including \$315 million 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).

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Asbestos and Environmental-related (“A&E”) Insurance Reserves Asbestos and environmental reserves of the property and casualty group consisted of the following (in millions):

	December 31,	
	2015	2014
Asbestos	\$205	\$196
Environmental	122	93
A&E reserves, net of reinsurance recoverable	327	289
Reinsurance recoverable, net of allowance	99	77
Gross A&E reserves	\$426	\$366

Asbestos reserves include claims asserting alleged injuries and damages from exposure to asbestos. Environmental reserves include claims relating to polluted waste sites.

Asbestos claims against manufacturers, distributors or installers of asbestos products were presented under the products liability section of their policies which typically had aggregate limits that capped an insurer’s liability. In recent years, a number of asbestos claims are being presented as “non-products” claims, such as those by installers of asbestos products and by property owners or operators who allegedly had asbestos on their property, under the premises or operations section of their policies. Unlike products exposures, these non-products exposures typically had no aggregate limits, creating potentially greater exposure for insurers. Further, in an effort to seek additional insurance coverage, some insureds with installation activities who have substantially eroded their products coverage are presenting new asbestos claims as non-products operations claims or attempting to reclassify previously settled products claims as non-products claims to restore a portion of previously exhausted products aggregate limits. AFG, along with other insurers, is and will be subject to such non-products claims. It is difficult to predict whether insureds will be successful in asserting claims under non-products coverage or whether AFG and other insurers will be successful in asserting additional defenses. Therefore, the future impact of such efforts is uncertain.

Approximately 43% of AFG’s net asbestos reserves relate to policies written directly by AFG subsidiaries. Claims from these policies generally are product oriented claims with only a limited amount of non-products exposures, and are dominated by small to mid-sized commercial entities that are mostly regional policyholders with few national target defendants. The remainder is assumed reinsurance business that includes exposures for the periods 1954 to 1983. The asbestos and environmental assumed claims are ceded by various insurance companies under reinsurance treaties. A majority of the individual assumed claims have exposures of less than \$100,000 to AFG. Asbestos losses assumed include some of the industry known manufacturers, distributors and installers. Pollution losses include industry known insured names and sites.

Establishing reserves for A&E claims relating to policies and participations in reinsurance treaties and former operations is subject to uncertainties that are significantly greater than those presented by other types of claims. For this group of claims, traditional actuarial techniques that rely on historical loss development trends cannot be used and a range of reasonably possible losses cannot be estimated. Case reserves and expense reserves are established by the claims department as specific policies are identified. In addition to the case reserves established for known claims, management establishes additional reserves for claims not yet known or reported and for possible development on known claims. These additional reserves are management’s best estimate based on periodic comprehensive studies and internal reviews adjusted for payments and identifiable changes, supplemented by management’s review of industry information about such claims, with due consideration to individual claim situations.

Management believes that estimating the ultimate liability for asbestos claims presents a unique and difficult challenge to the insurance industry due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, novel theories of coverage, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The casualty insurance industry is engaged in

extensive litigation over these coverage and liability issues as the volume and severity of claims against asbestos defendants continue to increase. Environmental claims likewise present challenges in prediction, due to uncertainty regarding the interpretation of insurance policies, complexities regarding multi-party involvements at sites, evolving cleanup standards and protracted time periods required to assess the level of cleanup required at contaminated sites.

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The following factors could impact AFG's reserves and payments:

There is a growing interest at the state level to attempt to legislatively address asbestos liabilities and the manner in which asbestos claims are resolved. These developments are fluid and could result in piecemeal state-by-state solutions.

The manner by which bankruptcy courts are addressing asbestos liabilities is in flux.

AFG's insureds may make claims alleging significant non-products exposures.

While management believes that AFG's reserves for A&E claims are a reasonable estimate of ultimate liability for such claims, actual results may vary materially from the amounts currently recorded due to the difficulty in predicting the number of future claims, the impact of recent bankruptcy filings, and unresolved issues such as whether coverage exists, whether policies are subject to aggregate limits on coverage, how claims are to be allocated among triggered policies and implicated years, and whether claimants who exhibit no signs of illness will be successful in pursuing their claims. A 1% variation in loss cost trends, caused by any of the factors previously described, would change net income by approximately \$20 million.

AFG tracks its A&E claims by policyholder. The following table shows, by type of claim, the number of policyholders that did not receive any payments in the calendar year separate from policyholders that did receive a payment. Policyholder counts represent policies written by AFG subsidiaries and do not include assumed reinsurance.

	2015	2014	2013
Number of policyholders with no indemnity payments:			
Asbestos	122	136	142
Environmental	112	99	116
	234	235	258
Number of policyholders with indemnity payments:			
Asbestos	50	45	48
Environmental	25	30	24
	75	75	72
Total	309	310	330

Amounts paid (net of reinsurance recoveries) for asbestos and environmental claims, including loss adjustment expenses, were as follows (in millions):

	2015	2014	2013
Asbestos — two large claims (*)	\$—	\$—	\$106
Asbestos — other	16	18	10
Environmental	13	18	15
Total	\$29	\$36	\$131

(*) Asbestos claims paid in 2013 include payments totaling \$106 million associated with the settlement of A.P. Green Industries and another large claim. Substantially all of the settlement amounts had been accrued for in prior years.

The survival ratio is a measure often used by industry analysts to compare A&E reserves strength among companies. This ratio is typically calculated by dividing reserves for A&E exposures by the three year average of paid losses, and therefore measures the number of years that it would take to pay off current reserves based on recent average payments. Because this ratio can be significantly impacted by a number of factors such as loss payout variability, caution should be exercised in attempting to determine reserve adequacy based simply on the survival ratio. At December 31, 2015, the property and casualty insurance segment's three year survival ratios, excluding amounts associated with the settlements of A.P. Green Industries and another large claim, were 14.8 times paid losses for the asbestos reserves, 8.2 times paid losses for environmental reserves and 11.4 times paid losses for total A&E reserves. Overall, these ratios compare favorably with data published by A.M. Best in October 2015, which indicate that

industry survival ratios were 8.8 for asbestos, 6.3 for environmental, and 8.2 for total A&E reserves at December 31, 2014.

AFG has periodically conducted comprehensive external studies of its asbestos and environmental exposures relating to the run-off operations of its property and casualty insurance segment and exposures related to its former railroad and manufacturing operations 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.

As a result of the comprehensive external study completed in the third quarter of 2015, AFG's property and casualty insurance segment recorded a \$67 million pretax special charge to increase its asbestos reserves by \$25 million (net of reinsurance) and its

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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 increased defense costs and a number of claims where the estimated costs of remediation have increased. As in past years, there were no new or emerging broad industry trends that were identified in this study.

An in-depth internal review of AFG's A&E reserves was completed in the third quarter of 2014 by AFG's internal A&E claims specialists and actuaries in consultation with specialty outside counsel and an outside consultant. As a result of the review, AFG's property and casualty insurance segment recorded a \$24 million pretax special charge to increase its asbestos reserves by \$4 million (net of reinsurance) and its environmental reserves by \$20 million (net of reinsurance). 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 have increased.

As a result of the comprehensive external study completed in the third quarter of 2013, AFG's property and casualty insurance segment recorded a \$54 million pretax special charge to increase its asbestos reserves by \$16 million (net of reinsurance) and its environmental reserves by \$38 million (net of reinsurance). The increase in the property and casualty segment's asbestos reserves was driven primarily by slightly higher than expected loss experience, higher defense costs and some increased claim severity. The increase in property and casualty environmental reserves was attributed primarily to a small number of claims where the estimated costs of remediation have increased.

Contingencies related to Subsidiaries' Former Operations The A&E studies and reviews discussed above encompassed reserves for various environmental and occupational injury and disease claims and other contingencies arising out of the railroad operations disposed of by American Premier's predecessor and certain manufacturing operations disposed of by American Premier and its subsidiaries and by Great American Financial Resources, Inc. Charges resulting from the A&E studies and review were \$12 million in 2015, \$6 million in 2014 and \$22 million in 2013. For a discussion of the charges recorded for those operations, see "Holding Company, Other and Unallocated — Results of Operations." Liabilities for claims and contingencies arising from these former railroad and manufacturing operations totaled \$88 million at December 31, 2015. For a discussion of the uncertainties in determining the ultimate liability, see Note M — "Contingencies" to the financial statements.

Run-off Long-term Care Insurance AFG, as well as other companies that sell long-term care products, have accumulated relatively limited claims, lapse and mortality experience, making it difficult to predict future claims. Long-term care claims tend to be much higher in dollar amount and longer in duration than other health care products. In addition, long-term care claims are incurred much later in the life of a policy than most other health products. These factors made it difficult to appropriately price this product and were instrumental in AFG's decision to stop writing new policies in January 2010. In December 2015, AFG completed the sale of United Teacher Associates Insurance Company and Continental General Insurance Company, the legal entities containing substantially all of its run-off long-term care insurance business, to HC2 Holdings, Inc. ("HC2") for approximately \$13 million in net proceeds. AFG may also receive up to \$13 million of additional proceeds from HC2 in the future contingent upon the release of certain statutory-basis liabilities of the legal entities sold by AFG. In connection with obtaining regulatory approval for the transaction, AFG agreed to provide up to an aggregate of \$35 million of capital support for the insurance companies, on an as-needed basis to maintain specified surplus levels, subject to immediate reimbursement by HC2 through a five-year capital maintenance agreement. With the completion of this sale, AFG has divested substantially all of its long-term care business (96% as measured by net statutory reserves as of November 30, 2015) and will retain only a small block of long-term care insurance (1,700 policies) with approximately \$34 million of reserves. AFG will continue to service and accept renewal premiums on its remaining outstanding policies, which are guaranteed renewable.

MANAGED INVESTMENT ENTITIES

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

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CONDENSED CONSOLIDATING BALANCE SHEET

	Before CLO Consolidation	Managed Investment Entities	Consol. Entries		Consolidated As Reported
December 31, 2015					
Assets:					
Cash and investments	\$38,001	\$—	\$(265)	) (a)	\$37,736
Assets of managed investment entities	—	4,047	—		4,047
Other assets	8,077	—	(1)	) (a)	8,076
Total assets	\$46,078	\$4,047	\$(266)	)	\$49,859
Liabilities:					
Unpaid losses and loss adjustment expenses and unearned premiums	\$10,187	\$—	\$—		\$10,187
Annuity, life, accident and health benefits and reserves	27,327	—	—		27,327
Liabilities of managed investment entities	—	4,027	(246)	) (a)	3,781
Long-term debt and other liabilities	3,794	—	—		3,794
Total liabilities	41,308	4,027	(246)	)	45,089
Shareholders' equity:					
Common Stock and Capital surplus	1,301	20	(20)	)	1,301
Retained earnings	2,987	—	—		2,987
Accumulated other comprehensive income, net of tax	304	—	—		304
Total shareholders' equity	4,592	20	(20)	)	4,592
Noncontrolling interests	178	—	—		178
Total equity	4,770	20	(20)	)	4,770
Total liabilities and equity	\$46,078	\$4,047	\$(266)	)	\$49,859
December 31, 2014					
Assets:					
Cash and investments	\$36,499	\$—	\$(289)	) (a)	\$36,210
Assets of managed investment entities	—	3,108	—		3,108
Other assets	8,219	—	(2)	) (a)	8,217
Total assets	\$44,718	\$3,108	\$(291)	)	\$47,535
Liabilities:					
Unpaid losses and loss adjustment expenses and unearned premiums	\$9,828	\$—	\$—		\$9,828
Annuity, life, accident and health benefits and reserves	25,939	—	—		25,939
Liabilities of managed investment entities	—	3,105	(286)	) (a)	2,819
Long-term debt and other liabilities	3,895	—	—		3,895
Total liabilities	39,662	3,105	(286)	)	42,481
Shareholders' equity:					
Common Stock and Capital surplus	1,240	5	(5)	)	1,240
Retained earnings:					
Appropriated — managed investment entities	—	(2)	)	—	(2)
Unappropriated	2,914	—	—		2,914
Accumulated other comprehensive income, net of tax	727	—	—		727
Total shareholders' equity	4,881	3	(5)	)	4,879
Noncontrolling interests	175	—	—		175
Total equity	5,056	3	(5))	5,054

Total liabilities and equity	\$44,718	\$3,108	\$(291)	\$ 47,535
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(a) Elimination of the fair value of AFG's investment in CLOs and related accrued interest.

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CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

	Before CLO Consolidation (a)	Managed Investment Entities	Consol. Entries		Consolidated As Reported
Three months ended December 31, 2015					
Revenues:					
Insurance net earned premiums	\$ 1,144	\$—	\$—		\$ 1,144
Net investment income	405	—	11	(b)	416
Realized losses on:					
Securities	(21	) —	—		(21)
Subsidiaries	(4	) —	—		(4)
Income (loss) of managed investment entities:					
Investment income	—	43	—		43
Gain (loss) on change in fair value of assets/liabilities	—	—	(18	) (b)	(18)
Other income	62	—	(4	) (c)	58
Total revenues	1,586	43	(11	)	1,618
Costs and Expenses:					
Insurance benefits and expenses	1,273	—	—		1,273
Expenses of managed investment entities	—	43	(11	) (b)(c)	32
Interest charges on borrowed money and other expenses	103	—	—		103
Total costs and expenses	1,376	43	(11	)	1,408
Earnings before income taxes	210	—	—		210
Provision for income taxes	80	—	—		80
Net earnings, including noncontrolling interests	130	—	—		130
Less: Net earnings attributable to noncontrolling interests	1	—	—		1
Net earnings attributable to shareholders	\$ 129	\$—	\$—		\$ 129
Three months ended December 31, 2014					
Revenues:					
Insurance net earned premiums	\$ 1,087	\$—	\$—		\$ 1,087
Net investment income	382	—	2	(b)	384
Realized gains on securities	8	—	—		8
Income (loss) of managed investment entities:					
Investment income	—	32	—		32
Gain (loss) on change in fair value of assets/liabilities	—	(2	) (7	) (b)	(9)
Other income	46	—	(7	) (c)	39
Total revenues	1,523	30	(12	)	1,541
Costs and Expenses:					
Insurance benefits and expenses	1,247	—	—		1,247
Expenses of managed investment entities	—	34	(12	) (b)(c)	22
Interest charges on borrowed money and other expenses	82	—	—		82
Total costs and expenses	1,329	34	(12	)	1,351
Earnings before income taxes	194	(4	) —		190
Provision for income taxes	65	—	—		65
Net earnings, including noncontrolling interests	129	(4	) —		125
Less: Net earnings (loss) attributable to noncontrolling interests	2	—	(4	) (d)	(2)
Net earnings attributable to shareholders	\$ 127	\$(4	) \$4		\$ 127

Includes losses of \$11 million in the fourth quarter of 2015 and \$2 million in the fourth quarter of 2014

- (a) representing the change in fair value of AFG's CLO investments plus \$4 million and \$7 million in the fourth quarter of 2015 and 2014, respectively, in CLO management fees earned.
- (b) Elimination of the change in fair value of AFG's investments in the CLOs, including \$7 million and \$5 million in the fourth quarter of 2015 and 2014, respectively, in distributions recorded as interest expense by the CLOs.
- (c) Elimination of management fees earned by AFG.
- (d) Allocate losses of CLOs attributable to other debt holders to noncontrolling interests.

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CONDENSED CONSOLIDATING STATEMENT OF EARNINGS - CONTINUED

	Before CLO Consolidation (a)	Managed Investment Entities	Consol. Entries		Consolidated As Reported
Year ended December 31, 2015					
Revenues:					
Insurance net earned premiums	\$ 4,328	\$—	\$—		\$ 4,328
Net investment income	1,627	—	6	(b)	1,633
Realized losses on:					
Securities	(19	) —	—		(19)
Subsidiaries	(161	) —	—		(161)
Income (loss) of managed investment entities:					
Investment income	—	155	—		155
Gain (loss) on change in fair value of assets/liabilities	—	2	(36	) (b)	(34)
Other income	258	—	(15	) (c)	243
Total revenues	6,033	157	(45	)	6,145
Costs and Expenses:					
Insurance benefits and expenses	5,057	—	—		5,057
Expenses of managed investment entities	—	155	(43	) (b)(c)	112
Interest charges on borrowed money and other expenses	411	—	—		411
Total costs and expenses	5,468	155	(43	)	5,580
Earnings before income taxes	565	2	(2	)	565
Provision for income taxes	195	—	—		195
Net earnings, including noncontrolling interests	370	2	(2	)	370
Less: Net earnings attributable to noncontrolling interests	18	—	—		18
Net earnings attributable to shareholders	\$ 352	\$ 2	\$(2	)	\$ 352
Year ended December 31, 2014					
Revenues:					
Insurance net earned premiums	\$ 3,986	\$—	\$—		\$ 3,986
Net investment income	1,517	—	(16	) (b)	1,501
Realized gains on securities	52	—	—		52
Income (loss) of managed investment entities:					
Investment income	—	116	—		116
Gain (loss) on change in fair value of assets/liabilities	—	(35	) (9	) (b)	(44)
Other income	147	—	(25	) (c)	122
Total revenues	5,702	81	(50	)	5,733
Costs and Expenses:					
Insurance benefits and expenses	4,671	—	—		4,671
Expenses of managed investment entities	—	130	(48	) (b)(c)	82
Interest charges on borrowed money and other expenses	354	—	—		354
Total costs and expenses	5,025	130	(48	)	5,107
Earnings before income taxes	677	(49	) (2	)	626
Provision for income taxes	220	—	—		220
Net earnings, including noncontrolling interests	457	(49	) (2	)	406
Less: Net earnings (loss) attributable to noncontrolling interests	5	—	(51	) (d)	(46)
Net earnings attributable to shareholders	\$ 452	\$(49	) \$49		\$ 452

- Includes (\$6 million) and \$16 million in 2015 and 2014, respectively, of net investment income representing the
- (a) change in fair value of AFG's CLO investments plus \$15 million and \$25 million in 2015 and 2014, respectively, in CLO management fees earned.
 - (b) Elimination of the change in fair value of AFG's investments in the CLOs, including \$28 million and \$23 million in 2015 and 2014, respectively, in distributions recorded as interest expense by the CLOs.
 - (c) Elimination of management fees earned by AFG.
 - (d) Allocate losses of CLOs attributable to other debt holders to noncontrolling interests.

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CONDENSED CONSOLIDATING STATEMENT OF EARNINGS - CONTINUED

	Before CLO Consolidation (a)	Managed Investment Entities	Consol. Entries	Consolidated As Reported
Year ended December 31, 2013				
Revenues:				
Insurance net earned premiums	\$ 3,318	\$—	\$—	\$ 3,318
Net investment income	1,381	—	(35) (b)	1,346
Realized gains (losses) on:				
Securities	221	—	—	221
Subsidiaries	(4)	—	—	(4)
Income (loss) of managed investment entities:				
Investment income	—	128	—	128
Gain (loss) on change in fair value of assets/liabilities	—	(19)	5 (b)	(14)
Other income	124	—	(16) (c)	108
Total revenues	5,040	109	(46)	5,103
Costs and Expenses:				
Insurance benefits and expenses	3,928	—	—	3,928
Expenses of managed investment entities	—	130	(41) (b)(c)	89
Interest charges on borrowed money and other expenses	397	—	—	397
Total costs and expenses	4,325	130	(41)	4,414
Earnings before income taxes	715	(21)	(5)	689
Provision for income taxes	236	—	—	236
Net earnings, including noncontrolling interests	479	(21)	(5)	453
Less: Net earnings (loss) attributable to noncontrolling interests	8	—	(26) (d)	(18)
Net earnings attributable to shareholders	\$ 471	\$(21)	\$21	\$ 471

(a) Includes \$35 million in net investment income representing the change in fair value of AFG's CLO investments plus \$16 million in CLO management fees earned.

(b) Elimination of the change in fair value of AFG's investments in the CLOs, including \$25 million in distributions recorded as interest expense by the CLOs.

(c) Elimination of management fees earned by AFG.

(d) Allocate losses of CLOs attributable to other debt holders to noncontrolling interests.

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RESULTS OF OPERATIONS

General AFG's net earnings attributable to shareholders, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. The following table identifies such items and reconciles net earnings attributable to shareholders to core net operating earnings, a non-GAAP financial measure that AFG believes is a useful tool for investors and analysts in analyzing ongoing operating trends (in millions, except per share amounts):

	Three months ended		Year ended December 31,		
	December 31,		2015	2014	2013
	2015	2014	2015	2014	2013
Core net operating earnings	\$ 136	\$ 122	\$ 486	\$ 439	\$ 385
Loss on sale of long-term care business (*)	(3	) —	(108) —	—
Gain on sale of hotel and apartment property (*)	10	—	36	—	—
Other realized gains (losses) (*)	(14	) 5	(8	) 32	138
Special A&E charges (*)	—	—	(52	) (19	) (49
Loss on early retirement of debt (*)	—	—	(2) —	—
Executive Life Insurance Company of New York ("ELNY") guaranty fund assessments (*)	—	—	—	—	(3
Net earnings attributable to shareholders	\$ 129	\$ 127	\$ 352	\$ 452	\$ 471
Diluted per share amounts:					
Core net operating earnings	\$ 1.52	\$ 1.35	\$ 5.44	\$ 4.82	\$ 4.22
Loss on sale of long-term care business	(0.03	) —	(1.21) —	—
Gain on sale of hotel and apartment property	0.11	—	0.40	—	—
Other realized gains (losses)	(0.15	) 0.06	(0.08	) 0.36	1.52
Special A&E charges	—	—	(0.58	) (0.21	) (0.54
Loss on early retirement of debt	—	—	(0.03) —	—
ELNY guaranty fund assessments	—	—	—	—	(0.04
Net earnings attributable to shareholders	\$ 1.45	\$ 1.41	\$ 3.94	\$ 4.97	\$ 5.16

(*)The tax effects of reconciling items are shown below (in millions):

Loss on sale of long-term care business	\$ 1	\$ —	\$ 58	\$ —	\$ —
Gain on sale of hotel and apartment property	(5	) —	(24) —	—
Other realized gains (losses)	7	(3	) 5	(19	) (78
Special A&E charges	—	—	27	11	27
Loss on early retirement of debt	—	—	2	—	—
ELNY guaranty fund assessments	—	—	—	—	2
In addition, reconciling items are shown net of noncontrolling interests as follows (in millions):					
Gain on sale of hotel	\$ —	\$ —	\$ (6) \$ —	\$ —
Other realized gains (losses)	—	—	1	(1	) (1

Net earnings attributable to shareholders increased \$2 million in the fourth quarter of 2015 compared to the same period of 2014 reflecting higher core net operating earnings and a gain on the sale of an apartment property, partially offset by realized losses on securities in the fourth quarter of 2015 compared to realized gains on securities in the fourth quarter of 2014 and a fourth quarter loss reported upon closing of the sale of substantially all of AFG's run-off long-term care insurance business. Core net operating earnings increased \$14 million in the fourth quarter of 2015 compared to the fourth quarter of 2014 due primarily to higher core underwriting profit in the property and casualty insurance segment, higher earnings in the annuity segment and improved core operating results in the run-off

long-term care and life segment.

Net earnings attributable to shareholders decreased \$100 million for the full-year of 2015 compared to the same period in 2014 due primarily to the loss on the sale of substantially all of AFG's run-off long-term care insurance business, higher special A&E charges and realized losses on securities in 2015 compared to realized gains on securities in 2014, partially offset by the gain on the sale of Le Pavillon Hotel and an apartment property and higher core net operating earnings. Core net operating earnings

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increased \$47 million for the full-year of 2015 compared to the same period in 2014 due primarily to higher underwriting profit and higher net investment income in the property and casualty insurance segment and improved core operating results in the run-off long-term care and life segment.

Net earnings attributable to shareholders decreased \$19 million for the full-year of 2014 compared to the same period of 2013 reflecting significantly lower realized gains on securities, partially offset by higher core net operating earnings and lower special A&E charges. Core net operating earnings increased \$54 million in 2014 compared to 2013 due primarily to higher underwriting profit and higher net investment income in the property and casualty insurance segment and lower holding company expenses.

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RESULTS OF OPERATIONS — QUARTERS ENDED DECEMBER 31, 2015 AND 2014

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

AFG’s net earnings attributable to shareholders, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. The following tables for the quarters ended December 31, 2015 and 2014 identify such items by segment and reconcile net earnings attributable to shareholders to core net operating earnings, a non-GAAP financial measure that AFG believes is a useful tool for investors and analysts in analyzing ongoing operating trends (in millions):

	P&C	Annuity	Run-off long-term care and life	Other Consol- MIEs	Holding Co., other and unallocated	Total	Non-core reclass	GAAP Total
Quarter ended December 31, 2015								
Revenues:								
Property and casualty insurance net earned premiums	\$1,120	\$—	\$—	\$—	\$—	\$1,120	\$—	\$1,120
Life, accident and health net earned premiums	—	—	24	—	—	24	—	24
Net investment income	74	309	19	11	3	416	—	416
Realized losses on:								
Securities	—	—	—	—	—	—	(21)	(21)
Subsidiaries	—	—	—	—	—	—	(4)	(4)
Income (loss) of MIEs:								
Investment income	—	—	—	43	—	43	—	43
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(18)	—	(18)	—	(18)
Other income	2	23	—	(4)	22	43	15	58
Total revenues	1,196	332	43	32	25	1,628	(10)	1,618
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	693	—	—	—	—	693	—	693
Commissions and other underwriting expenses	327	—	—	—	6	333	—	333
Annuity benefits	—	189	—	—	—	189	—	189
Life, accident and health benefits	—	—	35	—	—	35	—	35
Annuity and supplemental insurance acquisition expenses	—	20	3	—	—	23	—	23
Interest charges on borrowed money	1	—	—	—	16	17	—	17
Expenses of MIEs	—	—	—	32	—	32	—	32
Other expenses	11	22	5	—	48	86	—	86
Total costs and expenses	1,032	231	43	32	70	1,408	—	1,408
Earnings before income taxes	164	101	—	—	(45)	220	(10)	210
Provision for income taxes	64	34	—	—	(15)	83	(3)	80
Net earnings, including noncontrolling interests	100	67	—	—	(30)	137	(7)	130
Less: Net earnings attributable to noncontrolling interests	1	—	—	—	—	1	—	1
Core Net Operating Earnings	99	67	—	—	(30)	136		
Non-core earnings attributable to shareholders (a):								
Loss on sale of long-term care business, net of tax	—	—	(3)	—	—	(3)	3	—

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Gain on sale of apartment property, net of tax	10	—	—	—	—	10	(10)	—
Other realized gains (losses), net of tax and noncontrolling interests	—	—	—	—	(14)	(14)	14	—
Net Earnings Attributable to Shareholders	\$109	\$67	\$(3)	\$—	\$(44)	\$129	\$—	\$129

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	P&C	Annuity	Run-off long-term are and life	Consol MIEs	Other Holding Co., other and unallocated	Total	Non-core reclass	GAAP Total
Quarter ended December 31, 2014								
Revenues:								
Property and casualty insurance net earned premiums	\$1,061	\$—	\$—	\$—	\$—	\$1,061	\$—	\$1,061
Life, accident and health net earned premiums	—	—	26	—	—	26	—	26
Net investment income	75	285	20	2	2	384	—	384
Realized gains on securities	—	—	—	—	—	—	8	8
Income (loss) of MIEs:								
Investment income	—	—	—	32	—	32	—	32
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(9)	—	(9)	—	(9)
Other income	1	33	1	(7)	11	39	—	39
Total revenues	1,137	318	47	18	13	1,533	8	1,541
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	679	—	—	—	—	679	—	679
Commissions and other underwriting expenses	303	—	—	—	—	303	—	303
Annuity benefits	—	157	—	—	—	157	—	157
Life, accident and health benefits	—	—	45	—	—	45	—	45
Annuity and supplemental insurance acquisition expenses	—	59	4	—	—	63	—	63
Interest charges on borrowed money	1	—	—	—	19	20	—	20
Expenses of MIEs	—	—	—	22	—	22	—	22
Other expenses	11	17	5	—	29	62	—	62
Total costs and expenses	994	233	54	22	48	1,351	—	1,351
Earnings before income taxes	143	85	(7)	(4)	(35)	182	8	190
Provision for income taxes	47	29	(2)	—	(12)	62	3	65
Net earnings, including noncontrolling interests	96	56	(5)	(4)	(23)	120	5	125
Less: Net earnings (loss) attributable to noncontrolling interests	2	—	—	(4)	—	(2)	—	(2)
Core Net Operating Earnings	94	56	(5)	—	(23)	122		
Non-core earnings attributable to shareholders (a):								
Realized gains on securities, net of tax	—	—	—	—	5	5	(5)	—
Net Earnings Attributable to Shareholders	\$94	\$56	\$(5)	\$—	\$(18)	\$127	\$—	\$127

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

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

AFG's property and casualty insurance operations contributed \$179 million in GAAP pretax earnings in the fourth quarter of 2015 compared to \$143 million in the fourth quarter of 2014, an increase of \$36 million (25%). Property and casualty core pretax earnings were \$164 million in the fourth quarter of 2015 compared to \$143 million in the fourth quarter of 2014, an increase of \$21 million (15%). The increase in GAAP and core pretax earnings reflects higher underwriting profit in the Property and transportation and Specialty casualty insurance sub-segments. The increase in GAAP earnings also includes a \$15 million pretax gain on the sale of an apartment property in the fourth quarter of 2015.

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The following table details AFG's GAAP and core earnings before income taxes from its property and casualty insurance operations for the three months ended December 31, 2015 and 2014 (dollars in millions):

	Three months ended		% Change	
	December 31,			
	2015	2014		
Gross written premiums	\$1,356	\$1,303	4	%
Reinsurance premiums ceded	(300)	(278)	8	%
Net written premiums	1,056	1,025	3	%
Change in unearned premiums	64	36	78	%
Net earned premiums	1,120	1,061	6	%
Loss and loss adjustment expenses	693	679	2	%
Commissions and other underwriting expenses	327	303	8	%
Underwriting gain	100	79	27	%
Net investment income	74	75	(1	%)
Other income and expenses, net (*)	(10)	(11)	(9	%)
Core earnings before income taxes	164	143	15	%
Pretax non-core gain on sale of apartment property	15	—	—	%
GAAP earnings before income taxes	\$179	\$143	25	%

(*) Excludes the \$15 million pretax non-core gain on sale of an apartment property.

Combined Ratios:

Specialty lines	Change			
Loss and LAE ratio	61.8	%	64.0	% (2.2 %)
Underwriting expense ratio	29.2	%	28.6	% 0.6 %
Combined ratio	91.0	%	92.6	% (1.6 %)
Aggregate — including discontinued lines				
Loss and LAE ratio	61.8	%	64.0	% (2.2 %)
Underwriting expense ratio	29.2	%	28.6	% 0.6 %
Combined ratio	91.0	%	92.6	% (1.6 %)

AFG's combined ratio has been better than the industry average for 28 of the last 30 years. Management believes that AFG's insurance operations have performed better than the industry as a result of its specialty niche focus, product line diversification, stringent underwriting discipline and alignment of compensation incentives.

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

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

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Gross Written Premiums

Gross written premiums (“GWP”) for AFG’s property and casualty insurance segment were \$1.36 billion for the fourth quarter of 2015 compared to \$1.30 billion for the fourth quarter of 2014, an increase of \$53 million (4%). Detail of AFG’s property and casualty gross written premiums is shown below (dollars in millions):

	Three months ended December 31,					
	2015		2014			
	GWP	%	GWP	%	% Change	
Property and transportation	\$515	38	% \$482	37	% 7	%
Specialty casualty	661	49	% 660	51	% —	%
Specialty financial	179	13	% 160	12	% 12	%
Other specialty	1	—	% 1	—	% —	%
	\$1,356	100	% \$1,303	100	% 4	%

Reinsurance Premiums Ceded

Reinsurance premiums ceded (“Ceded”) for AFG’s property and casualty insurance segment were 22% of gross written premiums for the fourth quarter of 2015 compared to 21% for the fourth quarter of 2014, an increase of 1 percentage point. Detail of AFG’s property and casualty reinsurance premiums ceded is shown below (dollars in millions):

	Three months ended December 31,					
	2015		2014		Change in	
	Ceded	% of GWP	Ceded	% of GWP	% of GWP	
Property and transportation	\$(137)	) 27	% \$(109)	) 23	% 4	%
Specialty casualty	(158)	) 24	% (162)	) 25	% (1)	%)
Specialty financial	(27)	) 15	% (29)	) 18	% (3)	%)
Other specialty	22		22			
	\$(300)	) 22	% \$(278)	) 21	% 1	%

Net Written Premiums

Net written premiums (“NWP”) for AFG’s property and casualty insurance segment were \$1.06 billion for the fourth quarter of 2015 compared to \$1.03 billion for the fourth quarter of 2014, an increase of \$31 million (3%). Detail of AFG’s property and casualty net written premiums is shown below (dollars in millions):

	Three months ended December 31,					
	2015		2014			
	NWP	%	NWP	%	% Change	
Property and transportation	\$378	36	% \$373	36	% 1	%
Specialty casualty	503	48	% 498	49	% 1	%
Specialty financial	152	14	% 131	13	% 16	%
Other specialty	23	2	% 23	2	% —	%
	\$1,056	100	% \$1,025	100	% 3	%

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Net Earned Premiums

Net earned premiums (“NEP”) for AFG’s property and casualty insurance segment were \$1.12 billion for the fourth quarter of 2015 compared to \$1.06 billion for the fourth quarter of 2014, an increase of \$59 million (6%). Detail of AFG’s property and casualty net earned premiums is shown below (dollars in millions):

	Three months ended December 31,					
	2015		2014		% Change	
	NEP	%	NEP	%	%	%
Property and transportation	\$442	39	\$415	39	7	%
Specialty casualty	515	46	499	47	3	%
Specialty financial	137	12	121	11	13	%
Other specialty	26	3	26	3	—	%
	\$1,120	100	\$1,061	100	6	%

The \$53 million increase in gross written premiums in the fourth quarter of 2015 compared to the fourth quarter of 2014 reflects growth in each of the Specialty property and casualty insurance sub-segments. Overall average renewal rates were up less than 1% in the fourth quarter of 2015.

Property and transportation Gross written premiums increased \$33 million (7%) in the fourth quarter of 2015 compared to the fourth quarter of 2014 reflecting higher gross written premiums in the transportation and agricultural businesses and new gross written premiums from the Singapore branch, which opened for business in June 2015, partially offset by lower gross written premiums in the property and inland marine and ocean marine businesses. Average renewal rates for this group were up approximately 2% in the fourth quarter of 2015, including a 4% increase in National Interstate’s renewal rates. Reinsurance premiums ceded as a percentage of gross written premiums increased 4 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014 reflecting higher cessions of crop insurance premiums.

Specialty casualty Gross written premiums increased \$1 million in the fourth quarter of 2015 compared to the fourth quarter of 2014. The majority of businesses in this group reported modest growth, particularly the excess and surplus businesses. This growth was partially offset by lower gross written premiums in the general liability business, primarily the result of competitive market conditions, re-underwriting efforts within the Florida homebuilders market and the slowdown within the energy sector. Average renewal rates for this group were down approximately 2% in the fourth quarter of 2015 due primarily to lower pricing in the workers’ compensation business. Excluding the workers’ compensation business, average renewal rates in this group increased approximately 1% in the fourth quarter of 2015. Reinsurance premiums ceded as a percentage of gross written premiums declined 1 percentage point for the fourth quarter of 2015 compared to the fourth quarter of 2014.

Specialty financial Gross written premiums increased \$19 million (12%) in the fourth quarter of 2015 compared to the fourth quarter of 2014, due primarily to growth in the financial institutions business. Average renewal rates for this group were up approximately 1% in the fourth quarter of 2015. Reinsurance premiums ceded as a percentage of gross written premiums decreased 3 percentage points, reflecting a decline in auto dealer business, which is heavily reinsured.

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

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Combined Ratio

Performance measures such as the combined ratio are often used by property and casualty insurers to help users of their financial statements better understand the company's performance. The combined ratio is the sum of the loss and loss adjustment expenses ("LAE") and underwriting expense ratios. These ratios are calculated by dividing each of the respective expenses by net earned premiums. The table below (dollars in millions) details the components of the combined ratio for AFG's property and casualty segment:

	Three months ended December 31,			Three months ended December 31,	
	2015	2014	Change	2015	2014
Property and transportation					
Loss and LAE ratio	71.7	% 72.2	% (0.5	%)	
Underwriting expense ratio	20.7	% 22.4	% (1.7	%)	
Combined ratio	92.4	% 94.6	% (2.2	%)	
Underwriting profit				\$34	\$22
Specialty casualty					
Loss and LAE ratio	61.1	% 65.1	% (4.0	%)	
Underwriting expense ratio	29.1	% 27.8	% 1.3	%	
Combined ratio	90.2	% 92.9	% (2.7	%)	
Underwriting profit				\$50	\$36
Specialty financial					
Loss and LAE ratio	32.8	% 34.5	% (1.7	%)	
Underwriting expense ratio	55.9	% 51.1	% 4.8	%	
Combined ratio	88.7	% 85.6	% 3.1	%	
Underwriting profit				\$15	\$18
Total Specialty					
Loss and LAE ratio	61.8	% 64.0	% (2.2	%)	
Underwriting expense ratio	29.2	% 28.6	% 0.6	%	
Combined ratio	91.0	% 92.6	% (1.6	%)	
Underwriting profit				\$100	\$79
Aggregate — including discontinued lines					
Loss and LAE ratio	61.8	% 64.0	% (2.2	%)	
Underwriting expense ratio	29.2	% 28.6	% 0.6	%	
Combined ratio	91.0	% 92.6	% (1.6	%)	
Underwriting profit				\$100	\$79

The Specialty property and casualty insurance operations generated an underwriting profit of \$100 million for the fourth quarter of 2015 compared to \$79 million in the fourth quarter of 2014, an increase of \$21 million (27%). The higher underwriting profit in the 2015 fourth quarter reflects higher underwriting profit in the Property and transportation and Specialty casualty sub-segments.

Property and transportation Underwriting profit for this group was \$34 million for the fourth quarter of 2015 compared to \$22 million in the fourth quarter of 2014, an increase of \$12 million (55%). This increase is due primarily to higher accident year profitability in the transportation and agricultural businesses, partially offset by adverse prior year reserve development at National Interstate, as well as lower profitability in the property and inland marine and ocean marine businesses.

Specialty casualty Underwriting profit for this group was \$50 million for the fourth quarter of 2015 compared to \$36 million in the fourth quarter of 2014, an increase of \$14 million (39%). This increase is due primarily to higher profitability in the workers' compensation, targeted markets, executive liability and excess and surplus businesses, partially offset by underwriting losses at Marketform.

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Specialty financial Underwriting profit for this group was \$15 million for the fourth quarter of 2015 compared to \$18 million in the fourth quarter of 2014, a decrease of \$3 million (17%). Catastrophe losses were \$5 million in the fourth quarter of 2015 compared to negligible catastrophe losses in the fourth quarter of 2014.

Other specialty Underwriting profit for this group was \$1 million for the fourth quarter of 2015 compared to \$3 million in the fourth quarter of 2014, a decrease of \$2 million (67%). The decrease reflects lower profitability in the business assumed by AFG's internal reinsurance program from the operations that make up AFG's other Specialty property and casualty insurance sub-segments.

Losses and Loss Adjustment Expenses

AFG's overall loss and LAE ratio was 61.8% for the fourth quarter of 2015 compared to 64.0% for fourth quarter of 2014, a decrease of 2.2 percentage points. The components of AFG's property and casualty losses and LAE amounts and ratio are detailed below (dollars in millions):

	Three months ended December 31,				Change in Ratio	
	Amount		Ratio			
	2015	2014	2015	2014		
Property and transportation						
Current year, excluding catastrophe losses	\$306	\$294	69.2	% 71.3	% (2.1	%)
Prior accident years development	8	3	1.8	% 0.6	% 1.2	%
Current year catastrophe losses	3	2	0.7	% 0.3	% 0.4	%
Property and transportation losses and LAE and ratio	\$317	\$299	71.7	% 72.2	% (0.5	%)
Specialty casualty						
Current year, excluding catastrophe losses	\$321	\$310	62.3	% 62.1	% 0.2	%
Prior accident years development	(7	) 14	(1.4	%) 2.9	% (4.3	%)
Current year catastrophe losses	1	1	0.2	% 0.1	% 0.1	%
Specialty casualty losses and LAE and ratio	\$315	\$325	61.1	% 65.1	% (4.0	%)
Specialty financial						
Current year, excluding catastrophe losses	\$46	\$46	32.9	% 37.7	% (4.8	%)
Prior accident years development	(5	) (4	) (3.6	%) (3.3	%) (0.3	%)
Current year catastrophe losses	5	—	3.5	% 0.1	% 3.4	%
Specialty financial losses and LAE and ratio	\$46	\$42	32.8	% 34.5	% (1.7	%)
Total Specialty						
Current year, excluding catastrophe losses	\$689	\$666	61.4	% 62.8	% (1.4	%)
Prior accident years development	(5	) 10	(0.4	%) 1.0	% (1.4	%)
Current year catastrophe losses	9	3	0.8	% 0.2	% 0.6	%
Total Specialty losses and LAE and ratio	\$693	\$679	61.8	% 64.0	% (2.2	%)
Aggregate — including discontinued lines						
Current year, excluding catastrophe losses	\$689	\$666	61.4	% 62.8	% (1.4	%)
Prior accident years development	(5	) 10	(0.4	%) 1.0	% (1.4	%)
Current year catastrophe losses	9	3	0.8	% 0.2	% 0.6	%
Aggregate losses and LAE and ratio	\$693	\$679	61.8	% 64.0	% (2.2	%)

Current accident year losses and LAE, excluding catastrophe losses

The current accident year loss and LAE ratio, excluding catastrophe losses for AFG's Specialty property and casualty insurance operations was 61.4% for the fourth quarter of 2015 compared to 62.8% for the fourth quarter of 2014, a

decrease of 1.4%.

Property and transportation The 2.1 percentage point decrease in the loss and LAE ratio for the current year, excluding catastrophe losses is due primarily to higher profitability in the agricultural businesses and lower commercial auto claims in the transportation businesses, partially offset by higher current year losses in the ocean marine business.

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Specialty casualty The loss and LAE ratio for the current year, excluding catastrophe losses was comparable in the fourth quarters of 2015 and 2014.

Specialty financial The 4.8 percentage point decrease in the loss and LAE ratio for the current year, excluding catastrophe losses reflects an improvement in the loss and LAE ratio of the financial institutions, fidelity, equipment leasing and surety businesses.

Net prior year reserve development

AFG's Specialty property and casualty insurance operations recorded net favorable reserve development related to prior accident years of \$5 million in the fourth quarter of 2015 compared to net adverse reserve development related to prior accident years of \$10 million in the fourth quarter of 2014, an improvement of \$15 million.

Property and transportation Net adverse reserve development of \$8 million in the fourth quarter of 2015 reflects higher than expected claim severity in commercial auto liability insurance at National Interstate and higher than expected claim frequency in the ocean marine business, partially offset by lower than expected claim severity in the property and inland marine business. Net adverse reserve development of \$3 million in the fourth quarter of 2014 reflects higher than expected claim frequency in the ocean marine business and higher than anticipated claim severity in the trucking operations, partially offset by lower than expected claim severity in the property and inland marine business.

Specialty casualty Net favorable reserve development of \$7 million in the fourth quarter of 2015 reflects lower than anticipated claim severity in workers' compensation business, excess liability insurance and directors and officers liability insurance, partially offset by adverse reserve development at Marketform. Net adverse reserve development of \$14 million in the fourth quarter of 2014 reflects adverse reserve development at Marketform and higher than expected claim severity in contractor claims and in a run-off book of casualty business, partially offset by lower than anticipated claim severity in specialty workers' compensation business.

Specialty financial Net favorable reserve development of \$5 million in the fourth quarter of 2015 reflects lower than anticipated claim severity in the fidelity business, lower than expected claim frequency and severity in the surety business and lower than expected claim severity on a run-off block of collateral value insurance, partially offset by higher than expected claim severity in products for financial institutions and in the trade credit business. Net favorable reserve development of \$4 million in the fourth quarter of 2014 reflects lower than expected claim severity in the surety and fidelity businesses.

Other specialty In addition to the development discussed above, total Specialty prior year reserve development includes net favorable reserve development of \$1 million in the fourth quarter of 2015 and \$3 million in the fourth quarter of 2014, reflecting amortization of the deferred gain on the retroactive insurance transaction entered into in connection with the sale of businesses in 1998 and 2001 and reserve development associated with AFG's internal reinsurance program.

Catastrophe losses

AFG generally seeks to reduce its exposure to catastrophes through individual risk selection, including minimizing coastal and known fault-line exposures, and the purchase of reinsurance. Based on data available at December 31, 2015, AFG's exposure to a catastrophic earthquake or windstorm that industry models indicate could occur once in every 500 years (a "500-year event") is expected to be less than 3.5% of AFG's shareholders' equity. The \$5 million of catastrophe losses in the Specialty financial group in the fourth quarter of 2015 resulted primarily from flooding in the midwestern United States.

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Commissions and Other Underwriting Expenses

AFG's property and casualty commissions and other underwriting expenses ("U/W Exp") were \$327 million in the fourth quarter of 2015 compared to \$303 million for the fourth quarter of 2014, an increase of \$24 million (8%). AFG's underwriting expense ratio, calculated as commissions and other underwriting expenses divided by net premiums earned, was 29.2% for the fourth quarter of 2015 compared to 28.6% for the fourth quarter of 2014, an increase of 0.6 percentage points. Detail of AFG's property and casualty commissions and other underwriting expenses and underwriting expense ratios is shown below (dollars in millions):

	Three months ended December 31,				Change in	
	2015		2014		% of NEP	
	U/W Exp	% of NEP	U/W Exp	% of NEP	%	%
Property and transportation	\$91	20.7 %	\$94	22.4 %	(1.7 %)	
Specialty casualty	150	29.1 %	138	27.8 %	1.3 %	
Specialty financial	76	55.9 %	61	51.1 %	4.8 %	
Other specialty	10	36.1 %	10	37.3 %	(1.2 %)	
	\$327	29.2 %	\$303	28.6 %	0.6 %	

The overall increase of 0.6% in AFG's expense ratio in the fourth quarter of 2015 as compared to the fourth quarter of 2014 reflects higher profitability-based commissions paid to agents and brokers.

Property and transportation Commissions and other underwriting expenses as a percentage of net earned premiums decreased 1.7 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014 reflecting higher profitability-based ceding commissions received from reinsurers in the crop business.

Specialty casualty Commissions and other underwriting expenses as a percentage of net earned premiums increased 1.3 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014 due primarily to higher expenses in the international businesses.

Specialty financial Commissions and other underwriting expenses as a percentage of net earned premiums increased 4.8 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014 due primarily to higher profitability-based commissions paid to agents and brokers.

Property and Casualty Net Investment Income

Net investment income in AFG's property and casualty operations was \$74 million for the fourth quarter of 2015 compared to \$75 million in the fourth quarter of 2014, a decrease of \$1 million (1%). In recent years, yields available in the financial markets on fixed maturity securities have generally declined, placing downward pressure on AFG's investment portfolio yield. The average invested assets and overall yield earned on investments held by AFG's property and casualty operations are provided below (dollars in millions):

	Three months ended			
	December 31,		Change	
	2015	2014		% Change
Net investment income	\$74	\$75	\$(1)	(1 %)
Average invested assets (at amortized cost)	\$9,113	\$8,485	\$628	7 %
Yield (net investment income as a % of average invested assets)	3.25 %	3.54 %	(0.29 %)	
Tax equivalent yield (*)	3.82 %	4.08 %	(0.26 %)	

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

The increase in average invested assets in the property and casualty segment for the fourth quarter of 2015 as compared to the fourth quarter of 2014 is due primarily to growth in the property and casualty segment. The property and casualty segment's overall yield on investments (net investment income as a percentage of average invested assets) was 3.25% for the fourth quarter of 2015 compared to 3.54% for the fourth quarter of 2014, a decline of 0.29 percentage points, reflecting lower income from equity in the earnings of limited partnerships and from other investments.

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Property and Casualty Other Income and Expenses, Net

GAAP other income and expenses, net for AFG's property and casualty operations was net income of \$5 million for the fourth quarter of 2015 compared to a net expense of \$11 million for the fourth quarter of 2014, an improvement of \$16 million (145%). Core other income and expenses, net for AFG's property and casualty operations was a net expense of \$10 million in the fourth quarter of 2015 compared to \$11 million in the fourth quarter of 2014, a decrease of \$1 million (9%). The table below details the items included in GAAP and core other income and expenses, net for AFG's property and casualty operations (in millions):

	Three months ended December 31,		
	2015	2014	
Other income			
Income from the sale of real estate (*)	\$—	\$—	
Other	2	1	
Total other income	2	1	
Other expenses			
Amortization of intangibles	2	5	
Other	9	6	
Total other expense	11	11	
Interest expense	1	1	
Core other income and expenses, net	(10) (11)
Pretax non-core gain on sale of apartment property	15	—	
GAAP other income and expenses, net	\$5	\$(11)

(*)Excludes the \$15 million pretax non-core gain on the sale of an apartment property in the fourth quarter of 2015.

The lower amortization of intangibles in the fourth quarter of 2015 compared to the fourth quarter of 2014 reflects the impact of intangible assets related to three acquisitions that became fully amortized in 2014.

Interest expense for AFG's property and casualty operations includes interest charges on long-term debt within the property and casualty operations, primarily notes secured by real estate.

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Annuity Segment — Results of Operations

AFG's annuity operations contributed \$101 million in pretax earnings in the fourth quarter of 2015 compared to \$85 million in the fourth quarter of 2014, an increase of \$16 million (19%). While AFG's average annuity investments (at amortized cost) were 13% higher for the fourth quarter of 2015 as compared to the fourth quarter of 2014, the benefit of this growth was partially offset by the impact of lower investment yields. In addition, strong stock market performance in the fourth quarter of 2015 had a positive impact on the fair value accounting for fixed-indexed annuities ("FIAs"). Conversely, in the fourth quarter of 2014, the favorable impact of the increase in the stock market was more than offset by a decrease in longer-term interest rates and resulted in a negative impact on the fair value accounting for FIAs. AFG's periodic detailed review ("unlocking") of the major actuarial assumptions underlying its annuity operations resulted in a net annuity expense reduction of \$10 million in the fourth quarter of 2015 compared to \$1 million in the fourth quarter of 2014.

The following table details AFG's earnings before income taxes from its annuity operations for the three months ended December 31, 2015 and 2014 (dollars in millions):

	Three months ended December 31,			
	2015	2014	% Change	
Revenues:				
Net investment income	\$309	\$285	8	%
Other income:				
Guaranteed withdrawal benefit fees	12	9	33	%
Policy charges and other miscellaneous income	11	24	(54	%)
Total revenues	332	318	4	%
Costs and Expenses:				
Annuity benefits (*)	189	157	20	%
Acquisition expenses	20	59	(66	%)
Other expenses	22	17	29	%
Total costs and expenses	231	233	(1	%)
Earnings before income taxes	\$101	\$85	19	%

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

	Three months ended December 31,			
	2015	2014	% Change	
Earnings before income taxes — before the impact of derivatives related to FIAs	\$96	\$93	3	%
Impact of derivatives related to FIAs	5	(8	)	(163 %)
Earnings before income taxes	\$101	\$85	19	%

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

	Three months ended December 31,			
	2015	2014	% Change	
Interest credited — fixed	\$138	\$127	9	%
Interest credited — fixed component of variable annuities	1	1	—	%
Change in expected death and annuitization reserve	5	4	25	%
Amortization of sales inducements	6	6	—	%
Change in guaranteed withdrawal benefit reserve	15	11	36	%

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Change in other benefit reserves	5	1	400	%
Subtotal before impact of derivatives related to FIAs and unlocking	170	150	13	%
Derivatives related to fixed-indexed annuities:				
Embedded derivative mark-to-market	88	87	1	%
Equity option mark-to-market	(88	) (69	) 28	%
Impact of derivatives related to FIAs	—	18	(100	%)
Unlocking	19	(11) (273	%)
Total annuity benefits	\$189	\$157	20	%

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See “Annuity Unlocking” below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity benefit expense.

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

Net Spread on Fixed Annuities (excludes variable annuity earnings)

The table below (dollars in millions) details the components of these spreads for AFG’s fixed annuity operations (including fixed-indexed annuities):

	Three months ended			
	December 31,			
	2015	2014	% Change	
Average fixed annuity investments (at amortized cost)	\$26,401	\$23,334	13	%
Average fixed annuity benefits accumulated	26,048	23,104	13	%
As % of fixed annuity benefits accumulated (except as noted):				
Net investment income (as % of fixed annuity investments)	4.65	% 4.85	%	
Interest credited — fixed	(2.12	%) (2.21	%)	
Net interest spread	2.53	% 2.64	%	
Policy charges and other miscellaneous income	0.15	% 0.18	%	
Other annuity benefit expenses, net of guaranteed withdrawal benefit fees	(0.31	%) (0.20	%)	
Acquisition expenses	(0.75	%) (0.65	%)	
Other expenses	(0.32	%) (0.28	%)	
Change in fair value of derivatives related to fixed-indexed annuities	0.02	% (0.31	%)	
Unlocking	0.07	% 0.02	%	
Net spread earned on fixed annuities	1.39	% 1.40	%	

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

	Three months ended			
	December 31,			
	2015	2014	% Change	
Net spread earned on fixed annuities — before impact of derivatives related to fixed-indexed annuities	1.31	% 1.54	%	
Impact of derivatives related to fixed-indexed annuities (*)	0.08	% (0.14	%)	
Net spread earned on fixed annuities	1.39	% 1.40	%	

(*) Change in fair value of derivatives related to fixed-indexed annuities offset by an estimate of the related acceleration/deceleration of amortization of deferred sales inducements and deferred policy acquisition costs.

Annuity Net Investment Income

Net investment income for the fourth quarter of 2015 was \$309 million compared to \$285 million for the fourth quarter of 2014, an increase of \$24 million (8%). This increase reflects the growth in AFG’s annuity business, partially offset by the impact of lower investment yields. The overall yield earned on investments in AFG’s annuity operations, calculated as net investment income divided by average investment balances (at amortized cost), declined by 0.20 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014. This decline in net

investment yield reflects (i) lower income from other investments, (ii) the investment of new premium dollars at lower yields as compared to the existing investment portfolio and (iii) the impact of the reinvestment of proceeds from maturity and redemption of higher yielding investments at the lower yields available in the financial markets.

Annuity Interest Credited — Fixed

Interest credited — fixed for the fourth quarter of 2015 was \$138 million compared to \$127 million for the fourth quarter of 2014, an increase of \$11 million (9%). The impact of growth in the annuity business was partially offset by lower interest crediting rates on new premiums as compared to the crediting rates on policyholder funds surrendered or withdrawn. The

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average interest rate credited to policyholders, calculated as interest credited divided by average fixed annuity benefits accumulated, decreased 0.09 percentage points in the fourth quarter of 2015 compared to the fourth quarter of 2014. During the fourth quarter of 2015, interest rates credited on new premiums generally ranged from 1.00% to 2.80%.

Annuity Net Interest Spread

AFG's net interest spread decreased 0.11 percentage points in the fourth quarter of 2015 compared to the same period in 2014 due primarily to the impact of lower investment yields. In addition, features included in current annuity product offerings allow AFG to achieve its desired profitability at a lower net interest spread than historical product offerings. As a result of these two items, AFG expects its net interest spread to narrow in the future.

Annuity Policy Charges and Other Miscellaneous Income

Annuity policy charges and other miscellaneous income, which consist primarily of surrender charges and the amortization of deferred upfront policy charges (unearned revenue), were \$11 million in the fourth quarter of 2015 compared to \$24 million in the fourth quarter of 2014, a decrease of \$13 million (54%). Excluding the impact of an unlocking charge of \$2 million in the fourth quarter of 2015 and unlocking income of \$10 million in the fourth quarter of 2014 related to unearned revenue, annuity policy charges and other miscellaneous income were \$13 million in 2015 compared to \$14 million in 2014, a decrease of \$1 million (7%).

See "Annuity Unlocking" below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity policy charges and other miscellaneous income.

Other Annuity Benefits

Other annuity benefits, net of guaranteed withdrawal benefit fees (excluding the impact of unlocking) for the fourth quarter of 2015 were \$19 million compared to \$13 million for the fourth quarter of 2014, an increase of \$6 million (46%). In addition to interest credited to policyholders' accounts and the change in fair value of derivatives related to fixed-indexed annuities, annuity benefits expense also includes the following expenses (in millions, net of guaranteed withdrawal benefit fees):

	Three months ended December 31,	
	2015	2014
Change in expected death and annuitization reserve	\$5	\$4
Amortization of sales inducements	6	6
Change in guaranteed withdrawal benefit reserve	15	11
Change in other benefit reserves	5	1
Other annuity benefits	31	22
Offset guaranteed withdrawal benefit fees	(12	) (9
Other annuity benefits, net	\$19	\$13

The guaranteed withdrawal benefit reserve related to FIAs is inversely impacted by the calculated FIA embedded derivative reserve as the value to policyholders of the guaranteed withdrawal benefits increases when the benefit of stock market participation decreases.

Annuity Acquisition Expenses

Excluding the impact of unlocking charges (expense reductions), AFG's amortization of DPAC and commission expenses as a percentage of average fixed annuity benefits accumulated was 0.75% for the fourth quarter of 2015 and 0.65% for the fourth quarter of 2014 and has generally ranged between 0.70% and 0.80%. Variances from the general range relate primarily to the impact of (i) material changes in interest rates or the stock market on AFG's fixed-indexed annuity business, and (ii) differences in actual experience from actuarially projected estimates and assumptions. For example, the negative impact of lower interest rates during the fourth quarter of 2014 on the fair value of derivatives

related to fixed-indexed annuities (discussed below) resulted in a partially offsetting deceleration in the amortization of DPAC. During the third quarter of 2015, the deceleration in the amortization of DPAC caused by the negative impact of poor stock market performance on the fair value accounting for derivatives related to fixed-indexed annuities was limited on certain recently issued products. This prior period limitation had a \$5 million favorable impact on the amortization of DPAC related to the fair value accounting for those derivatives when the stock market rebounded during the fourth quarter of 2015. This favorable impact is reported in the impact on DPAC of derivatives related to FIAs.

Annuity Other Expenses

Annuity other expenses for the fourth quarter of 2015 were \$22 million compared to \$17 million for the fourth quarter of 2014, an increase of \$5 million (29%). The fourth quarter of 2014 includes the favorable impact of settling certain accrued expenses

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at a lower cost than previously estimated. Annuity other expenses represent primarily general and administrative expenses, as well as selling and issuance expenses that are not deferred. As a percentage of average fixed annuity benefits accumulated, these expenses increased 0.04 percentage points for the fourth quarter of 2015 as compared to the fourth quarter of 2014. In general, this percentage is expected to decrease as AFG's annuity business grows and annuity other expenses remain relatively stable.

Change in Fair Value of Derivatives Related to Fixed-Indexed Annuities

AFG's 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 and the related call options are considered derivatives that must be marked-to-market through earnings each period. The fair values of these derivatives are impacted by actual and expected stock market performance and interest rates as well as other factors. For a list of other factors impacting the fair value of the index-based component of AFG's annuity benefits accumulated, see Note D — "Fair Value Measurements" to the financial statements. Excluding the impact of unlocking charges, the net change in fair value of derivatives related to fixed-indexed annuities had a nominal impact on annuity benefits in the fourth quarter of 2015 and increased annuity benefits by \$18 million in the fourth quarter of 2014. The \$18 million impact in the fourth quarter of 2014 reflects the negative impact of lower interest rates on the derivatives, partially offset by the favorable impact of strong stock market performance.

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

	Three months ended		
	December 31,		% Change
	2015	2014	
Earnings before income taxes — before change in fair value of derivatives related to fixed-indexed annuities	\$96	\$93	3 %
Change in fair value of derivatives related to fixed-indexed annuities	—	(18)	(100 %)
Related impact on amortization of DPAC (*)	5	10	(50 %)
Earnings before income taxes	\$101	\$85	19 %

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

As illustrated in the table above, the change in fair value of derivatives related to fixed-indexed annuities, including the related impact on amortization of DPAC increased the annuity segment's earnings before income taxes by \$5 million in the fourth quarter of 2015 and decreased the annuity segment's earnings before income taxes by \$8 million in the fourth quarter of 2014.

See "Annuity Unlocking" below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity and supplemental insurance acquisition expenses. Unanticipated spread compression, decreases in the stock market, adverse mortality experience, and higher than expected lapse rates could lead to future write-offs of DPAC or the present value of future profits on business in force of companies acquired ("PVFP").

Annuity Net Spread Earned on Fixed Annuities

AFG's net spread earned on fixed annuities decreased 0.01 percentage points in the fourth quarter of 2015 compared to the same period in 2014 due primarily to the 0.11 percentage points decrease in AFG's net interest spread and the impact of growth in AFG's annuity business on other expenses and other annuity benefits as a percent of fixed annuity benefits accumulated discussed above, partially offset by the net impact of changes in the fair value of derivatives and related DPAC amortization offset discussed above.

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Annuity Benefits Accumulated

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

For certain products, annuity benefits accumulated also includes reserves for accrued persistency and premium bonuses, excess benefits expected to be paid on future deaths and annuitizations (“EDAR”) and guaranteed withdrawal benefits. Annuity benefits accumulated also includes amounts advanced from the Federal Home Loan Bank of Cincinnati. The following table is a progression of AFG’s annuity benefits accumulated liability for the three months ended December 31, 2015 and 2014 (in millions):

	Three months ended December 31,	
	2015	2014
Beginning fixed annuity reserves	\$25,725	\$22,745
Fixed annuity premiums (receipts)	1,097	960
Federal Home Loan Bank advances	45	—
Surrenders, benefits and other withdrawals	(515	) (464
Sale of subsidiaries	(261) —
Interest and other annuity benefit expenses:		
Interest credited	138	127
Embedded derivative mark-to-market	88	87
Change in other benefit reserves	31	18
Unlocking	23	(11
Ending fixed annuity reserves	\$26,371	\$23,462
Reconciliation to annuity benefits accumulated per balance sheet:		
Ending fixed annuity reserves (from above)	\$26,371	\$23,462
Impact of unrealized investment gains	64	111
Fixed component of variable annuities	187	191
Annuity benefits accumulated per balance sheet	\$26,622	\$23,764

Statutory Annuity Premiums

AFG’s annuity operations generated statutory premiums of \$1.11 billion in the fourth quarter of 2015 compared to \$971 million in the fourth quarter of 2014, an increase of \$136 million (14%). The following table summarizes AFG’s annuity sales (dollars in millions):

	Three months ended December 31,		
	2015	2014	% Change
Financial institutions single premium annuities — indexed	\$462	\$426	8 %
Financial institutions single premium annuities — fixed	72	61	18 %
Retail single premium annuities — indexed	494	405	22 %
Retail single premium annuities — fixed	18	19	(5 %)
Education market — fixed and indexed annuities	51	49	4 %
Total fixed annuity premiums	1,097	960	14 %
Variable annuities	10	11	(9 %)
Total annuity premiums	\$1,107	\$971	14 %

Management attributes the 14% increase in annuity premiums in the fourth quarter of 2015 as compared to the fourth quarter of 2014 to the significant rise of interest rates during the second quarter of 2015 from first quarter 2015 lows

and strong investment performance, which allowed AFG to raise the crediting rates on its annuities and become more competitive in its markets.

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Annuity Unlocking

In the fourth quarters of 2015 and 2014, AFG conducted a detailed review (“unlocking”) of the major actuarial assumptions underlying its annuity operations. As a result of these reviews, AFG recorded net expense reductions related to its annuity business of \$10 million in 2015 and \$1 million in 2014, which impacted AFG’s financial statements as follows (in millions):

	Three months ended December 31,	
	2015	2014
Policy charges and other miscellaneous income:		
Unearned revenue	\$(2)	\$10
Total revenues	(2)	10
Annuity benefits:		
Fixed-indexed annuity embedded derivative	28	(58)
Sales inducements	(4)	—
Other reserves	(5)	47
Total annuity benefits	19	(11)
Annuity and supplemental insurance acquisition expenses:		
Deferred policy acquisition costs	(31)	20
Total costs and expenses	(12)	9
Net expense reduction	\$10	\$1

The 2015 net expense reduction was due primarily to the impact of changes in assumptions to reflect higher than previously projected net interest spreads as well as the impact of higher assets under management and expense discipline. Reinvestment rates used to project future investment yields are based primarily on 7-year and 10-year corporate bond yields. For the 2015 unlocking, AFG assumed a net reinvestment rate (net of default and expense assumptions) of 3.87% in 2016, grading up ratably to an ultimate net reinvestment rate of 5.53% in 2022 and beyond.

The 2014 net expense reduction was due primarily to the impact of changes in assumptions to reflect a decrease in future expected call option costs related to the fixed-indexed annuity business and lower lapses, partially offset by lower future investment yield assumptions. For the 2014 unlocking, AFG assumed a net reinvestment rate (net of default and expense assumptions) of 3.57% in 2015, grading up ratably to an ultimate net reinvestment rate of 5.54% in 2022 and beyond.

Annuity Earnings before Income Taxes Reconciliation

The following table reconciles the net spread earned on AFG’s fixed annuities to overall annuity pretax earnings for the three months ended December 31, 2015 and 2014 (in millions):

	Three months ended December 31,	
	2015	2014
Earnings on fixed annuity benefits accumulated	\$91	\$81
Earnings on investments in excess of fixed annuity benefits accumulated (*)	4	3
Variable annuity earnings	6	1
Earnings before income taxes	\$101	\$85

Net investment income (as a % of investments) of 4.65% and 4.85% for the three months ended December 31, (*)2015 and 2014, respectively, multiplied by the difference between average fixed annuity investments (at amortized cost) and average fixed annuity benefits accumulated in each period.

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Run-off Long-Term Care and Life Segment — Results of Operations AFG's run-off long-term care and life segment incurred GAAP pretax losses of \$4 million for the three months ended December 31, 2015, which includes a \$4 million pretax non-core realized loss adjustment to the previously recognized \$162 million estimated pretax loss on the sale of substantially all of AFG's run-off long-term care insurance business that was recorded in the first quarter of 2015. See Note B — "Acquisitions and Sale of Businesses" to the financial statements. The following table details AFG's GAAP and core earnings (loss) before income taxes from its run-off long-term care and life operations for the three months ended December 31, 2015 and 2014 (dollars in millions):

	Three months ended December 31,		% Change		
	2015	2014			
Revenues:					
Net earned premiums:					
Long-term care	\$17	\$18	(6	%)	
Life operations	7	8	(13	%)	
Net investment income	19	20	(5	%)	
Other income	—	1	(100	%)	
Total revenues	43	47	(9	%)	
Costs and Expenses:					
Life, accident and health benefits:					
Long-term care	24	35	(31	%)	
Life operations	11	10	10	%	
Acquisition expenses	3	4	(25	%)	
Other expenses	5	5	—	%	
Total costs and expenses	43	54	(20	%)	
Core earnings (loss) before income taxes	—	(7	)	(100 %)
Pretax non-core realized loss on subsidiaries	(4)	—	%	
GAAP loss before income taxes	\$(4)	\$(7)	(43 %)

The \$11 million decrease in long-term care benefit expense in the fourth quarter of 2015 compared to the fourth quarter of 2014 is due primarily to a \$5 million charge related to the commutation of a reinsurance agreement in 2014 and improved claims experience.

Holding Company, Other and Unallocated — Results of Operations AFG's net pretax loss outside of its insurance operations (excluding realized gains and losses) totaled \$45 million for the fourth quarter of 2015 compared to \$35 million for the fourth quarter of 2014, an increase of \$10 million (29%).

The following table details AFG's loss before income taxes from operations outside of its insurance operations for three months ended December 31, 2015 and 2014 (dollars in millions):

	Three months ended December 31,		% Change	
	2015	2014		
Revenues:				
Net investment income	\$3	\$2	50	%
Other income — P&C fees	16	—	—	%
Other income	6	11	(45	%)
Total revenues	25	13	92	%
Costs and Expenses:				

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Property and casualty insurance — commissions and other underwriting expenses	6	—	—	%
Interest charges on borrowed money	16	19	(16)	%)
Other expense — expenses associated with P&C fees	10	—	—	%
Other expenses	38	29	31	%
Total costs and expenses	70	48	46	%
Loss before income taxes, excluding realized gains and losses	\$(45) \$(35) 29	%

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Table of Contents**Holding Company and Other — Net Investment Income**

AFG recorded net investment income on investments held outside of its insurance operations of \$3 million in the fourth quarter of 2015 compared to \$2 million in the fourth quarter of 2014.

Holding Company and Other — P&C Fees and Related Expenses

Summit, the workers' compensation insurance business that AFG acquired in April 2014, collects fees from a small group of unaffiliated insurers for providing underwriting, policy administration and claims services. In addition, certain of AFG's property and casualty businesses collect fees from customers for ancillary services such as workplace safety programs and premium financing. In the fourth quarter of 2015, AFG collected \$16 million in fees for these services. Management views this fee income, net of the \$10 million in expenses incurred to generate such fees, as a reduction in the cost of underwriting its property and casualty insurance policies. Consistent with internal management reporting, these fees and the related expenses are netted and recorded as a reduction of commissions and other underwriting expenses in AFG's segmented results. Beginning with the first quarter of 2015, these fees are shown in other income and the related expenses are shown in other expenses in AFG's Statement of Earnings.

Holding Company and Other — Other Income

Other income in the table above includes \$4 million and \$7 million in the fourth quarter of 2015 and 2014, respectively, in management fees paid to AFG by the AFG-managed CLOs (AFG's consolidated managed investment entities). The \$7 million in management fees in the fourth quarter of 2014 includes a \$4 million incentive management fee earned in connection with the liquidation of a CLO. The management fees are eliminated in consolidation — see the other income line in the Consolidate MIEs column under "Results of Operations — Segmented Statement of Earnings." Excluding amounts eliminated in consolidation, AFG recorded other income outside of its insurance operations of \$2 million in the fourth quarter of 2015 and \$4 million in the fourth quarter of 2014. Results for the fourth quarter of 2014 include \$3 million in income related to the sale of real estate.

Holding Company and Other — Interest Charges on Borrowed Money

AFG's holding companies and other operations outside of its insurance operations recorded interest expense of \$16 million in the fourth quarter of 2015 compared to \$19 million in the fourth quarter of 2014, a decrease of \$3 million (16%). The following table details AFG's long-term debt balances as of October 1, 2015 compared to October 1, 2014 (dollars in millions):

	October 1, 2015	October 1, 2014	
Direct obligations of AFG:			
9-7/8% Senior Notes due June 2019 (*)	\$350	\$350	
6-3/8% Senior Notes due June 2042	230	230	
5-3/4% Senior Notes due August 2042	125	125	
7% Senior Notes due September 2050	—	132	
6-1/4% Subordinated Debentures due September 2054	150	150	
Other	3	3	
Total Holding Company Debt	\$858	\$990	
Weighted Average Interest Rate	7.7	% 7.6	%

In June 2015, AFG entered into an interest rate swap to mitigate the interest rate risk associated with its fixed-rate (*)9-7/8% Senior Notes due June 2019 by effectively converting the interest rate on those notes to a floating rate of three-month LIBOR plus 8.099% (8.6110% at December 31, 2015).

AFG redeemed its \$132 million of outstanding 7% Senior Notes due September 2050 at par value in September 2015. AFG issued \$150 million of 6% Subordinated Debentures in November 2015 and \$150 million of 6-1/4%

Subordinated Debentures in late September 2014. The impact of lower average indebtedness during the fourth quarter of 2015 as compared to the fourth quarter of 2014 and the favorable impact of the interest rate swap on the 9-7/8% Senior Notes due June 2019 that was entered into in June 2015 resulted in a \$3 million decrease in interest expense for AFG's holding companies in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Table of Contents**Holding Company and Other — Other Expenses**

AFG's holding companies and other operations outside of its insurance operations recorded other expenses of \$38 million in the fourth quarter of 2015 compared to \$29 million in the fourth quarter of 2014, an increase of \$9 million (31%). The \$9 million increase reflects a \$2 million charge related to AFG's former railroad and manufacturing operations and higher other holding company expenses.

Consolidated Realized Gains (Losses) on Securities AFG's consolidated realized gains (losses) on securities, which are not allocated to segments, were losses of \$21 million in the fourth quarter of 2015 compared to gains of \$8 million in the fourth quarter of 2014, a decrease of \$29 million (363%). Realized gains (losses) on securities consisted of the following (in millions):

	Three months ended December 31,	
	2015	2014
Realized gains (losses) before impairments:		
Disposals	\$41	\$34
Change in the fair value of derivatives	(4	) (2
Adjustments to annuity deferred policy acquisition costs and related items	(2	) (1
	35	31
Impairment charges:		
Securities	(60	) (25
Adjustments to annuity deferred policy acquisition costs and related items	4	2
	(56	) (23
Realized gains (losses) on securities	\$(21	) \$8

AFG's impairment charges on securities for the fourth quarter of 2015 consist of \$46 million on equity securities, \$11 million on fixed maturities and \$3 million on other investments. Approximately \$26 million of the charges are on real estate and mortgage related investments, \$12 million are on investments in asset managers and \$8 million are on energy related investments.

Consolidated Realized Gains (Losses) on Subsidiaries The \$4 million pretax realized loss on subsidiaries in the fourth quarter of 2015 represents an adjustment to the previously recognized \$162 million estimated pretax loss on the sale of substantially all of AFG's run-off long-term care insurance business that was recorded in the first quarter of 2015.

Consolidated Income Taxes AFG's consolidated provision for income taxes was \$80 million for the fourth quarter of 2015 compared to \$65 million in the fourth quarter of 2014, an increase of \$15 million (23%). See Note L — "Income Taxes" to the financial statements. The following is a reconciliation of income taxes at the statutory rate of 35% to the provision for income taxes as shown in the Segmented Statement of Earnings (dollars in millions):

	Three months ended December 31,			
	2015	2014	2015	2014
	Amount	Amount	% of EBT	% of EBT
Earnings before income taxes ("EBT")	\$210	\$190		
Income taxes at statutory rate	\$74	\$66	35 %	35 %
Effect of:				
Tax exempt interest	(7	) (7	) (3 %)	) (4 %)
Change in valuation allowance	15	5	7 %	3 %
Losses of managed investment entities	—	2	— %	1 %
Other	(2) (1) (1 %)) (1 %)

Provision for income taxes	\$80	38	%	\$65	34	%
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The changes in valuation allowance in the table above are primarily increases in the valuation allowance on tax benefits related to losses in the Marketform Lloyd's insurance business. Due to the uncertainty concerning the realization of the deferred tax benefits associated with these losses, AFG maintains a full valuation allowance against these deferred tax assets.

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Consolidated Noncontrolling Interests AFG's consolidated net earnings (loss) attributable to noncontrolling interests was earnings of \$1 million for the fourth quarter of 2015 compared to a loss of \$2 million for the fourth quarter of 2014. The following table details net earnings (loss) in consolidated subsidiaries attributable to holders other than AFG (dollars in millions):

	Three months ended		
	December 31,		% Change
	2015	2014	
National Interstate	\$ 1	\$ 2	(50 %)
Managed Investment Entities	—	(4	) (100 %)
Earnings (loss) attributable to noncontrolling interests	\$ 1	\$(2	) (150 %)

The losses of Managed Investment Entities for the fourth quarter of 2014 represent CLO losses that ultimately inure to holders of the CLO debt. See Note A — “Accounting Policies — Managed Investment Entities” to the financial statements for a discussion of accounting guidance adopted in 2015 that affects the measurement of the fair value of CLO liabilities. Under the new guidance, there are no longer any CLO earnings or losses to be attributed to noncontrolling interests in AFG's Statement of Earnings.

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RESULTS OF OPERATIONS — YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

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

AFG’s net earnings attributable to shareholders, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. The following tables for the years ended December 31, 2015, 2014 and 2013 identify such items by segment and reconcile net earnings attributable to shareholders to core net operating earnings, a non-GAAP financial measure that AFG believes is a useful tool for investors and analysts in analyzing ongoing operating trends (in millions):

	P&C	Annuity	Run-off long-term care and life	Other MIEs	Consol- idated other and unallocated	Total	Non-GAAP reclass	GAAP Total
Year ended December 31, 2015								
Revenues:								
Property and casualty insurance net earned premiums	\$4,224	\$—	\$—	\$—	\$—	\$4,224	\$—	\$4,224
Life, accident and health net earned premiums	—	—	104	—	—	104	—	104
Net investment income	319	1,224	80	6	4	1,633	—	1,633
Realized losses on:								
Securities	—	—	—	—	—	—	(19)	(19)
Subsidiaries	—	—	—	—	—	—	(161)	(161)
Income (loss) of MIEs:								
Investment income	—	—	—	155	—	155	—	155
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(34)	—	(34)	—	(34)
Other income	12	98	4	(15)	78	177	66	243
Total revenues	4,555	1,322	188	112	82	6,259	(114)	6,145
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	2,628	—	—	—	—	2,628	67	2,695
Commissions and other underwriting expenses	1,304	—	—	—	16	1,320	—	1,320
Annuity benefits	—	732	—	—	—	732	—	732
Life, accident and health benefits	—	—	131	—	—	131	—	131
Annuity and supplemental insurance acquisition expenses	—	163	16	—	—	179	—	179
Interest charges on borrowed money	2	—	—	—	72	74	—	74
Expenses of MIEs	—	—	—	112	—	112	—	112
Other expenses	44	96	27	—	154	321	16	337
Total costs and expenses	3,978	991	174	112	242	5,497	83	5,580
Earnings before income taxes	577	331	14	—	(160)	762	(197)	565
Provision for income taxes	199	113	5	—	(54)	263	(68)	195
Net earnings, including noncontrolling interests	378	218	9	—	(106)	499	(129)	370
Less: Net earnings attributable to noncontrolling interests	11	—	—	—	2	13	5	18
Core Net Operating Earnings	367	218	9	—	(108)	486	—	486
Non-core earnings attributable to shareholders (a):								
Loss on sale of long-term care business, net of tax	—	—	(108)	—	—	(108)	108	—

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Gain on sale of hotel and apartment property, net of tax and noncontrolling interests	36	—	—	—	—	36	(36)	—
Other realized gains (losses), net of tax and noncontrolling interests	—	—	—	—	(8)	(8)	8	—
Special A&E charges, net of tax	(44)	—	—	—	(8)	(52)	52	—
Loss on retirement of debt, net of tax	—	—	—	—	(2)	(2)	2	—
Net Earnings Attributable to Shareholders	\$359	\$218	\$(99)	\$—	\$(126)	\$352	\$—	\$352

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	P&C	Annuity	Run-off long-term care and life	Other Consol. MIEs	Holding Co., other and unallocated	Total	Non-GAAP reclass	GAAP Total
Year ended December 31, 2014								
Revenues:								
Property and casualty insurance net earned premiums	\$3,878	\$—	\$—	\$—	\$—	\$3,878	\$—	\$3,878
Life, accident and health net earned premiums	—	—	108	—	—	108	—	108
Net investment income	294	1,136	82	(16)	5	1,501	—	1,501
Realized gains on securities	—	—	—	—	—	—	52	52
Income (loss) of MIEs:								
Investment income	—	—	—	116	—	116	—	116
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(44)	—	(44)	—	(44)
Other income	9	97	5	(25)	36	122	—	122
Total revenues	4,181	1,233	195	31	41	5,681	52	5,733
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	2,470	—	—	—	—	2,470	24	2,494
Commissions and other underwriting expenses	1,172	—	—	—	—	1,172	—	1,172
Annuity benefits	—	648	—	—	—	648	—	648
Life, accident and health benefits	—	—	164	—	—	164	—	164
Annuity and supplemental insurance acquisition expenses	—	175	18	—	—	193	—	193
Interest charges on borrowed money	4	—	—	—	69	73	—	73
Expenses of MIEs	—	—	—	82	—	82	—	82
Other expenses	55	82	23	—	115	275	6	281
Total costs and expenses	3,701	905	205	82	184	5,077	30	5,107
Earnings before income taxes	480	328	(10)	(51)	(143)	604	22	626
Provision for income taxes	151	112	(3)	—	(48)	212	8	220
Net earnings, including noncontrolling interests	329	216	(7)	(51)	(95)	392	14	406
Less: Net earnings (loss) attributable to noncontrolling interests	4	—	—	(51)	—	(47)	1	(46)
Core Net Operating Earnings	325	216	(7)	—	(95)	439		
Non-core earnings attributable to shareholders (a):								
Realized gains on securities, net of tax and noncontrolling interests	—	—	—	—	32	32	(32)	—
Special A&E charges, net of tax	(15)	—	—	—	(4)	(19)	19	—
Net Earnings Attributable to Shareholders	\$310	\$216	\$(7)	\$—	\$(67)	\$452	\$—	\$452

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	P&C	Annuity	Run-off long-term care and life	Other Consol. MIEs	Holding Co., other and unallocated	Total	Non-GAAP reclass	GAAP Total
Year ended December 31, 2013								
Revenues:								
Property and casualty insurance net earned premiums	\$3,204	\$—	\$—	\$—	\$—	\$3,204	\$—	\$3,204
Life, accident and health net earned premiums	—	—	114	—	—	114	—	114
Net investment income	263	1,034	76	(35)	8	1,346	—	1,346
Realized gains (losses) on:								
Securities	—	—	—	—	—	—	221	221
Subsidiaries	—	—	—	—	—	—	(4)	(4)
Income (loss) of MIEs:								
Investment income	—	—	—	128	—	128	—	128
Gain (loss) on change in fair value of assets/liabilities	—	—	—	(14)	—	(14)	—	(14)
Other income	15	77	5	(16)	27	108	—	108
Total revenues	3,482	1,111	195	63	35	4,886	217	5,103
Costs and Expenses:								
Property and casualty insurance:								
Losses and loss adjustment expenses	1,986	—	—	—	—	1,986	54	2,040
Commissions and other underwriting expenses	1,019	—	—	—	—	1,019	—	1,019
Annuity benefits	—	531	—	—	—	531	—	531
Life, accident and health benefits	—	—	160	—	—	160	—	160
Annuity and supplemental insurance acquisition expenses	—	159	19	—	—	178	—	178
Interest charges on borrowed money	3	—	—	—	68	71	—	71
Expenses of MIEs	—	—	—	89	—	89	—	89
Other expenses	45	93	26	—	135	299	27	326
Total costs and expenses	3,053	783	205	89	203	4,333	81	4,414
Earnings before income taxes	429	328	(10)	(26)	(168)	553	136	689
Provision for income taxes	132	113	(4)	—	(54)	187	49	236
Net earnings, including noncontrolling interests	297	215	(6)	(26)	(114)	366	87	453
Less: Net earnings (loss) attributable to noncontrolling interests	7	—	—	(26)	—	(19)	1	(18)
Core Net Operating Earnings	290	215	(6)	—	(114)	385		
Non-core earnings attributable to shareholders (a):								
Realized gains, net of tax and noncontrolling interests	—	—	—	—	138	138	(138)	—
Special A&E charges, net of tax	(35)	—	—	—	(14)	(49)	49	—
ELNY guaranty fund assessments, net of tax	—	(3)	—	—	—	(3)	3	—
Net Earnings Attributable to Shareholders	\$255	\$212	\$(6)	\$—	\$10	\$471	\$—	\$471

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

Property and Casualty Insurance Segment — Results of Operations AFG’s property and casualty insurance operations contributed \$576 million in GAAP pretax earnings in 2015 compared to \$456 million in 2014, an increase of

\$120 million (26%). Property and casualty core pretax earnings were \$577 million in 2015 compared to \$480 million in 2014, an increase of \$97 million (20%). The increase in GAAP and core pretax earnings reflects higher underwriting profit across each of AFG's property and casualty insurance sub-segments, higher net investment income (due primarily to the investment of cash acquired in the Summit acquisition on April 1, 2014) and lower net expenses. The increase in GAAP pretax earnings in 2015 also reflects pretax non-core gains of \$51 million on the sale of Le Pavillon Hotel and \$15 million on the sale of an apartment property, partially offset by higher non-core special A&E charges in 2015 as compared to 2014.

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AFG's property and casualty insurance operations contributed \$456 million in GAAP pretax earnings in 2014 compared to \$375 million in 2013, an increase of \$81 million (22%). Property and casualty core pretax earnings were \$480 million in 2014 compared to \$429 million in 2013, an increase of \$51 million (12%). The increase in GAAP and core pretax earnings reflects higher underwriting profit in the Specialty casualty group and Property and transportation group and higher net investment income (due primarily to the investment of cash acquired in the April 2014 Summit acquisition), partially offset by higher other net expenses. The increase in GAAP pretax earnings also reflects lower non-core special A&E charges in 2014 as compared to 2013.

The following table details AFG's GAAP and core earnings before income taxes from its property and casualty operations for the years ended December 31, 2015, 2014 and 2013 (dollars in millions):

	Year ended December 31,			% Change			
	2015	2014	2013	2015 - 2014	2014 - 2013		
Gross written premiums	\$5,832	\$5,477	\$4,805	6	%	14	%
Reinsurance premiums ceded	(1,505)	(1,457)	(1,464)	3	%	—	%
Net written premiums	4,327	4,020	3,341	8	%	20	%
Change in unearned premiums	(103)	(142)	(137)	(27)	%	4	%
Net earned premiums	4,224	3,878	3,204	9	%	21	%
Loss and loss adjustment expenses (a)	2,628	2,470	1,986	6	%	24	%
Commissions and other underwriting expenses	1,304	1,172	1,019	11	%	15	%
Core underwriting gain	292	236	199	24	%	19	%
Net investment income	319	294	263	9	%	12	%
Other income and expenses, net (b)	(34)	(50)	(33)	(32)	%	52	%
Core earnings before income taxes	577	480	429	20	%	12	%
Pretax non-core gain on sale of hotel and apartment property	66	—	—	—	%	—	%
Pretax non-core special A&E charges	(67)	(24)	(54)	179	%	(56)	%
GAAP earnings before income taxes	\$576	\$456	\$375	26	%	22	%

(a) Excludes pretax non-core special A&E charges of \$67 million, \$24 million and \$54 million in 2015, 2014 and 2013, respectively.

(b) Excludes pretax non-core gains of \$51 million on the sale of Le Pavillon Hotel and \$15 million on the sale of an apartment property in 2015.

Combined Ratios:				Change			
				2015 - 2014	2014 - 2013		
Specialty lines							
Loss and LAE ratio	62.2	% 63.7	% 61.7	% (1.5)	% 2.0		%
Underwriting expense ratio	30.9	% 30.2	% 31.8	% 0.7	% (1.6)		%
Combined ratio	93.1	% 93.9	% 93.5	% (0.8)	% 0.4		%
Aggregate — including discontinued lines							
Loss and LAE ratio	63.8	% 64.3	% 63.7	% (0.5)	% 0.6		%
Underwriting expense ratio	30.9	% 30.2	% 31.8	% 0.7	% (1.6)		%
Combined ratio	94.7	% 94.5	% 95.5	% 0.2	% (1.0)		%

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

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Gross Written Premiums

Gross written premiums (“GWP”) for AFG’s property and casualty insurance segment were \$5.83 billion in 2015 compared to \$5.48 billion in 2014, an increase of \$355 million (6%). GWP increased \$672 million (14%) in 2014 compared to 2013. Detail of AFG’s property and casualty gross written premiums is shown below (dollars in millions):

	Year ended December 31,						% Change		
	2015		2014		2013		2015 -	2014 -	
	GWP	%	GWP	%	GWP	%	2014	2013	
Property and transportation	\$2,455	42	\$2,342	43	\$2,392	50	5	(2	%)
Specialty casualty	2,739	47	2,529	46	1,790	37	8	41	%
Specialty financial	637	11	605	11	622	13	5	(3	%)
Other specialty	1	—	1	—	1	—	—	—	%
	\$5,832	100	\$5,477	100	\$4,805	100	6	14	%

Reinsurance Premiums Ceded

Reinsurance premiums ceded (“Ceded”) for AFG’s property and casualty insurance segment were 26%, 27% and 30% of gross written premiums for the years ended December 31, 2015, 2014 and 2013, respectively. Detail of AFG’s property and casualty reinsurance premiums ceded is shown below (dollars in millions):

	Year ended December 31,						Change in % of GWP		
	2015		2014		2013		2015 -	2014 -	
	Ceded	% of GWP	Ceded	% of GWP	Ceded	% of GWP	2014	2013	
Property and transportation	\$(819)	33	\$(776)	33	\$(845)	35	—	(2	%)
Specialty casualty	(687)	25	(665)	26	(566)	32	(1	(6	%)
Specialty financial	(97)	15	(117)	19	(136)	22	(4	(3	%)
Other specialty	98		101		83				
	\$(1,505)	26	\$(1,457)	27	\$(1,464)	30	(1	(3	%)

Net Written Premiums

Net written premiums (“NWP”) for AFG’s property and casualty insurance segment were \$4.33 billion in 2015 compared to \$4.02 billion in 2014, an increase of \$307 million (8%). NWP increased \$679 million (20%) in 2014 compared to 2013. Detail of AFG’s property and casualty net written premiums is shown below (dollars in millions):

	Year ended December 31,						% Change		
	2015		2014		2013		2015 -	2014 -	
	NWP	%	NWP	%	NWP	%	2014	2013	
Property and transportation	\$1,636	38	\$1,566	39	\$1,547	45	4	1	%
Specialty casualty	2,052	47	1,864	46	1,224	37	10	52	%
Specialty financial	540	12	488	12	486	15	11	—	%
Other specialty	99	3	102	3	84	3	(3	(21	%)
	\$4,327	100	\$4,020	100	\$3,341	100	8	20	%

Net Earned Premiums

Net earned premiums (“NEP”) for AFG’s property and casualty insurance segment were \$4.22 billion in 2015 compared to \$3.88 billion in 2014, an increase of \$346 million (9%). NEP increased \$674 million (21%) in 2014 compared to 2013. Detail of AFG’s property and casualty net earned premiums is shown below (dollars in millions):

	Year ended December 31,			% Change	
	2015	2014	2013		

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							2015 -		2014 -	
	NEP	%	NEP	%	NEP	%	2014		2013	
Property and transportation	\$1,599	38	% \$1,544	40	% \$1,521	48	% 4	% 2	%	
Specialty casualty	2,011	48	% 1,765	45	% 1,135	35	% 14	% 56	%	
Specialty financial	517	12	% 469	12	% 469	15	% 10	% —	%	
Other specialty	97	2	% 100	3	% 79	2	% (3	%) 27	%	
	\$4,224	100	% \$3,878	100	% \$3,204	100	% 9	% 21	%	

The \$355 million (6%) increase in gross written premiums in 2015 compared to 2014 reflects \$535 million in premiums from Summit (acquired in April 2014) in 2015 compared to \$414 million in 2014 as well as significant growth in other businesses

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within the Specialty casualty and Property and transportation groups. Overall average renewal rates increased approximately 1% in 2015.

The \$672 million (14%) increase in gross written premiums in 2014 compared to 2013 reflects \$414 million in premiums from Summit (acquired in April 2014) as well as significant growth in other businesses within the Specialty casualty group. Excluding premiums from Summit, gross written premiums increased by 5% in 2014 compared to 2013. Overall average renewal rates increased approximately 3% in 2014.

Property and transportation Gross written premiums increased \$113 million (5%) in 2015 compared to 2014. This increase is the result of higher gross written premiums in the transportation businesses due primarily to new accounts, higher gross written premiums in the agricultural businesses and new gross written premiums from the Singapore branch, which opened for business in June 2015, partially offset by lower gross written premiums in the property and inland marine businesses. Average renewal rates were up approximately 4% for this group in 2015, including a 5% increase in National Interstate's renewal rates. Reinsurance premiums ceded as a percentage of gross written premiums were comparable in 2015 and 2014.

Gross written premiums decreased \$50 million (2%) in 2014 compared to 2013 reflecting the impact of lower 2014 commodity prices on the crop operations, partially offset by growth in the transportation businesses resulting from rate increases. Excluding the crop insurance business, gross written premiums increased by 6% for this group in 2014 compared to 2013. Average renewal rates were up approximately 5% for this group in 2014, including a 7% increase in National Interstate's renewal rates. Reinsurance premiums ceded as a percentage of gross written premiums declined 2 percentage points in 2014 compared to 2013 as lower cessions in the crop business were partially offset by higher cessions in the excess property business and certain captive programs in the transportation business and the impact of a change in the mix of business.

Specialty casualty Gross written premiums increased \$210 million (8%) in 2015 compared to 2014 reflecting \$535 million in gross written premiums from Summit (acquired in April 2014) in 2015 compared to \$414 million in 2014. Excluding premiums from Summit, gross written premiums increased 4% in 2015 compared to 2014. While most of the businesses in this group reported growth, the workers' compensation, excess and surplus lines and targeted markets businesses were primary drivers of the higher premiums, partially offset by lower premiums in the general liability business, primarily the result of competitive market conditions, re-underwriting efforts within the Florida homebuilders market and the slowdown within the energy sector. Average renewal rates for this group were down 1% in 2015 due primarily to lower pricing in the workers' compensation businesses. Excluding the workers' compensation business, average renewal rates in this group increased 1% during 2015. Reinsurance premiums ceded as a percentage of gross written premiums declined 1 percentage point in 2015 compared to 2014 reflecting the impact of the acquisition of Summit, which cedes only about 1% of its premiums.

Gross written premiums increased \$739 million (41%) in 2014 compared to 2013 reflecting \$414 million in premiums from Summit, which was acquired in April 2014. Excluding premiums from Summit, gross written premiums increased 18% in 2014 compared to 2013 as a result of increased premiums in nearly all businesses in this group, particularly in the workers' compensation, excess and surplus lines and targeted markets operations. New business opportunities and increased exposures from higher payroll on existing accounts contributed to the increase in premiums in the workers' compensation businesses. Strong premium growth in the excess and surplus lines and targeted markets operations was the result of broadening opportunities to write business coupled with the benefit from rate increases over multiple quarters. Average renewal rates were up approximately 2% for this group in 2014. Reinsurance premiums ceded as a percentage of gross written premiums declined 6 percentage points in 2014 compared to 2013 reflecting the impact of the acquisition of Summit, which cedes only about 1% of its premiums.

Specialty financial Gross written premiums increased \$32 million (5%) in 2015 compared to 2014 due primarily to higher gross written premiums in the surety, financial institutions and equipment leasing businesses. Average renewal rates for this group were flat in 2015. Reinsurance premiums ceded as a percentage of gross written premiums decreased 4 percentage points in 2015 compared to 2014, reflecting a decline in auto dealer business, which is heavily reinsured.

Gross written premiums decreased \$17 million (3%) in 2014 compared to 2013. The impact of the October 2013 sale of a service contract business, which ceded all of its premiums under reinsurance contracts, more than offset growth in gross written premiums across most businesses in this group. Average renewal rates for this group decreased about 1% in 2014. Reinsurance premiums ceded as a percentage of gross written premiums declined 3 percentage points in 2014 compared to 2013 reflecting the sale of the service contract business, partially offset by higher cessions in the financial institutions business.

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

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Combined Ratio

The table below details the components of the combined ratio for AFG's property and casualty segment for 2015, 2014 and 2013 (dollars in millions):

	Year ended December 31,			Change		Year ended December 31,		
	2015	2014	2013	2015 - 2014	2014 - 2013	2015	2014	2013
Property and transportation								
Loss and LAE ratio	72.4	% 74.9	% 75.1	% (2.5	% (0.2	%		
Underwriting expense ratio	24.5	% 23.8	% 24.1	% 0.7	% (0.3	%		
Combined ratio	96.9	% 98.7	% 99.2	% (1.8	% (0.5	%		
Underwriting profit						\$48	\$21	\$12
Specialty casualty								
Loss and LAE ratio	62.9	% 62.7	% 57.5	% 0.2	% 5.2	%		
Underwriting expense ratio	29.8	% 29.6	% 33.4	% 0.2	% (3.8	%		
Combined ratio	92.7	% 92.3	% 90.9	% 0.4	% 1.4	%		
Underwriting profit						\$146	\$136	\$102
Specialty financial								
Loss and LAE ratio	29.7	% 33.9	% 33.5	% (4.2	% 0.4	%		
Underwriting expense ratio	53.4	% 52.6	% 52.1	% 0.8	% 0.5	%		
Combined ratio	83.1	% 86.5	% 85.6	% (3.4	% 0.9	%		
Underwriting profit						\$87	\$64	\$67
Total Specialty								
Loss and LAE ratio	62.2	% 63.7	% 61.7	% (1.5	% 2.0	%		
Underwriting expense ratio	30.9	% 30.2	% 31.8	% 0.7	% (1.6	%		
Combined ratio	93.1	% 93.9	% 93.5	% (0.8	% 0.4	%		
Underwriting profit						\$295	\$237	\$206
Aggregate — including discontinued lines								
Loss and LAE ratio	63.8	% 64.3	% 63.7	% (0.5	% 0.6	%		
Underwriting expense ratio	30.9	% 30.2	% 31.8	% 0.7	% (1.6	%		
Combined ratio	94.7	% 94.5	% 95.5	% 0.2	% (1.0	%		
Underwriting profit						\$225	\$212	\$145

The Specialty property and casualty insurance operations generated an underwriting profit of \$295 million in 2015 compared to \$237 million in 2014, an increase of \$58 million (24%). The higher underwriting profit in 2015 reflects higher underwriting profit across each of AFG's property and casualty insurance sub-segments. Overall catastrophe losses were \$35 million (0.8 points on the combined ratio) in 2015 compared to \$28 million (0.7 points on the combined ratio) in 2014.

The Specialty property and casualty insurance operations generated an underwriting profit of \$237 million in 2014 compared to \$206 million in 2013, an increase of \$31 million (15%). The higher underwriting profit in 2014 reflects significantly higher underwriting profit in the Specialty casualty and Property and transportation groups. Overall catastrophe losses were \$28 million (0.7 points on the combined ratio) in 2014 compared to \$31 million (1.0 points), in 2013.

Property and transportation Underwriting profit for this group was \$48 million in 2015 compared to \$21 million in 2014, an increase of \$27 million (129%). Higher profits in the agricultural operations and improved year-over-year underwriting results at National Interstate, due primarily to lower adverse prior year reserve development, were partially offset by lower profitability in the property and inland marine, ocean marine and other transportation businesses.

Underwriting profit for this group was \$21 million in 2014 compared to \$12 million in 2013, an increase of \$9 million (75%). Higher underwriting profit in the property and inland marine operations, including lower catastrophe losses, was partially offset by lower underwriting profit in the agricultural operations. Catastrophe losses were \$20 million (1.3 points) for this group in 2014 compared to \$27 million (1.8 points) in 2013.

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Specialty casualty Underwriting profit for this group was \$146 million in 2015 compared to \$136 million in 2014, an increase of \$10 million (7%). This increase is due primarily to higher profitability in the workers' compensation and targeted markets businesses, partially offset by higher adverse prior year reserve development at Marketform and in the general liability and excess and surplus businesses and lower favorable prior year reserve development in the executive liability business.

Underwriting profit for this group was \$136 million in 2014 compared to \$102 million in 2013, an increase of \$34 million (33%). Higher underwriting profit in the workers' compensation businesses, including the impact of the Summit business acquired in April 2014, was partially offset by lower underwriting results in the general liability lines of business, adverse prior year reserve development in the international operations and lower favorable prior year reserve development in the executive liability business.

Specialty financial Underwriting profit for this group was \$87 million in 2015 compared to \$64 million in 2014, an increase of \$23 million (36%). This increase was driven by higher favorable prior year reserve development across the group and higher current year underwriting profitability in the fidelity and financial institutions businesses, partially offset by an increase of \$6 million in catastrophe losses in 2015 compared to 2014.

Underwriting profit for this group was \$64 million in 2014 compared to \$67 million in 2013, a decrease of \$3 million (4%). Lower profitability in the trade credit and financial institutions businesses was partially offset by higher profitability in the surety business.

Other specialty Underwriting profit for this group was \$14 million in 2015 compared to \$16 million in 2014, a decrease of \$2 million (13%).

Underwriting profit for this group was \$16 million in 2014 compared to \$25 million in 2013, a decrease of \$9 million (36%). The decrease is due primarily to lower favorable prior year loss development in the business assumed by AFG's internal reinsurance program from the operations that make up AFG's other Specialty sub-segments.

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Losses and Loss Adjustment Expenses

AFG's overall loss and LAE ratio was 63.8%, 64.3% and 63.7% in 2015, 2014 and 2013, respectively. The components of AFG's property and casualty losses and LAE amounts and ratio are detailed below (dollars in millions):

	Year ended December 31,						Change in Ratio		
	Amount			Ratio			2015 -	2014 -	
	2015	2014	2013	2015	2014	2013	2014	2013	
Property and transportation									
Current year, excluding catastrophe losses	\$1,123	\$1,119	\$1,116	70.2 %	72.6 %	73.4 %	(2.4 %)	(0.8 %)	
Prior accident years development	15	16	(1)	0.9 %	1.0 %	(0.1 %)	(0.1 %)	1.1 %	
Current year catastrophe losses	21	20	27	1.3 %	1.3 %	1.8 %	— %	(0.5 %)	
Property and transportation losses and LAE and ratio	\$1,159	\$1,155	\$1,142	72.4 %	74.9 %	75.1 %	(2.5 %)	(0.2 %)	
Specialty casualty									
Current year, excluding catastrophe losses	\$1,272	\$1,110	\$692	63.2 %	62.9 %	61.0 %	0.3 %	1.9 %	
Prior accident years development	(11)	(7)	(40)	(0.5 %)	(0.4 %)	(3.6 %)	(0.1 %)	3.2 %	
Current year catastrophe losses	4	4	1	0.2 %	0.2 %	0.1 %	— %	0.1 %	
Specialty casualty losses and LAE and ratio	\$1,265	\$1,107	\$653	62.9 %	62.7 %	57.5 %	0.2 %	5.2 %	
Specialty financial									
Current year, excluding catastrophe losses	\$175	\$173	\$169	33.7 %	36.9 %	35.9 %	(3.2 %)	1.0 %	
Prior accident years development	(30)	(17)	(14)	(5.7 %)	(3.7 %)	(3.0 %)	(2.0 %)	(0.7 %)	
Current year catastrophe losses	9	3	3	1.7 %	0.7 %	0.6 %	1.0 %	0.1 %	
Specialty financial losses and LAE and ratio	\$154	\$159	\$158	29.7 %	33.9 %	33.5 %	(4.2 %)	0.4 %	
Total Specialty									
Current year, excluding catastrophe losses	\$2,627	\$2,460	\$2,023	62.2 %	63.5 %	63.1 %	(1.3 %)	0.4 %	
Prior accident years development	(37)	(19)	(75)	(0.8 %)	(0.5 %)	(2.4 %)	(0.3 %)	1.9 %	
Current year catastrophe losses	35	28	31	0.8 %	0.7 %	1.0 %	0.1 %	(0.3 %)	
Total Specialty losses and LAE and ratio	\$2,625	\$2,469	\$1,979	62.2 %	63.7 %	61.7 %	(1.5 %)	2.0 %	
Aggregate — including discontinued lines									
Current year, excluding catastrophe losses	\$2,627	\$2,460	\$2,024	62.2 %	63.5 %	63.1 %	(1.3 %)	0.4 %	
Prior accident years development	33	6	(15)	0.8 %	0.1 %	(0.4 %)	0.7 %	0.5 %	
Current year catastrophe losses	35	28	31	0.8 %	0.7 %	1.0 %	0.1 %	(0.3 %)	
Aggregate losses and LAE and ratio	\$2,695	\$2,494	\$2,040	63.8 %	64.3 %	63.7 %	(0.5 %)	0.6 %	

Current accident year losses and LAE, excluding catastrophe losses

The current accident year loss and LAE ratio, excluding catastrophe losses for AFG's Specialty property and casualty insurance operations was 62.2% in 2015, 63.5% in 2014 and 63.1% in 2013.

Property and transportation The 2.4 percentage point decrease in the loss and LAE ratio for the current year, excluding catastrophe losses in 2015 compared to 2014 reflects higher profitability in the agricultural businesses.

The 0.8% percentage point decrease in the loss and LAE ratio for the 2014 current year, excluding catastrophe losses compared to 2013 reflects higher profitability in the property and inland marine business.

Specialty casualty The 0.3 percentage point increase in the loss and LAE ratio for the current year, excluding catastrophe losses reflects the inclusion of Summit following its acquisition in April 2014, which has a higher loss and LAE ratio than AFG's overall Specialty casualty group.

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The 1.9 percentage point increase in the loss and LAE ratio for the 2014 current year, excluding catastrophe losses compared to 2013 reflects the inclusion of Summit following its acquisition in April 2014, which has a higher loss and LAE ratio than AFG's overall Specialty casualty group, partially offset by higher profitability in the California workers' compensation business.

Specialty financial The 3.2 percentage point decrease in the loss and LAE ratio for the current year, excluding catastrophe losses in 2015 compared to 2014 reflects an improvement in the loss and LAE ratio of the financial institutions, fidelity and equipment leasing businesses.

The 1.0% percentage point increase in the loss and LAE ratio for the 2014 current year, excluding catastrophe losses compared to 2013 reflects an increase in the loss and LAE ratio of the financial institutions business.

Net prior year reserve development

AFG's Specialty property and casualty insurance operations recorded net favorable reserve development related to prior accident years of \$37 million in 2015 compared to \$19 million in 2014 and \$75 million in 2012, an increase of \$18 million and a decrease of \$56 million, respectively.

Property and transportation Net adverse reserve development of \$15 million in 2015 reflects higher than expected claim severity at National Interstate and higher than anticipated claim frequency in the ocean marine business, partially offset by lower than expected claim severity in the property and inland marine business, agricultural operations and a run-off book of homebuilders business.

Net adverse reserve development of \$16 million in 2014 reflects higher than expected severity in commercial auto liability losses written in the transportation businesses, partially offset by lower than expected claim frequency and severity in the property and inland marine business and lower than expected claim frequency in the agricultural operations.

Net favorable reserve development of \$1 million in 2013 reflects lower than expected claims handling expense in the crop business and lower claim severity in the property and inland marine and ocean marine businesses, substantially offset by adverse development from higher than expected claim severity in commercial auto liability business written in the transportation businesses.

Specialty casualty Net favorable reserve development of \$11 million in 2015 includes lower than anticipated claim severity in workers' compensation business, lower than anticipated claim severity and frequency in excess liability insurance and lower than expected claim severity in directors and officers liability insurance, partially offset by adverse reserve development at Marketform.

Net favorable reserve development of \$7 million in 2014 reflects lower than expected claim severity in directors and officers liability insurance, lower than expected claim severity and frequency in excess liability insurance and lower than anticipated claim severity in specialty workers' compensation business, partially offset by higher than expected severity in contractor claims and in a run-off book of casualty business and adverse reserve development at Marketform.

Net favorable reserve development of \$40 million in 2013 reflects lower than expected claim severity in directors and officers liability insurance and lower than expected claim severity and frequency in excess liability business, partially offset by adverse development from higher than expected claim frequency and severity in products liability claims and higher than expected claim severity in contractor claims.

Specialty financial Net favorable reserve development of \$30 million in 2015 reflects lower than anticipated claim frequency and severity in the surety business and products for financial institutions and lower than expected claim severity in the fidelity business and run-off collateral value insurance.

Net favorable reserve development of \$17 million in 2014 reflects lower than expected claim severity in the surety and fidelity businesses and lower than expected claim frequency and severity in the trade credit business and products for financial institutions.

Net favorable reserve development of \$14 million in 2013 is due to lower than expected claim frequency and severity in the trade credit and financial institutions businesses as economic conditions did not affect these lines as adversely as had been anticipated.

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Other specialty In addition to the development discussed above, total Specialty prior year reserve development includes net favorable reserve development of \$11 million in both 2015 and 2014 and \$20 million in 2013, reflecting amortization of the deferred gain on the retroactive insurance transaction entered into in connection with the sale of businesses in 1998 and 2001 and reserve development associated with AFG's internal reinsurance program.

Asbestos and Environmental Reserve Charges As previously discussed under "Uncertainties" — "Asbestos and Environmental-related ("A&E") Insurance Reserves," AFG has established property and casualty reserves for claims related to environmental exposures and asbestos claims. Total charges recorded to increase reserves (net of reinsurance recoverable) for A&E exposures of AFG's property and casualty group (included in loss and loss adjustment expenses) were \$67 million in 2015, \$24 million in 2014 and \$59 million in 2013.

Aggregate Aggregate net prior accident years reserve development for AFG's property and casualty segment includes the A&E charges mentioned above and adverse reserve development of \$3 million in 2015, \$1 million in 2014 and \$1 million in 2013 related to run-off assumed insurance business.

Catastrophe losses

AFG generally seeks to reduce its exposure to catastrophes through individual risk selection, including minimizing coastal and known fault-line exposures, and the purchase of reinsurance. The \$21 million of catastrophe losses in the Property and transportation group in 2015 resulted primarily from winter storms in the first quarter and multiple storms in the midwestern and central United States in the second and third quarters. The \$9 million of catastrophe losses in the Specialty financial group in 2015 resulted primarily from flooding in the midwestern United States. The \$20 million of catastrophe losses in the Property and transportation group in 2014 were primarily from winter storms in the month of January and multiple storms in the midwestern and central United States in the second quarter. The \$27 million of catastrophe losses in the Property and transportation group in 2013 resulted primarily from spring storms in the southeastern United States.

Commissions and Other Underwriting Expenses

AFG's property and casualty commissions and other underwriting expenses ("U/W Exp") were \$1.30 billion in 2015 compared to \$1.17 billion in 2014, an increase of \$132 million (11%). AFG's underwriting expense ratio was 30.9% in 2015 compared to 30.2% in 2014, an increase of 0.7 percentage points.

AFG's property and casualty U/W Exp were \$1.17 billion in 2014 compared to \$1.02 billion in 2013, an increase of \$153 million (15%). AFG's underwriting expense ratio was 30.2% in 2014 compared to 31.8% in 2013, a decrease of 1.6 percentage points.

Detail of AFG's property and casualty commissions and other underwriting expenses and underwriting expense ratios is shown below (dollars in millions):

	Year ended December 31,						Change in % of NEP		
	2015		2014		2013		2015 -	2014 -	
	U/W	% of	U/W	% of	U/W	% of	2014	2013	
	Exp	NEP	Exp	NEP	Exp	NEP			
Property and transportation	\$392	24.5	% \$368	23.8	% \$367	24.1	% 0.7	% (0.3	%)
Specialty casualty	600	29.8	% 522	29.6	% 380	33.4	% 0.2	% (3.8	%)
Specialty financial	276	53.4	% 246	52.6	% 244	52.1	% 0.8	% 0.5	%)
Other specialty	36	36.1	% 36	35.5	% 28	35.9	% 0.6	% (0.4	%)
	\$1,304	30.9	% \$1,172	30.2	% \$1,019	31.8	% 0.7	% (1.6	%)

The \$132 million increase in commissions and other underwriting expenses reflects the acquisition of Summit in April 2014. The overall increase of 0.7% in AFG's expense ratio in 2015 as compared to 2014 reflects higher profitability-based commissions paid to agents and brokers, partially offset by the impact of higher premiums on the ratio.

The \$153 million increase in commissions and other underwriting expenses in 2014 compared to 2013 reflects the acquisition of Summit in April 2014. The overall decrease of 1.6% in commissions and other underwriting expenses in 2014 compared to 2013 reflects the acquisition of Summit, which has a lower expense ratio than AFG's overall property and casualty operations.

Property and transportation Commissions and other underwriting expenses as a percentage of net earned premiums increased 0.7 percentage points in 2015 compared to 2014 reflecting higher profitability-based commissions paid to agents and brokers, partially offset by the impact of higher premiums on the ratio.

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Commissions and other underwriting expenses as a percentage of net earned premiums decreased 0.3 percentage points in 2014 compared to 2013 reflecting lower profitability-based commissions paid to agents and brokers, an increase in ceding commissions received from reinsurers and a change in the mix of business.

Specialty casualty Commissions and other underwriting expenses as a percentage of net earned premiums increased 0.2 percentage points in 2015 compared to 2014 due primarily to a charge of \$6 million in the second quarter of 2015 to write off certain previously capitalized project costs, partially offset by the impact of higher premiums on the ratio.

Commissions and other underwriting expenses as a percentage of net earned premiums decreased 3.8 percentage points in 2014 compared to 2013 due primarily to the inclusion of Summit following its acquisition in April 2014, which has a lower expense ratio than AFG's overall Specialty casualty group, and the impact of higher premiums across the Specialty casualty group on the ratio.

Specialty financial Commissions and other underwriting expenses as a percentage of net earned premiums increased 0.8 percentage points in 2015 compared to 2014 reflecting higher profitability-based commissions paid to agents and brokers, partially offset by the impact of higher premiums on the ratio.

Commissions and other underwriting expenses as a percentage of net earned premiums increased 0.5 percentage points in 2014 compared to 2013 due primarily to the impact of \$5 million in reinsurance reinstatement premiums paid in 2014 on the ratio.

Property and Casualty Net Investment Income

Net investment income in AFG's property and casualty operations was \$319 million in 2015 compared to \$294 million in 2014, an increase of \$25 million (9%). Net investment income in AFG's property and casualty operations was \$294 million in 2014 compared to \$263 million in 2013, an increase of \$31 million (12%). Net investment income in AFG's property and casualty operations includes \$11 million in 2015 and \$8 million in 2014, from recording equity in the earnings of limited partnerships and similar investments. Equity in the earnings of these investments had not been material and was included in realized gains (losses) on securities prior to 2014. In recent years, yields available in the financial markets on fixed maturity securities have generally declined, placing downward pressure on AFG's investment portfolio yield. The average invested assets and overall yield earned on investments held by AFG's property and casualty operations are provided below (dollars in millions):

	Year ended December 31,			2015 - 2014		2014 - 2013			
	2015	2014	2013	Change	% Change	Change	% Change		
Net investment income	\$319	\$294	\$263	\$25	9	% \$31	12	%	
Average invested assets (at amortized cost)	\$8,956	\$7,849	\$6,863	\$1,107	14	% \$986	14	%	
Yield (net investment income as a % of average invested assets)	3.56	% 3.75	% 3.83	% (0.19	%)		(0.08	%)	
Tax equivalent yield (*)	4.13	% 4.32	% 4.43	% (0.19	%)		(0.11	%)	

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

The increase in average invested assets and net investment income in the property and casualty segment in 2015 compared to 2014 is due primarily to the investment of cash acquired in the Summit acquisition, which occurred over the two quarters following the April 2014 acquisition, as well as growth in the property and casualty segment. The

property and casualty segment's overall yield on investments (net investment income as a percentage of average invested assets) was 3.56% in 2015 compared to 3.75% in 2014, a decline of 0.19 percentage points reflecting the impact of lower yields available in the financial markets and lower earnings from other investments.

The increase in average invested assets and net investment income in the property and casualty segment in 2014 compared to 2013 is due primarily to the investment of cash acquired in the Summit acquisition in April 2014 and organic growth in the property and casualty segment. The property and casualty segment's overall yield on investments was 3.75% in 2014 compared to 3.83% in 2013, a decline of 0.08 percentage points. The impact of equity in the earnings of limited partnerships and similar investments and strong investment results in the first nine months of 2014 was more than offset by the impact of lower yields available in the financial markets.

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Property and Casualty Other Income and Expenses, Net

GAAP other income and expenses, net for AFG's property and casualty operations was net income of \$32 million in 2015 and a net expense of \$50 million and \$33 million in 2014 and 2013, respectively. Core other income and expenses, net for AFG's property and casualty operations was a net expense of \$34 million, \$50 million and \$33 million in 2015, 2014 and 2013, respectively. The table below details the items included in GAAP and core other income and expenses, net for AFG's property and casualty operations (in millions):

	Year ended December 31,		
	2015	2014	2013
Other income			
Income from the sale of real estate (*)	\$3	\$2	\$6
Other	9	7	9
Total other income	12	9	15
Other expenses			
Amortization of intangibles	8	19	14
Tender offer expenses	—	3	—
Other	36	33	31
Total other expense	44	55	45
Interest expense	2	4	3
Core other income and expenses, net	(34	) (50	) (33
Pretax non-core gain on sale of hotel and apartment property	66	—	—
GAAP other income and expenses, net	\$32	\$(50	) \$(33

(*) Excludes the \$51 million pretax non-core gain on the sale of Le Pavillon Hotel in the second quarter of 2015 and the \$15 million pretax non-core gain on the sale of an apartment property in the fourth quarter of 2015.

The lower amortization of intangibles in 2015 compared to 2014 reflects the impact of intangible assets related to three acquisitions that became fully amortized in 2014. Amortization of intangibles includes \$7 million in 2015 and \$5 million in 2014 related to the Summit acquisition.

AFG and its consolidated subsidiaries incurred \$3 million in transaction expenses related to the February 2014 tender offer by Great American Insurance Company ("GAI") to acquire all of the National Interstate Corporation common stock that GAI did not already own. These expenses consisted primarily of financial advisory and legal services. The tender offer was terminated in March 2014.

Interest expense for AFG's property and casualty operations includes interest charges on long-term debt within the property and casualty operations, primarily notes secured by real estate.

Annuity Segment — Results of Operations

AFG's annuity operations contributed \$331 million in GAAP pretax earnings in 2015 compared to \$328 million in 2014, an increase of \$3 million (1%). While AFG's average annuity investments (at amortized cost) were 12% higher in 2015 as compared to 2014, the benefit of this growth and the impact that fluctuations in interest rates had on the fair value accounting for fixed-indexed annuities ("FIAs") was offset by the negative impact that the stock market decrease had on certain annuity reserves in 2015 compared to a stock market increase in 2014, the run-off of higher yielding investments and higher general and administrative expenses in 2015 compared to 2014. AFG's periodic detailed review ("unlocking") of the major actuarial assumptions underlying its annuity operations resulted in a net annuity expense reduction of \$10 million in 2015 compared to \$1 million in 2014.

AFG's annuity operations contributed \$328 million in GAAP pretax earnings in 2014 compared to \$323 million in 2013, an increase of \$5 million (2%). AFG's annuity operations contributed \$328 million in core pretax earnings in

both 2014 and 2013. While AFG's average annuity investments (at amortized cost) were 17% higher in 2014 as compared to 2013, the benefit of this growth was offset by the run-off of higher yielding investments, and the impact that fluctuations in interest rates in 2014 and 2013 had on the fair value accounting for FIAs. Operating earnings also include a net unlocking expense reduction of \$1 million in 2014 compared to a \$2 million charge in 2013.

In the second quarter of 2013, AFG recorded a pretax charge of \$5 million in its annuity operations to cover expected assessments from state guaranty funds related to the insolvency and liquidation of Executive Life Insurance Company of New York ("ELNY"), an unaffiliated life insurance company. ELNY was placed into rehabilitation by the New York Insurance Department in 1991. In April 2012, ELNY was declared insolvent and ordered into liquidation. AFG's life insurance

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subsidiaries are required under the solvency or guaranty laws of most states in which they do business to pay assessments up to certain prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies such as ELNY and started receiving guaranty fund assessments related to ELNY from various states in the second quarter of 2013. AFG believes that all ELNY related guaranty fund assessments have been settled.

The following table details AFG's GAAP and core earnings before income taxes from its annuity operations for 2015, 2014 and 2013 (dollars in millions):

	Year ended December 31,			% Change		
	2015	2014	2013	2015 - 2014	2014 - 2013	
Revenues:						
Net investment income	\$1,224	\$1,136	\$1,034	8	% 10	%
Other income:						
Guaranteed withdrawal benefit fees	43	34	25	26	% 36	%
Policy charges and other miscellaneous income	55	63	52	(13)	%) 21	%
Total revenues	1,322	1,233	1,111	7	% 11	%
Costs and Expenses:						
Annuity benefits (a)	732	648	531	13	% 22	%
Acquisition expenses	163	175	159	(7)	%) 10	%
Other expenses (b)	96	82	93	17	% (12)	%)
Total costs and expenses	991	905	783	10	% 16	%
Core earnings before income taxes	331	328	328	1	% —	%
Pretax non-core ELNY guaranty fund assessments	—	—	(5)	) —	% (100)	%)
GAAP earnings before income taxes	\$331	\$328	\$323	1	% 2	%

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

	Year ended December 31,			% Change		
	2015	2014	2013	2015 - 2014	2014 - 2013	
Core earnings before income taxes — before the impact of derivatives related to FIAs	\$354	\$362	\$313	(2)	%) 16	%
Impact of derivatives related to FIAs	(23)	) (34)	) 15	(32)	%) (327)	%)
Core earnings before income taxes	331	328	328	1	% —	%
Pretax non-core ELNY guaranty fund assessments	—	—	(5)	) —	% (100)	%)
GAAP earnings before income taxes	\$331	\$328	\$323	1	% 2	%

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

	Year ended December 31,			% Change		
	2015	2014	2013	2015 - 2014	2014 - 2013	
Interest credited — fixed	\$532	\$497	\$451	7	% 10	%
Interest credited — fixed component of variable annuities	6	6	6	—	% —	%
Change in expected death and annuitization reserve	19	18	19	6	% (5)	%)
Amortization of sales inducements	26	26	30	—	% (13)	%)
Change in guaranteed withdrawal benefit reserve	63	41	38	54	% 8	%
Change in other benefit reserves	22	12	7	83	% 71	%
Subtotal before impact of derivatives related to FIAs and unlocking	668	600	551	11	% 9	%
Derivatives related to fixed-indexed annuities:						
Embedded derivative mark-to-market	(11)	) 240	184	(105)	%) 30	%
Equity option mark-to-market	56	(181)) (210)) (131)	%) (14)	%)
Impact of derivatives related to FIAs	45	59	(26)) (24)	%) (327)	%)

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Unlocking	19	(11) 6	(273	%) (283	%)
Total annuity benefits	\$732	\$648	\$531	13	% 22	%

(b) Other expenses exclude the \$5 million pretax non-core charge for ELNY guaranty fund assessments in 2013.

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See “Annuity Unlocking” below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity benefit expense.

Net Spread on Fixed Annuities (excludes variable annuity earnings)

The table below (dollars in millions) details the components of the spreads for AFG’s fixed annuity operations (including fixed-indexed annuities):

	Year ended December 31,			% Change		
	2015	2014	2013	2015 - 2014	2014 - 2013	
Average fixed annuity investments (at amortized cost)	\$25,174	\$22,391	\$19,151	12	% 17	%
Average fixed annuity benefits accumulated	24,898	22,119	18,696	13	% 18	%
As % of fixed annuity benefits accumulated (except as noted):						
Net investment income (as % of fixed annuity investments)	4.83	% 5.03	% 5.35			
Interest credited — fixed	(2.14	%) (2.25	%) (2.41	%)		
Net interest spread	2.69	% 2.78	% 2.94			
Policy charges and other miscellaneous income	0.18	% 0.18	% 0.22			
Other annuity benefit expenses, net of guaranteed withdrawal benefit fees	(0.35	%) (0.28	%) (0.37	%)		
Acquisition expenses	(0.74	%) (0.67	%) (0.85	%)		
Other expenses (*)	(0.36	%) (0.34	%) (0.46	%)		
Change in fair value of derivatives related to FIAs	(0.18	%) (0.27	%) 0.13			
Unlocking	0.02	% 0.01	% (0.01	%)		
Net spread earned on fixed annuities	1.26	% 1.41	% 1.60			

(*) Excludes the \$5 million pretax non-core charge for ELNY guaranty fund assessments. Including this charge, the net spread earned on fixed annuities was 1.57% in 2013.

The table below illustrates the impact of fair value accounting for derivatives related to fixed-indexed annuities on the annuity segment’s net spread earned on fixed annuities, excluding the impact of the non-core charge for ELNY guaranty fund assessments:

	Year ended December 31,					
	2015	2014	2013			
Net spread earned on fixed annuities — before impact of derivatives related to fixed-indexed annuities	1.35	% 1.56	% 1.52			
Impact of derivatives related to fixed-indexed annuities (*)	(0.09	%) (0.15	%) 0.08			
Net spread earned on fixed annuities	1.26	% 1.41	% 1.60			

(*) Change in fair value of derivatives related to fixed-indexed annuities offset by an estimate of the related acceleration/deceleration of amortization of deferred sales inducements and deferred policy acquisition costs.

Annuity Net Investment Income

Net investment income in 2015 was \$1.22 billion compared to \$1.14 billion in 2014, an increase of \$88 million (8%). This increase reflects primarily the growth in AFG’s annuity business, partially offset by the run-off of higher yielding investments. The overall yield earned on investments in AFG’s annuity operations, calculated as net investment

income divided by average investment balances (at amortized cost), declined by 0.20 percentage points in 2015 compared to 2014. This decline in net investment yield reflects (i) the investment of new premium dollars at lower yields as compared to the existing investment portfolio and (ii) the impact of the reinvestment of proceeds from maturity and redemption of higher yielding investments at the lower yields available in the financial markets.

Net investment income in 2014 was \$1.14 billion compared to \$1.03 billion in 2013, an increase of \$102 million (10%). This increase primarily reflects the growth in AFG's annuity business, partially offset by the run-off of higher yielding investments. The overall yield earned on investments in AFG's annuity operations declined by 0.32 percentage points in 2014 compared to 2013. This decline in net investment yield reflects the investment of new premium dollars at lower yields as compared to the

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existing investment portfolio and the impact of the reinvestment of proceeds from maturity and redemption of higher yielding investments at the lower yields available in the financial markets.

Annuity Interest Credited — Fixed

Interest credited — fixed in 2015 was \$532 million compared to \$497 million in 2014, an increase of \$35 million (7%). The impact of growth in the annuity business was partially offset by lower interest crediting rates on new premiums as compared to the crediting rates on policyholder funds surrendered or withdrawn. The average interest rate credited to policyholders, calculated as interest credited divided by average fixed annuity benefits accumulated, decreased 0.11 percentage points in 2015 compared to 2014. During 2015, interest rates credited on new premiums generally ranged from 1.00% to 2.80%.

Interest credited — fixed in 2014 was \$497 million compared to \$451 million in 2013, an increase of \$46 million (10%). The impact of growth in the annuity business was partially offset by lower interest crediting rates on new premiums as compared to the crediting rates on policyholder funds surrendered or withdrawn. The average interest rate credited to policyholders, calculated as interest credited divided by average fixed annuity benefits accumulated, decreased 0.16 percentage points in 2014 compared to 2013. During 2014, interest rates credited on new premiums generally ranged from 1.00% to 2.00%.

Annuity Net Interest Spread

AFG's net interest spread decreased 0.09 percentage points in 2015 compared to 2014 due primarily to the run-off of higher yielding investments, partially offset by lower crediting rates. In addition, features included in current annuity product offerings allow AFG to achieve its desired profitability at a lower net interest spread than historical product offerings.

AFG's net interest spread decreased 0.16 percentage points in 2014 compared to 2013 due primarily to the run-off of higher yielding investments, partially offset by lower crediting rates.

Annuity Policy Charges and Other Miscellaneous Income

Annuity policy charges and other miscellaneous income, which consist primarily of surrender charges and the amortization of deferred upfront policy charges (unearned revenue), were \$55 million in 2015 compared to \$63 million in 2014, a decrease of \$8 million (13%). Excluding the impact of unlocking charges of \$2 million in 2015 and unlocking income of \$10 million in 2014 related to unearned revenue, annuity policy charges and other miscellaneous income were \$57 million in 2015 and \$53 million in 2014, an increase of \$4 million (8%). This increase reflects the impact of \$6 million in income from the sale of real estate recorded in 2015.

Annuity policy charges and other miscellaneous income were \$63 million in 2014 compared to \$52 million in 2013, an increase of \$11 million (21%). Excluding the impact of unlocking income of \$10 million in 2014 related to unearned revenue, annuity policy charges and other miscellaneous income were \$53 million in 2014 and \$52 million in 2013, an increase of \$1 million (2%). This increase reflects growth in the business, partially offset by the impact of \$4 million in income from the sale of real estate recorded in 2013.

See "Annuity Unlocking" below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity policy charges and other miscellaneous income.

Other Annuity Benefits

Other annuity benefits, net of guaranteed withdrawal benefit fees (excluding the impact of unlocking) were \$87 million in 2015, \$63 million in 2014 and \$69 million in 2013, representing an increase of \$24 million (38%) in 2015 compared to 2014 and a decrease of \$6 million (9%) in 2014 compared to 2013. In addition to interest credited to policyholders' accounts and the change in fair value of derivatives related to fixed-indexed annuities, annuity

benefits expense also includes the following expenses (in millions, net of guaranteed withdrawal benefit fees):

	Year ended December 31,			
	2015	2014	2013	
Change in expected death and annuitization reserve	\$19	\$18	\$19	
Amortization of sales inducements	26	26	30	
Change in guaranteed withdrawal benefit reserve	63	41	38	
Change in other benefit reserves	22	12	7	
Other annuity benefits	130	97	94	
Offset guaranteed withdrawal benefit fees	(43) (34) (25)
Other annuity benefits, net	\$87	\$63	\$69	

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The \$24 million increase in other annuity benefits, net of guaranteed withdrawal benefit fees in 2015 compared to 2014 reflects higher expenses related to products with guaranteed withdrawal benefit features. The guaranteed withdrawal benefit reserve related to FIAs is inversely impacted by the calculated FIA embedded derivative reserve as the value to policyholders of the guaranteed withdrawal benefits increases when the benefit of stock market participation decreases.

The \$6 million decrease in other annuity benefits, net of guaranteed withdrawal benefit fees in 2014 compared to 2013 reflects increased fees from products with guaranteed withdrawal benefit features.

See “Annuity Unlocking” below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity benefits expense.

Annuity Acquisition Expenses

Excluding the impact of unlocking charges (expense reductions), AFG’s amortization of DPAC and commission expenses as a percentage of average fixed annuity benefits accumulated was 0.74% in 2015 compared to 0.67% in 2014 and 0.85% in 2013 and has generally ranged between 0.70% and 0.80%. Variances from the general range relate primarily to the impact of (i) material changes in interest rates or the stock market on AFG’s fixed-indexed annuity business, and (ii) differences in actual experience from actuarially projected estimates and assumptions. For example, the negative impact of the stock market decrease in 2015 and lower than anticipated interest rates during 2015 and 2014 on the fair value of derivatives related to fixed-indexed annuities (discussed below) resulted in a partially offsetting deceleration in the amortization of DPAC; conversely, higher interest rates in 2013 had a positive impact on the fair value of the derivatives, resulting in a partially offsetting acceleration in the amortization of DPAC.

See “Annuity Unlocking” below for a discussion of the impact that the periodic review of actuarial assumptions had on annuity and supplemental insurance acquisition expenses. Unanticipated spread compression, decreases in the stock market, adverse mortality experience, and higher than expected lapse rates could lead to write-offs of DPAC or PVFP in the future.

Annuity Other Expenses

Excluding the non-core ELNY guaranty fund assessments charge in 2013, annuity other expenses were \$96 million in 2015, \$82 million in 2014 and \$93 million in 2013, representing an increase of \$14 million (17%) in 2015 compared to 2014 and a decrease of \$11 million (12%) in 2014 compared to 2013. Annuity other expenses represent primarily general and administrative expenses, as well as selling and issuance expenses that are not deferred. As a percentage of average fixed annuity benefits accumulated, these expenses increased 0.02 percentage points in 2015 compared to 2014 due primarily to higher expenses related to professional services and employee compensation plans. Annuity other expenses for 2014 includes the favorable impact of settling certain accrued expenses at a lower cost than previously estimated, while annuity other expenses for 2013 includes a \$7 million charge to write off certain previously capitalized project costs. In general this percentage is expected to decrease as AFG’s annuity business grows and annuity other expenses remain relatively stable.

Change in Fair Value of Derivatives Related to Fixed-Indexed Annuities

AFG’s 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 and the related call options are considered derivatives that must be marked-to-market through earnings each period. The fair values of these derivatives are impacted by actual and expected stock market performance and interest rates as well as other factors. For a list of other factors impacting the

fair value of the index-based component of AFG's annuity benefits accumulated, see Note D — "Fair Value Measurements" to the financial statements. Excluding the impact of unlocking charges, the net change in fair value of derivatives related to fixed-indexed annuities increased annuity benefits by \$45 million in 2015 and \$59 million in 2014, reflecting the negative impact of the decline in the stock market in 2015 and lower than anticipated interest rates in 2015 and 2014 on these derivatives. Conversely, the net change in fair value of the derivatives related to fixed-indexed annuities reduced annuity benefits by \$26 million in 2013 due to the positive impact of higher market interest rates and the net impact of strong market performance on these derivatives.

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

	Year ended December 31,			% Change	
	2015	2014	2013	2015 - 2014	2014 - 2013
Core earnings before income taxes — before change in fair value of derivatives related to fixed-indexed annuities	\$354	\$362	\$313	(2 %)	16 %
Change in fair value of derivatives related to fixed-indexed annuities	(45)	(59)	26	(24 %)	(327 %)
Related impact on amortization of DPAC (*)	22	25	(11)	(12 %)	(327 %)
Core earnings before income taxes	331	328	328	1 %	— %
Pretax non-core ELNY guaranty fund assessments	—	—	(5)	— %	(100 %)
GAAP earnings before income taxes	\$331	\$328	\$323	1 %	2 %

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

As illustrated in the table above, the change in fair value of derivatives related to fixed-indexed annuities, net of the related impact on amortization of DPAC decreased the annuity segment's earnings before income taxes by \$23 million and \$34 million in 2015 and 2014, respectively, and increased the annuity segment's earnings before income taxes by \$15 million in 2013.

Annuity Net Spread Earned on Fixed Annuities

AFG's net spread earned on fixed annuities decreased 0.15 percentage points in 2015 compared to 2014 due primarily to the 0.09 percentage points decrease in AFG's net interest spread, the impact of the decline in the stock market on guaranteed withdrawal benefit reserves, and higher general and administrative expenses, partially offset by income from the sale of real estate recorded primarily in the first quarter of 2015.

AFG's net spread earned on fixed annuities decreased 0.19 percentage points in 2014 compared to 2013 due primarily to the 0.16 percentage points decrease in AFG's net interest spread and the net impact of changes in the fair value of derivatives and related DPAC amortization offset discussed above. These items were partially offset by the impact of growth in AFG's annuity business on other expenses and other annuity benefits as a percent of fixed annuity benefits accumulated discussed above.

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Annuity Benefits Accumulated

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

For certain products, annuity benefits accumulated also includes reserves for accrued persistency and premium bonuses, excess benefits expected to be paid on future deaths and annuitizations (“EDAR”) and guaranteed withdrawal benefits. Annuity benefits accumulated also includes amounts advanced from the Federal Home Loan Bank of Cincinnati. The following table is a progression of AFG’s annuity benefits accumulated liability for 2015, 2014 and 2013 (in millions):

	Year ended December 31,		
	2015	2014	2013
Beginning fixed annuity reserves	\$23,462	\$20,679	\$17,274
Fixed annuity premiums (receipts)	4,098	3,649	3,981
Federal Home Loan Bank advances	345	—	200
Surrenders, benefits and other withdrawals	(1,932)	(1,673)	(1,493)
Sale of subsidiaries	(261)	—	—
Interest and other annuity benefit expenses:			
Interest credited	532	497	451
Embedded derivative mark-to-market	(11)	240	184
Change in other benefit reserves	115	81	78
Unlocking	23	(11)	4
Ending fixed annuity reserves	\$26,371	\$23,462	\$20,679
Reconciliation to annuity benefits accumulated per balance sheet:			
Ending fixed annuity reserves (from above)	\$26,371	\$23,462	\$20,679
Impact of unrealized investment gains	64	111	71
Fixed component of variable annuities	187	191	194
Annuity benefits accumulated per balance sheet	\$26,622	\$23,764	\$20,944

Statutory Annuity Premiums

AFG’s annuity operations generated statutory premiums of \$4.14 billion in 2015, \$3.70 billion in 2014 and \$4.03 billion in 2013, an increase of \$444 million (12%) in 2015 compared to 2014 and a decrease of \$337 million (8%) in 2014 compared to 2013. The following table summarizes AFG’s annuity sales (dollars in millions):

	Year ended December 31,			% Change	
	2015	2014	2013	2015 - 2014	2014 - 2013
Financial institutions single premium annuities — indexed	\$1,741	\$1,489	\$1,102	17%	35%
Financial institutions single premium annuities — fixed	229	332	628	(31)%	(47)%
Retail single premium annuities — indexed	1,864	1,533	1,879	22%	(18)%
Retail single premium annuities — fixed	70	101	165	(31)%	(39)%
Education market — fixed and indexed annuities	194	194	207	—%	(6)%
Total fixed annuity premiums	4,098	3,649	3,981	12%	(8)%
Variable annuities	42	47	52	(11)%	(10)%
Total annuity premiums	\$4,140	\$3,696	\$4,033	12%	(8)%

Management attributes the 12% increase in annuity premiums in 2015 compared to 2014 to the significant rise of interest rates during the second quarter of 2015 from first quarter 2015 lows, allowing AFG to raise the crediting rates on its annuities and become more competitive in its markets.

The 8% decrease in annuity premiums in 2014 compared to 2013 was largely the result of a decline in premiums in the second half of 2014 as compared to recent quarters, which management attributes to AFG's disciplined approach to product pricing in a declining interest rate environment and increased competition. Partially offsetting this decline, AFG experienced growth in the sales of fixed-indexed annuities in the financial institutions market during the first six months of 2014 resulting from new products, expanded distribution and improved market penetration within existing distribution channels.

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Annuity Unlocking

In 2015, 2014 and 2013, AFG conducted its detailed review (“unlocking”) of the major actuarial assumptions underlying its annuity operations. As a result of these reviews, AFG recorded net expense reductions related to its annuity business of \$10 million in 2015 and \$1 million in 2014 and a net annuity unlocking charge of \$2 million in 2013, which impacted AFG’s financial statements as follows (in millions):

	Year ended December 31,			
	2015	2014	2013	
Policy charges and other miscellaneous income:				
Unearned revenue	\$(2	) \$10	\$—
Total revenues	(2	) 10	—
Annuity benefits:				
Fixed-indexed annuities embedded derivative	28	(58) (2)
Sales inducements	(4	) —	2
Other reserves	(5	) 47	6
Total annuity benefits	19	(11	) 6
Annuity and supplemental insurance acquisition expenses:				
Deferred policy acquisition costs	(31) 20	(4)
Total costs and expenses	(12	) 9	2
Net expense reduction (charge)	\$10	\$1	\$(2)

See “Results of Operations — Quarters ended December 31, 2015 and 2014 — Annuity Segment — Results of Operations — Annuity Unlocking” for a discussion of the overall net expense reduction and charge from the periodic review of actuarial assumptions in 2015 and 2014.

Annuity Earnings before Income Taxes Reconciliation

The following table reconciles the GAAP and core net spread earned on AFG’s fixed annuities to overall annuity pretax earnings for 2015, 2014 and 2013 (in millions):

	Year ended December 31,			
	2015	2014	2013	
Earnings on fixed annuity benefits accumulated (a)	\$313	\$312	\$300	
Earnings on investments in excess of fixed annuity benefits accumulated (b) 13		14	24	
Variable annuity earnings (loss)	5	2	4	
Core earnings before income taxes	331	328	328	
Pretax non-core ELNY guaranty fund assessments	—	—	(5)
GAAP earnings before income taxes	\$331	\$328	\$323	

(a) Excludes the \$5 million pretax non-core charge for ELNY guarantee fund assessments in 2013.

Net investment income (as a % of investments) of 4.83% and 5.03% and 5.35% in 2015, 2014 and 2013,

(b) respectively, multiplied by the difference between average fixed annuity investments (at amortized cost) and average fixed annuity benefits accumulated in each period.

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Run-off Long-Term Care and Life Segment — Results of Operations AFG’s run-off long-term care and life segment incurred GAAP pretax losses of \$152 million in 2015, which includes a \$166 million pretax non-core realized loss on the sale of the subsidiaries containing substantially all of AFG’s run-off long-term care insurance business. See Note B — “Acquisitions and Sale of Businesses” to the financial statements. The following table details AFG’s GAAP and core earnings (loss) before income taxes from its run-off long-term care and life operations in 2015, 2014 and 2013 (dollars in millions):

	Year ended December 31,			% Change	
	2015	2014	2013	2015 - 2014	2014 - 2013
Revenues:					
Net earned premiums:					
Long-term care	\$73	\$74	\$76	(1 %)	(3 %)
Life operations	31	34	38	(9 %)	(11 %)
Net investment income	80	82	76	(2 %)	8 %
Other income	4	5	5	(20 %)	— %
Total revenues	188	195	195	(4 %)	— %
Costs and Expenses:					
Life, accident and health benefits:					
Long-term care	91	119	113	(24 %)	5 %
Life operations	40	45	47	(11 %)	(4 %)
Acquisition expenses	16	18	19	(11 %)	(5 %)
Other expenses	27	23	26	17 %	(12 %)
Total costs and expenses	174	205	205	(15 %)	— %
Core earnings (loss) before income taxes	14	(10)	(10)	(240 %)	— %
Pretax non-core realized loss on subsidiaries	(166)	—	—	— %	— %
GAAP loss before income taxes	\$(152)	\$(10)	\$(10)	1,420 %	— %

Higher long-term care and life core earnings before income taxes in 2015 as compared to 2014 reflects improved claims experience, rate increases, lower persistency and a \$5 million loss in 2014 on the commutation of a reinsurance agreement.

The \$6 million increase in long-term care benefit expense in 2014 as compared to 2013 is due primarily to a \$5 million loss on the commutation of a reinsurance agreement.

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Holding Company, Other and Unallocated — Results of Operations AFG's net GAAP pretax loss outside of its insurance operations (excluding realized gains and losses) totaled \$176 million in 2015 compared to \$149 million in 2014, an increase of \$27 million (18%). AFG's net core pretax loss outside of its insurance operations (excluding realized gains and losses) totaled \$160 million in 2015 compared to \$143 million in 2014, an increase of \$17 million (12%).

AFG's net GAAP pretax loss outside of its insurance operations (excluding realized gains) totaled \$149 million in 2014 compared to \$190 million in 2013, a decrease of \$41 million (22%). AFG's net core pretax loss outside of its insurance operations (excluding realized gains) totaled \$143 million in 2014 compared to \$168 million in 2013, a decrease of \$25 million (15%).

The following table details AFG's GAAP and core loss before income taxes from operations outside of its insurance operations in 2015, 2014 and 2013 (dollars in millions):

	Year ended December 31,			% Change		
	2015	2014	2013	2015 - 2014	2014 - 2013	
Revenues:						
Net investment income	\$4	\$5	\$8	(20 %)	(38 %)	
Other income — P&C fees	54	—	—	— %	— %	
Other income	24	36	27	(33 %)	33 %	
Total revenues	82	41	35	100 %	17 %	
Costs and Expenses:						
Property and casualty insurance — commissions and other underwriting expenses	16	—	—	— %	— %	
Interest charges on borrowed money	72	69	68	4 %	1 %	
Other expense — expenses associated with P&C fees	38	—	—	— %	— %	
Other expenses (*)	116	115	135	1 %	(15 %)	
Total costs and expenses	242	184	203	32 %	(9 %)	
Core loss before income taxes, excluding realized gains and losses	(160)	(143)	(168)	12 %	(15 %)	
Pretax non-core special A&E charges	(12)	(6)	(22)	100 %	(73 %)	
Pretax non-core loss on early retirement of debt	(4)	—	—	— %	— %	
GAAP loss before income taxes, excluding realized gains and losses	\$(176)	\$(149)	\$(190)	18 %	(22 %)	

(*) Excludes pretax non-core special A&E charges of \$12 million, \$6 million and \$22 million in 2015, 2014 and 2013, respectively, and a pretax non-core loss on early retirement of debt of \$4 million in 2015.

Holding Company and Other — Net Investment Income

AFG recorded net investment income on investments held outside of its insurance operations of \$4 million, \$5 million and \$8 million in 2015, 2014 and 2013, respectively.

Holding Company and Other — P&C Fees and Related Expenses

Summit, the workers' compensation insurance business that AFG acquired in April 2014, collects fees from a small group of unaffiliated insurers for providing underwriting, policy administration and claims services. In addition, certain of AFG's property and casualty businesses collect fees from customers for ancillary services such as workplace safety programs and premium financing. In 2015, AFG collected \$54 million in fees for these services. Management views this fee income, net of the \$38 million in expenses incurred to generate such fees, as a reduction in the cost of underwriting its property and casualty insurance policies. Consistent with internal management reporting, these fees and the related expenses are netted and recorded as a reduction of commissions and other underwriting expenses in

AFG's segmented results. Beginning with the first quarter of 2015, these fees are shown in other income and the related expenses are shown in other expenses in AFG's Statement of Earnings.

Holding Company and Other — Other Income

Other income in the table above includes \$15 million, \$25 million and \$16 million in 2015, 2014 and 2013, respectively of management fees paid to AFG by the AFG-managed CLOs (AFG's consolidated managed investment entities). The \$25 million of management fees in 2014 includes \$13 million of incentive management fees earned in connection with the liquidation of three CLOs. The management fees are eliminated in consolidation — see the other income line in the Consolidated MIEs column under "Results of Operations — Segmented Statement of Earnings." Excluding amounts eliminated in consolidation, AFG recorded other income outside of its insurance operations of \$9 million in 2015 and \$11 million in both 2014 and 2013.

Table of Contents**Holding Company and Other — Interest Charges on Borrowed Money**

AFG's holding companies and other operations outside of its insurance operations recorded interest expense of \$72 million in 2015 compared to \$69 million in 2014, an increase of \$3 million (4%). This increase reflects the September 2014 issuance of \$150 million of 6-1/4% Subordinated Debentures due 2054 and the November 2015 issuance of \$150 million of 6% Subordinated Debentures due 2055, partially offset by the favorable impact of the interest rate swap entered into in June 2015 and the September 2015 redemption of \$132 million of 7% Senior Notes due 2050.

AFG's holding companies and other operations outside of its insurance operations recorded interest expense of \$69 million in 2014 compared to \$68 million in 2013, an increase of \$1 million (1%). AFG issued \$150 million of 6-1/4% Subordinated Debentures in late September 2014.

Holding Company and Other — A&E Charges

As a result of the comprehensive external studies and internal review of A&E exposures discussed under "Uncertainties — Asbestos and Environmental-related ("A&E") Insurance Reserves," AFG's holding companies and other operations outside of its insurance operations recorded non-core special charges of \$12 million in 2015, \$6 million in 2014 and \$22 million in 2013 to increase liabilities related to the A&E exposures of AFG's former railroad and manufacturing operations. These charges related to slightly higher estimated costs at sites where remediation is underway, coupled with higher estimated cleanup costs at a limited number of sites. Total charges recorded to increase liabilities for A&E exposures of AFG's former railroad and manufacturing operations (included in other expenses) were \$22 million in 2015, \$13 million in 2014 and \$29 million in 2013.

Holding Company and Other — Loss on Early Retirement of Debt

AFG wrote off unamortized debt issuance costs of \$4 million related to the redemption of its \$132 million outstanding 7% Senior Notes due 2050 at par value on September 30, 2015.

Holding Company and Other — Other Expenses

Excluding the non-core special A&E charges and the non-core loss on early retirement of debt, AFG's holding companies and other operations outside of its insurance operations recorded other expenses of \$116 million, \$115 million and \$135 million in 2015, 2014 and 2013, respectively. The \$20 million (15%) decrease in 2014 compared to 2013 reflects the impact of higher holding company expenses in 2013, primarily related to employee benefit plans that are tied to stock market performance and certain share-based incentive plans.

Consolidated Realized Gains (Losses) on Securities AFG's consolidated realized gains (losses) on securities, which are not allocated to segments, were losses of \$19 million in 2015 compared to gains of \$52 million in 2014, a decrease of \$71 million (137%). AFG's consolidated realized gains on securities were \$52 million in 2014 compared to \$221 million in 2013, a decrease of \$169 million (76%). Realized gains (losses) on securities consisted of the following (in millions):

	Year ended December 31,		
	2015	2014	2013
Realized gains (losses) before impairments:			
Disposals	\$ 122	\$ 89	\$ 233
Change in the fair value of derivatives	(11	) 1	1
Adjustments to annuity deferred policy acquisition costs and related items	(5	) (2	) (1
	106	88	233
Impairment charges:			
Securities	(140	) (41	) (15
Adjustments to annuity deferred policy acquisition costs and related items	15	5	3

	(125	) (36	) (12)
Realized gains (losses) on securities	\$(19	) \$52	\$221	

Realized gains on disposals include gains on sales of shares of Verisk Analytics, Inc. of \$49 million in 2013.

AFG's impairment charges on securities in 2015 consist of \$94 million on equity securities, \$43 million on fixed maturities and \$3 million on other investments. Approximately \$41 million of the charges are on real estate and mortgage related investments, \$38 million are on energy related investments and \$12 million are on investments in asset managers.

Consolidated Realized Gains (Losses) on Subsidiaries In addition to the \$166 million pretax realized loss on the sale of substantially all of AFG's run-off long-term care insurance business recorded in 2015, AFG recorded a \$5 million pretax

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realized gain in the third quarter of 2015 representing an adjustment to the previously recognized loss on a small property and casualty subsidiary sold several years ago.

Consolidated Income Taxes AFG's consolidated provision for income taxes was \$195 million in 2015 compared to \$220 million in 2014, a decrease of \$25 million (11%). AFG's consolidated provision for income taxes was \$220 million in 2014 compared to \$236 million in 2013, a decrease of \$16 million (7%). See Note L — "Income Taxes" to the financial statements for an analysis of items affecting AFG's effective tax rate.

Consolidated Noncontrolling Interests AFG's consolidated net earnings (loss) attributable to noncontrolling interests was earnings of \$18 million in 2015 compared to a net loss of \$46 million in 2014, an improvement of \$64 million (139%). AFG's consolidated net loss attributable to noncontrolling interests was \$46 million in 2014 compared to \$18 million in 2013, an increase of \$28 million (156%). The following table details net earnings (loss) in consolidated subsidiaries attributable to holders other than AFG (dollars in millions):

	Year ended December 31,			% Change	
	2015	2014	2013	2015 - 2014	2014 - 2013
National Interstate	\$10	\$5	\$8	100 %	(38 %)
Managed Investment Entities	—	(51)	(26)	(100 %)	96 %
Other	8	—	—	— %	— %
Earnings (loss) attributable to noncontrolling interests	\$18	\$(46)	\$(18)	(139 %)	156 %

The losses of Managed Investment Entities in 2014 and 2013 represent CLO losses that ultimately inure to holders of the CLO debt. See Note A — "Accounting Policies — Managed Investment Entities" to the financial statements for a discussion of accounting guidance adopted in 2015 that affects the measurement of the fair value of CLO liabilities. Under the new guidance, there are no longer any CLO earnings or losses to be attributed to noncontrolling interests in AFG's Statement of Earnings.

Other noncontrolling interests includes \$6 million related to the gain on the sale of Le Pavillon Hotel in the second quarter of 2015, which was owned by an 80%-owned subsidiary of Great American Insurance Company.

RECENTLY ADOPTED ACCOUNTING STANDARDS

See Note A — "Accounting Policies — Managed Investment Entities" to the financial statements for a discussion of accounting guidance adopted on January 1, 2015 that affects the measurement of the fair value of CLO liabilities.

See Note B — "Acquisitions and Sale of Businesses" to the financial statements for a discussion of accounting guidance adopted on January 1, 2015 that impacts the determination of when a component of an entity qualifies for presentation as a discontinued operation.

ACCOUNTING STANDARDS TO BE ADOPTED IN 2016

See Note A — "Accounting Policies — Managed Investment Entities" to the financial statements for a discussion of accounting guidance that AFG will be required to adopt effective January 1, 2016, which could impact the consolidation of collateralized financing entities such as CLOs, as well as limited partnerships and similar investments.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, which will require debt issuance costs to be presented in the balance sheet as a direct reduction in the carrying value of long-term debt (consistent with the treatment of debt discounts) with the periodic amortization of such costs included in interest expense. AFG currently carries debt issuance costs as a deferred charge (\$23 million at

December 31, 2015 and included in other assets in AFG's Balance Sheet) with the periodic amortization (\$1 million in 2015) included in other expenses in AFG's Statement of Earnings. The updated guidance, which AFG will be required to adopt effective January 1, 2016, does not affect the overall recognition and measurement guidance for debt issuance costs. Accordingly, the guidance will have no overall impact on AFG's Shareholders' Equity or results of operations.

In May 2015, the FASB issued ASU 2015-09, Financial Services-Insurance: Disclosures About Short-Duration Contracts, which requires additional disclosures about the liability for unpaid losses and loss adjustment expenses (including accident year information). AFG will be required to adopt the updated guidance for annual reporting beginning in 2016 and interim reporting beginning with the first quarter of 2017. Because the new guidance does not affect the existing recognition or measurement guidance, the adoption will have no effect on AFG's financial condition or results of operations.

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ITEM 7A

Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. AFG's exposures to market risk relate primarily to its investment portfolio and annuity contracts, which are exposed to interest rate risk and, to a lesser extent, equity price risk. To a much lesser extent, AFG's long-term debt is also exposed to interest rate risk.

Fixed Maturity Portfolio The fair value of AFG's fixed maturity portfolio is directly impacted by changes in market interest rates. AFG's fixed maturity portfolio is comprised of primarily fixed-rate investments with intermediate-term maturities. This practice is designed to allow flexibility in reacting to fluctuations of interest rates. The portfolios of AFG's insurance operations are managed with an attempt to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations. AFG's annuity and run-off long-term care and life operations attempt to align the duration of their invested assets to the projected cash flows of policyholder liabilities.

Consistent with the discussion in Item 7 — Management's Discussion and Analysis — "Investments," the following table demonstrates the sensitivity of the fair value of AFG's fixed maturity portfolio 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 (based on the duration of the portfolio, dollars in millions). Effects of increases or decreases from the 100 basis points illustrated would be approximately proportional.

	2015		2014	
Fair value of fixed maturity portfolio	\$32,538		\$31,000	
Percentage impact on fair value of 100 bps increase in interest rates	(5.0	%)	(5.0	%)
Pretax impact on fair value of fixed maturity portfolio	\$(1,627	)	\$(1,550)
Offsetting adjustments to deferred policy acquisition costs and other balance sheet amounts	700		650	
Estimated pretax impact on accumulated other comprehensive income	(927	)	(900)
Deferred income tax	325		315	
Noncontrolling interests	13		12	
Estimated after-tax impact on accumulated other comprehensive income	\$(589	)	\$(573)

At December 31, 2015, \$1.93 billion (approximately 5%) of AFG's investment portfolio consisted of securities issued by energy and commodity related entities. Investment-grade rated fixed maturities and equity securities represented about 82% and 6% of that total, respectively. The aggregate unrealized loss on AFG's exposure to these entities was \$142 million.

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.

Certain European countries, including the so-called "peripheral countries" (Greece, Portugal, Ireland, Italy and Spain) have been experiencing varying degrees of financial stress over the past few years and there remains uncertainty as to future developments and the impact on global financial markets. At December 31, 2015, less than 5% of AFG's cash and investments consisted of European debt and AFG owned no sovereign debt issued by the peripheral countries.

Annuity Contracts Substantially all of AFG's fixed rate annuity contracts permit AFG to change crediting rates (subject to minimum interest rate guarantees as determined by applicable law) enabling management to react to changes in market interest rates. In 2003, AFG began issuing products with guaranteed minimum interest rates ("GMIRs") of less than 2% in states where required approvals have been received. The GMIR on virtually all new product sales since 2010 is 1%. At December 31, 2015, AFG is able to reduce the average crediting rate of its \$20 billion of traditional and fixed-indexed annuities without guaranteed withdrawal benefits by approximately 72 basis points (on a weighted average basis).

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As presented in Item 7 — Management’s Discussion and Analysis — “Results of Operations — Years ended December 31, 2015, 2014 and 2013” — “Net Spread on Fixed Annuities,” the interest credited rate as a percent of fixed annuity benefits accumulated on AFG’s in-force block of fixed annuities was 2.14% for the year ended December 31, 2015.

Management estimates that the interest credited rate on this in-force business will range from 2.15% to 2.20% over the next five years. This rate reflects actuarial assumptions as to (i) expected investment spreads, (ii) deaths, (iii) annuitizations, (iv) surrenders and other withdrawals and (v) renewal premiums. Actual experience and changes in actuarial assumptions may result in different effective crediting rates than those above. During 2015, interest rates credited on new premiums of AFG’s fixed annuity products generally ranged from 1.00% to 2.80%.

Actuarial assumptions used to estimate DPAC and certain annuity liabilities, as well as AFG’s ability to maintain spread, could be impacted if a low interest rate environment continues for an extended period, or if increases in interest rates cause policyholder behavior to differ significantly from current expectations.

Projected payments (in millions) in each of the subsequent five years and for all years thereafter on AFG’s fixed annuity liabilities at December 31 were as follows.

	First	Second	Third	Fourth	Fifth	Thereafter	Total	Fair Value (*)
2015	\$2,070	\$2,380	\$2,710	\$2,817	\$3,035	\$19,268	\$32,280	\$25,488
2014	2,004	2,211	2,285	2,434	2,510	16,825	28,269	23,187

(*) Fair value of annuity benefits accumulated excluding life contingent annuities in the payout phase (carrying value of \$200 million at December 31, 2015 and \$203 million at December 31, 2014).

AFG’s 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 and the related call options are considered derivatives that must be marked-to-market through earnings each period. See Note D — “Fair Value Measurements” and Note F — “Derivatives” to the financial statements for a discussion of these derivatives.

Long-Term Debt The following table shows scheduled principal payments on fixed-rate long-term debt of AFG and its subsidiaries and related weighted average interest rates for each of the subsequent five years and for all years thereafter (dollars in millions):

	December 31, 2015				December 31, 2014		
	Scheduled				Scheduled		
	Principal	Rate			Principal	Rate	
	Payments				Payments		
2016	\$—	—	%	2015	\$14	5.7	%
2017	—	—	%	2016	45	6.1	%
2018	—	—	%	2017	—	—	%
2019	350	9.9	%(*)	2018	—	—	%
2020	—	—	%	2019	350	9.9	%
Thereafter	658	6.2	%	Thereafter	640	6.4	%
Total	\$1,008	7.5	%	Total	\$1,049	7.5	%
Fair Value	\$1,108			Fair Value	\$1,168		

(*) In June 2015, AFG entered into an interest rate swap that effectively converts its 9-7/8% Senior Notes due 2019 to a floating rate of three-month LIBOR plus 8.099% (8.6110% at December 31, 2015). The 9-7/8% Senior Notes

appear in the table above (at the contractual 9-7/8% interest rate) because the notes themselves are fixed-rate obligations.

National Interstate had \$12 million in borrowings outstanding under a bank credit facility at December 31, 2015 and 2014. No amounts were outstanding under AFG's bank credit facility at December 31, 2015 or 2014.

ITEM 8

Financial Statements and Supplementary Data

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Selected Quarterly Financial Data has been included in Note N to the Consolidated Financial Statements.

ITEM 9A

Controls and Procedures

AFG’s management, with participation of its Co-Chief Executive Officers and its Chief Financial Officer, has evaluated AFG’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of the end of the period covered by this report. Based on that evaluation, AFG’s Co-CEOs and CFO concluded that the controls and procedures are effective. There have been no changes in AFG’s internal control over financial reporting during the fourth fiscal quarter of 2015 that materially affected, or are reasonably likely to materially affect, AFG’s internal control over financial reporting.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AFG’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including AFG’s Co-Chief Executive Officers and Chief Financial Officer, AFG conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2015, based on the criteria set forth in “Internal Control — Integrated Framework” issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

There are inherent limitations to the effectiveness of any system of internal controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective internal controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on AFG’s evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2015. The attestation report of AFG’s independent registered public accounting firm on AFG’s internal control over financial reporting as of December 31, 2015, is set forth on the next page.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders
American Financial Group, Inc.

We have audited American Financial Group, Inc. and subsidiaries' (the Company's) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, American Financial Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Financial Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015, and our report dated February 26, 2016, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cincinnati, Ohio
February 26, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

American Financial Group, Inc.

We have audited the accompanying consolidated balance sheets of American Financial Group, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Financial Group, Inc. and subsidiaries at December 31, 2015 and 2014 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Financial Group, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cincinnati, Ohio
February 26, 2016

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

	December 31,	
	2015	2014
Assets:		
Cash and cash equivalents	\$1,220	\$1,343
Investments:		
Fixed maturities, available for sale at fair value (amortized cost — \$31,565 and \$29,074)	32,284	30,734
Fixed maturities, trading at fair value	254	266
Equity securities, available for sale at fair value (cost — \$1,469 and \$1,283)	1,553	1,501
Equity securities, trading at fair value	166	195
Mortgage loans	1,067	1,117
Policy loans	201	228
Real estate and other investments	991	826
Total cash and investments	37,736	36,210
Recoverables from reinsurers	2,636	3,238
Prepaid reinsurance premiums	480	469
Agents' balances and premiums receivable	937	889
Deferred policy acquisition costs	1,184	821
Assets of managed investment entities	4,047	3,108
Other receivables	820	910
Variable annuity assets (separate accounts)	608	662
Other assets	1,212	1,027
Goodwill	199	201
Total assets	\$49,859	\$47,535
Liabilities and Equity:		
Unpaid losses and loss adjustment expenses	\$8,127	\$7,872
Unearned premiums	2,060	1,956
Annuity benefits accumulated	26,622	23,764
Life, accident and health reserves	705	2,175
Payable to reinsurers	591	645
Liabilities of managed investment entities	3,781	2,819
Long-term debt	1,020	1,061
Variable annuity liabilities (separate accounts)	608	662
Other liabilities	1,575	1,527
Total liabilities	45,089	42,481
Shareholders' equity:		
Common Stock, no par value		
— 200,000,000 shares authorized	87	88
— 87,474,452 and 87,708,793 shares outstanding		
Capital surplus	1,214	1,152
Retained earnings:		
Appropriated — managed investment entities	—	(2)
Unappropriated	2,987	2,914
Accumulated other comprehensive income, net of tax	304	727
Total shareholders' equity	4,592	4,879

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Noncontrolling interests	178	175
Total equity	4,770	5,054
Total liabilities and equity	\$49,859	\$47,535

See notes to consolidated financial statements.

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

	Year ended December 31,			
	2015	2014	2013	
Revenues:				
Property and casualty insurance net earned premiums	\$4,224	\$3,878	\$3,204	
Life, accident and health net earned premiums	104	108	114	
Net investment income	1,633	1,501	1,346	
Realized gains (losses) on:				
Securities (*)	(19	) 52	221
Subsidiaries	(161) —	(4)
Income (loss) of managed investment entities:				
Investment income	155	116	128	
Loss on change in fair value of assets/liabilities	(34) (44) (14)
Other income	243	122	108	
Total revenues	6,145	5,733	5,103	
Costs and Expenses:				
Property and casualty insurance:				
Losses and loss adjustment expenses	2,695	2,494	2,040	
Commissions and other underwriting expenses	1,320	1,172	1,019	
Annuity benefits	732	648	531	
Life, accident and health benefits	131	164	160	
Annuity and supplemental insurance acquisition expenses	179	193	178	
Interest charges on borrowed money	74	73	71	
Expenses of managed investment entities	112	82	89	
Other expenses	337	281	326	
Total costs and expenses	5,580	5,107	4,414	
Earnings before income taxes	565	626	689	
Provision for income taxes	195	220	236	
Net earnings, including noncontrolling interests	370	406	453	
Less: Net earnings (loss) attributable to noncontrolling interests	18	(46) (18)
Net Earnings Attributable to Shareholders	\$352	\$452	\$471	
Earnings Attributable to Shareholders per Common Share:				
Basic	\$4.02	\$5.07	\$5.27	
Diluted	\$3.94	\$4.97	\$5.16	
Average number of Common Shares:				
Basic	87.6	89.0	89.3	
Diluted	89.4	91.0	91.2	
Cash dividends per Common Share	\$2.03	\$1.91	\$1.805	
<hr/>				
(*) Consists of the following:				
Realized gains before impairments	\$106	\$88	\$233	
Losses on securities with impairment	(125) (36) (14)

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Non-credit portion recognized in other comprehensive income (loss)	—	—	2
Impairment charges recognized in earnings	(125) (36) (12
Total realized gains (losses) on securities	\$(19) \$52	\$221

See notes to consolidated financial statements.

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

	Year ended December 31,		
	2015	2014	2013
Net earnings, including noncontrolling interests	\$370	\$406	\$453
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) on securities arising during the period	(406	) 216	(122)
Reclassification adjustment for realized (gains) losses included in net earnings	9	(33	) (144)
Reclassification for unrealized gains of subsidiaries sold	(22) —	—
Total net unrealized gains (losses) on securities	(419	) 183	(266)
Net unrealized gains on cash flow hedges	1	—	—
Foreign currency translation adjustments	(14	) (9	) (13)
Pension and other postretirement plans adjustments	1	(4	) 2
Other comprehensive income (loss), net of tax	(431	) 170	(277)
Total comprehensive income (loss), net of tax	(61	) 576	176
Less: Comprehensive income (loss) attributable to noncontrolling interests	10	(43	) (24)
Comprehensive income (loss) attributable to shareholders	\$(71) \$619	\$200

See notes to consolidated financial statements.

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

	Common Shares	Shareholders' Equity			Accumulated Other Comp Inc. (Loss)	Total	Noncon- trolling Interests	Total Equity
		Common Stock and Capital Surplus	Retained Earnings Approp.	Unapprop.				
Balance at December 31, 2012	88,979,303	\$1,152	\$75	\$ 2,520	\$ 831	\$4,578	\$ 170	\$4,748
Net earnings	—	—	—	471	—	471	(18)	453
Other comprehensive loss	—	—	—	—	(271)	(271)	(6)	(277)
Allocation of losses of managed investment entities	—	—	(26)	—	—	(26)	26	—
Dividends on Common Stock	—	—	—	(161)	—	(161)	—	(161)
Shares issued:								
Exercise of stock options	1,625,023	53	—	—	—	53	—	53
Other benefit plans	388,043	7	—	—	—	7	—	7
Dividend reinvestment plan	28,147	2	—	—	—	2	—	2
Stock-based compensation expense	—	19	—	—	—	19	—	19
Shares acquired and retired	(1,448,156)	(19)	—	(51)	—	(70)	—	(70)
Shares exchanged — benefit plans	(58,974)	(1)	—	(2)	—	(3)	—	(3)
Other	—	—	—	—	—	—	(2)	(2)
Balance at December 31, 2013	89,513,386	\$1,213	\$49	\$ 2,777	\$ 560	\$4,599	\$ 170	\$4,769
Net earnings	—	—	—	452	—	452	(46)	406
Other comprehensive income	—	—	—	—	167	167	3	170
Allocation of losses of managed investment entities	—	—	(51)	—	—	(51)	51	—
Dividends on Common Stock	—	—	—	(169)	—	(169)	—	(169)
Shares issued:								
Exercise of stock options	1,262,313	45	—	—	—	45	—	45
Other benefit plans	242,669	8	—	—	—	8	—	8
Dividend reinvestment plan	27,238	2	—	—	—	2	—	2
Stock-based compensation expense	—	19	—	—	—	19	—	19
Shares acquired and retired	(3,303,639)	(46)	—	(145)	—	(191)	—	(191)
Shares exchanged — benefit plans	(33,174)	(1)	—	(1)	—	(2)	—	(2)

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Other	—	—	—	—	—	—	(3) (3)
Balance at December 31, 2014	87,708,793	\$1,240	\$(2) \$2,914	\$727	\$4,879	\$175	\$5,054	
Cumulative effect of accounting change	—	—	2	—	—	2	—	2	
Net earnings	—	—	—	352	—	352	18	370	
Other comprehensive loss	—	—	—	—	(423	) (423	) (8	) (431)
Dividends on Common Stock	—	—	—	(178	) —	(178	) —	(178)
Shares issued:									
Exercise of stock options	1,475,202	59	—	—	—	59	—	59	
Other benefit plans	282,811	7	—	—	—	7	—	7	
Dividend reinvestment plan	26,167	2	—	—	—	2	—	2	
Stock-based compensation expense	—	21	—	—	—	21	—	21	
Shares acquired and retired	(1,955,186	) (27	) —	(99	) —	(126	) —	(126)
Shares exchanged — benefit plans	(45,765	) (1	) —	(2	) —	(3	) —	(3)
Forfeitures of restricted stock	(17,570) —	—	—	—	—	—	—	
Other	—	—	—	—	—	—	(7	) (7)
Balance at December 31, 2015	87,474,452	\$1,301	\$—	\$2,987	\$304	\$4,592	\$178	\$4,770	

See notes to consolidated financial statements.

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

	Year ended December 31,		
	2015	2014	2013
Operating Activities:			
Net earnings, including noncontrolling interests	\$370	\$406	\$453
Adjustments:			
Depreciation and amortization	132	144	142
Annuity benefits	732	648	531
Realized (gains) losses on investing activities	100	(58	) (230
Net (purchases) sales of trading securities	10	(109	) 2
Deferred annuity and life policy acquisition costs	(224	) (198	) (222
Change in:			
Reinsurance and other receivables	(10	) (199	) 176
Other assets	(13	) (87	) (149
Insurance claims and reserves	451	587	(200
Payable to reinsurers	(54	) 134	51
Other liabilities	27	(63	) 280
Managed investment entities' assets/liabilities	(190	) 2	(98
Other operating activities, net	26	15	24
Net cash provided by operating activities	1,357	1,222	760
Investing Activities:			
Purchases of:			
Fixed maturities	(7,201	) (6,846	) (6,690
Equity securities	(570	) (471	) (461
Mortgage loans	(213	) (450	) (274
Real estate, property and equipment	(102	) (47	) (52
Businesses	—	(267) —
Proceeds from:			
Maturities and redemptions of fixed maturities	3,333	2,988	3,236
Repayments of mortgage loans	265	116	102
Sales of fixed maturities	321	287	275
Sales of equity securities	364	155	434
Sales of real estate, property and equipment	117	14	34
Sales of businesses	7	—	—
Cash and cash equivalents of businesses acquired (sold)	(49	) 1,078	(5
Managed investment entities:			
Purchases of investments	(1,530	) (1,692	) (1,426
Proceeds from sales and redemptions of investments	855	1,417	1,904
Other investing activities, net	(174	) 99	8
Net cash used in investing activities	(4,577	) (3,619	) (2,915
Financing Activities:			
Annuity receipts	4,485	3,696	4,233
Annuity surrenders, benefits and withdrawals	(2,025) (1,773) (1,588
Net transfers from variable annuity assets	43	43	32

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Additional long-term borrowings	145	145	—
Reductions of long-term debt	(192) (2) (40)
Issuances of managed investment entities' liabilities	1,026	1,400	1,192
Retirements of managed investment entities' liabilities	(136	) (1,094	) (1,560)
Issuances of Common Stock	61	47	54
Repurchases of Common Stock	(126	) (191	) (70)
Cash dividends paid on Common Stock	(176	) (167	) (160)
Other financing activities, net	(8	) (3	) (4)
Net cash provided by financing activities	3,097	2,101	2,089
Net Change in Cash and Cash Equivalents	(123	) (296	) (66)
Cash and cash equivalents at beginning of year	1,343	1,639	1,705
Cash and cash equivalents at end of year	\$1,220	\$1,343	\$1,639

See notes to consolidated financial statements.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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E.	Investments	M.	Contingencies
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G.	Deferred Policy Acquisition Costs	O.	Insurance
H.	Managed Investment Entities	P.	Additional Information

A. Accounting Policies

Basis of Presentation The consolidated financial statements include the accounts of American Financial Group, Inc. and its subsidiaries ("AFG"). Certain reclassifications have been made to prior years to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated. The results of operations of companies since their formation or acquisition are included in the consolidated financial statements. Events or transactions occurring subsequent to December 31, 2015, and prior to the filing of this Form 10-K, have been evaluated for potential recognition or disclosure herein.

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect AFG's assumptions about the assumptions market participants would use in pricing the asset or liability. Other than the fair value measurements used in recording the loss on the sale of substantially all of its long-term care business in 2015 and the acquisition of Summit Holding Southeast, Inc. and its related companies in 2014 (see Note B — "Acquisitions and Sale of Businesses"), AFG did not have any significant nonrecurring fair value measurements of nonfinancial assets and liabilities in 2015 or 2014.

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

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

to adopt this guidance effective January 1, 2018.

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

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on securities) and the cost basis of that investment is reduced. If management can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

comprehensive income). The credit-related portion of an other-than-temporary impairment is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. Both components are shown in the Statement of Earnings. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

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

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

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

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

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

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

also assume reinsurance from other companies. Earnings on reinsurance assumed is recognized based on information received from ceding companies.

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

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions, premium taxes and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

deferred. DPAC also includes capitalized costs associated with sales inducements offered to fixed annuity policyholders such as enhanced interest rates and premium and persistency bonuses.

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

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

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

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

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

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

AFG manages, and has investments in, collateralized loan obligations (“CLOs”) that are VIEs (see Note H — “Managed Investment Entities”). Both the management fees (payment of which is subordinate to other obligations of the CLOs) and the investments in the CLOs are considered variable interests. AFG has determined that it is the primary beneficiary of the CLOs because (i) its role as asset manager gives it the power to direct the activities that most significantly impact the economic performance of the CLOs and (ii) it has exposure to CLO losses (through its investments in the CLO debt tranches) and the right to receive benefits (through its subordinated management fees and

returns on its investments), both of which could potentially be significant to the CLOs.

In February 2015, the FASB issued ASU 2015-02, which amends certain consolidation accounting guidance, including the VIE guidance that applies to collateralized financing entities such as CLOs. The new guidance, which AFG intends to adopt effective January 1, 2016, will affect how fee arrangements with CLO asset managers impact the determination of the primary beneficiary of these entities. Due to the significance of AFG's investments in the CLOs that it manages, management does not expect the new guidance to impact the consolidation of its currently outstanding CLOs. The new guidance also impacts the consolidation analysis that applies to limited partnerships and similar entities. Management does not expect this guidance to impact the accounting for AFG's existing investments in those entities.

Because AFG has no right to use the CLO assets and no obligation to pay the CLO liabilities, the assets and liabilities of the CLOs are shown separately in AFG's Balance Sheet. AFG has elected the fair value option for reporting on the CLO assets and

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

liabilities to improve the transparency of financial reporting related to the CLOs. The net gain or loss from accounting for the CLO assets and liabilities at fair value is presented separately in AFG's Statement of Earnings.

Effective January 1, 2015, AFG adopted (on a modified retrospective basis) ASU 2014-13, which addresses the diversity in practice regarding the accounting for assets and liabilities of a consolidated collateralized financing entity (such as a CLO) when an election has been made to account for that entity's assets and liabilities at fair value. The fair values of a CLO's assets may differ from the separately measured fair values of its liabilities even though the CLO liabilities only have recourse to the CLO assets. Under the new guidance, AFG has elected to set the carrying value of the CLO liabilities equal to the fair value of the CLO assets (which have more observable fair values) as an alternative to reporting those liabilities at a separately measured fair value. CLO earnings attributable to AFG's shareholders continue to be measured by the change in the fair value of AFG's investments in the CLOs and management fees earned.

Prior to the adoption of ASU 2014-13, measuring both the CLO assets and CLO liabilities at separately determined fair values resulted in a difference between the carrying value of the CLO assets and the carrying value of the CLO liabilities that was not attributable to AFG's ownership interest in the CLOs and CLO earnings (losses) that were not attributable to AFG's shareholders. Accordingly, in periods prior to 2015, the difference between the fair value of the CLO assets and the fair value of the CLO liabilities was recorded as "appropriated retained earnings — managed investment entities" in AFG's Balance Sheet and the earnings (losses) that were not attributable to AFG's shareholders were included in net earnings (loss) attributable to noncontrolling interests in AFG's Statement of Earnings.

Under the guidance adopted in 2015, there is no longer any excess carrying value of CLO assets over the carrying value of CLO liabilities to be reported as "appropriated retained earnings — managed investment entities" in AFG's Balance Sheet or any CLO earnings to be attributed to noncontrolling interests in AFG's Statement of Earnings. In accordance with the guidance, the amount reported as "appropriated retained earnings — managed investment entities" at December 31, 2014 was reclassified to "liabilities of managed investment entities" on January 1, 2015 as the cumulative effect of an accounting change. While the new guidance impacted the presentation of individual CLO-related line items in AFG's Statement of Earnings, it had no overall impact on AFG's net earnings attributable to shareholders.

At December 31, 2015, assets and liabilities of managed investment entities included \$100 million in assets and \$80 million in liabilities of a temporary warehousing entity that was established in connection with the formation of a new CLO that is expected to close in the second quarter of 2016. Upon closing, all warehoused assets are expected to be transferred to the new CLO and the liabilities will be repaid.

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

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

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

For certain products, annuity benefits accumulated also includes reserves for accrued persistency and premium bonuses, guaranteed withdrawals and excess benefits expected to be paid on future deaths and annuitizations (“EDAR”). The liabilities for EDAR and guaranteed withdrawals are accrued for and modified using assumptions consistent with those used in determining DPAC and DPAC amortization, except that amounts are determined in relation to the present value of total

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

expected assessments. Total expected assessments consist principally of estimated future investment margin, surrender, mortality, and other life and annuity policy charges, and unearned revenues once they are recognized as income.

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

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

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

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

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

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

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

Premium Recognition Property and casualty premiums are earned generally over the terms of the policies on a pro rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. On reinsurance assumed from other insurance companies or written through various underwriting organizations, unearned premiums are based on information received from such companies and organizations. For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from

policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account, which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

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

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

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

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

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

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

Earnings Per Share Although basic earnings per share only considers shares of common stock outstanding during the period, the calculation of diluted earnings per share includes the following adjustments to weighted average common shares related to stock-based compensation plans: 2015 – 1.8 million, 2014 – 2.0 million and 2013 – 1.9 million.

AFG's weighted average diluted shares outstanding excludes the following anti-dilutive potential common shares related to stock compensation plans: 2015 – 1.1 million, 2014 – 1.0 million and 2013 – 1.1 million. Adjustments to net earnings attributable to shareholders in the calculation of diluted earnings per share were nominal in the 2015, 2014 and 2013 periods.

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

B. Acquisitions and Sale of Businesses

Acquisition of Summit Holding Southeast, Inc. In April 2014, AFG acquired Summit Holding Southeast, Inc. and its related companies ("Summit"), from Liberty Mutual Insurance for \$259 million using cash on hand at the parent company. Immediately following the acquisition, AFG made a capital contribution of \$140 million, bringing its total capital investment in the Summit business to \$399 million. Summit is based in Lakeland, Florida and is a leading provider of specialty workers' compensation solutions in the southeastern United States. Summit continues to operate under the Summit brand as a member of AFG's Great American Insurance Group. Summit is included in the Specialty casualty sub-segment and generated \$529 million in net earned premiums in 2015 and \$410 million in net earned premiums during the nine months subsequent to AFG's acquisition in 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

Expenses related to the acquisition were less than \$1 million and were expensed as incurred. The purchase price was allocated to the acquired assets and liabilities of Summit based on management's best estimate of fair value as of the acquisition date. The allocation of the purchase price is shown in the table below (in millions):

	April 1, 2014	
Total purchase price		\$259
Tangible assets acquired:		
Cash and cash equivalents	\$1,078	
Fixed maturities, available for sale	92	
Recoverables from reinsurers	116	
Agents' balances and premiums receivable	41	
Deferred tax assets, net (a)	67	
Other receivables	21	
Other assets	11	
Total tangible assets acquired		1,426
Liabilities acquired:		
Unpaid losses and loss adjustment expenses	1,142	
Unearned premiums	3	
Payable to reinsurers	3	
Other liabilities	66	
Total liabilities acquired		1,214
Net tangible assets acquired, at fair value		212
Excess purchase price over net tangible assets acquired		\$47
Allocation of excess purchase price:		
Intangible assets acquired (b)		\$47
Deferred tax on intangible assets acquired (a)		(16)
Goodwill		16
		\$47

(a) AFG's net deferred tax assets are included in Other assets in AFG's Balance Sheet at December 31, 2015.

(b) Included in Other assets in AFG's Balance Sheet.

The intangible assets acquired include \$1 million in indefinite lived intangible assets related to state insurance licenses and \$46 million in finite lived intangibles, primarily related to agency relationships. The finite lived intangibles are being amortized over an average expected life of 7 years. The fair value of the acquired liability for unpaid losses and loss adjustment expenses and related recoverables from reinsurers was estimated by discounting actuarial projected future net cash flows using the U.S. Treasury yield curve (with an adjustment for the illiquidity of insurance reserves) and then adding a risk adjustment to reflect the net present value of the profit that a market participant would require in return for the assumption of the risk associated with the reserves. The fair value of Summit's agency relationship was estimated using a multi-period excess earnings method, which is a form of the income approach. The acquisition resulted in the recognition of \$16 million in goodwill based on the excess of the purchase price over the fair value of the net assets acquired. The goodwill represents the fair value of acquired intangible assets that do not qualify for separate recognition, including the value of Summit's assembled workforce.

Acquisition of Renewal Rights In March 2014, AFG completed a renewal rights agreement with Selective Insurance Company of America to acquire Selective's pooled public entity book of business for \$8 million. At the acquisition date, this book of business had approximately \$38 million in in-force gross written premiums. The acquired business generated \$34 million of gross written premiums and \$16 million of net written premiums in 2015.

Sale of Long-term Care Business On December 24, 2015, AFG completed the sale of substantially all of its run-off long-term care insurance business (which was included in the run-off long-term care and life segment) to HC2 Holdings, Inc. ("HC2") for an initial payment of \$7 million in cash and HC2 securities with a fair value of \$11 million (subject to post-closing adjustments). AFG may also receive up to \$13 million of additional proceeds from HC2 in the future contingent upon the release of certain statutory-basis liabilities of the legal entities sold by AFG. In connection with obtaining regulatory approval

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for the transaction, AFG agreed to provide up to an aggregate of \$35 million of capital support for the insurance companies, on an as-needed basis to maintain specified surplus levels, subject to immediate reimbursement by HC2 through a five-year capital maintenance agreement. The net sale proceeds include the fair value of the warrants to purchase two million shares of HC2 stock that AFG received in exchange for this agreement. The legal entities involved in the transaction, United Teacher Associates Insurance Company (“UTA”) and Continental General Insurance Company (“CGIC”), contain substantially all of AFG’s long-term care insurance reserves (96% as measured by net statutory reserves as of November 30, 2015), as well as smaller blocks of annuity and life insurance business. Following the sale of these subsidiaries, AFG has only a small block of long-term care insurance (1,700 policies) with approximately \$34 million of reserves. AFG had ceased new sales of long-term care insurance in January 2010, but continued to service and accept renewal premiums on its outstanding policies, which are guaranteed renewable.

In addition to the \$18 million in cash and securities received at closing and the \$13 million of potential additional proceeds in the future from the release of statutory liabilities, AFG expects to receive \$97 million in tax benefits (approximately \$65 million through reduced estimated tax payments and \$32 million from the carryback of the tax-basis capital loss) related to the sale in the first half of 2016. The receivables for these tax benefits are reflected in AFG’s financial statements at December 31, 2015.

Based on the status of ongoing negotiations at the end of the first quarter, management determined that the potential sale of the run-off long-term care business met the GAAP “held for sale” criteria as of March 31, 2015. Accordingly, AFG recorded a \$162 million pretax loss (\$105 million loss after tax) in the first quarter of 2015 to establish a liability equal to the excess of the net carrying value of the assets and liabilities to be disposed over the estimated net sale proceeds. At the closing date, the loss was adjusted to \$166 million based on the actual proceeds received and the final carrying value of the net assets disposed. On the sale date, the carrying value of the assets and liabilities disposed represented approximately 4% of both AFG’s assets and liabilities and are detailed in the table below.

Under accounting guidance effective on January 1, 2015, only disposals of components of an entity that represent a strategic shift and that have a major effect on a reporting entity’s operations and financial results are reported as discontinued operations. Due to the run-off nature of the business and the immaterial expected impact on AFG’s results of operations, the sale of AFG’s long-term care insurance business has not been reported as a discontinued operation.

The impact of the sale of the run-off long-term care insurance business is shown below (in millions):

	December 24, 2015
Net sale proceeds (*)	\$13
Assets of businesses sold:	
Cash and investments	\$1,334
Recoverables from reinsurers	630
Deferred policy acquisition costs	16
Other receivables	16
Other assets	(4)
Goodwill	2
Total assets	1,994
Liabilities of businesses sold:	
Annuity benefits accumulated	261
Life, accident and health reserves	1,525

Other liabilities	7	
Total liabilities		1,793
Reclassify net unrealized gain on marketable securities		22
Net assets of businesses sold		179
Loss on subsidiaries, pretax		(166)
Tax benefit		58
Loss on subsidiaries, net of tax		\$(108)

(*) Includes the fair value of the potential additional consideration and capital maintenance agreement and is shown net of estimated expenses.

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Revenues, costs and expenses, and earnings before income taxes for the subsidiaries sold were (in millions):

	Year ended December 31,		
	2015	2014	2013
Life, accident and health net earned premiums:			
Long-term care	\$73	\$74	\$76
Life operations	11	11	12
Net investment income	73	75	68
Realized gains (losses) on securities and other income	(11	) (6	) 10
Total revenues	146	154	166
Annuity benefits	8	7	9
Life, accident and health benefits:			
Long-term care	91	119	113
Life operations	11	11	12
Annuity and supplemental insurance acquisition expenses	12	11	14
Other expenses	16	14	12
Total costs and expenses	138	162	160
Earnings before income taxes	\$8	\$(8	) \$6

Other In addition to the loss on the sale of substantially all of AFG's run-off long-term care insurance business (discussed above), AFG recorded a \$5 million pretax realized gain in the third quarter of 2015 representing an adjustment to a previously recognized realized loss on a small property and casualty subsidiary sold several years ago.

C. Segments of Operations

AFG manages its business as four segments: (i) Property and casualty insurance, (ii) Annuity, (iii) Run-off long-term care and life and (iv) Other, which includes holding company assets and costs, and the assets and operations attributable to the noncontrolling interests of the managed investment entities.

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

Sales of property and casualty insurance outside of the United States represented 4% of AFG's revenues in 2015 and 5% of AFG's revenues in 2014 and 2013.

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

	2015	2014	2013	
Assets				
Property and casualty insurance (a)	\$ 14,689	\$ 14,069	\$ 11,717	
Annuity	29,865	27,317	24,294	
Run-off long-term care and life (b)	772	2,489	2,408	
Other	4,533	3,660	3,668	
Total assets	\$ 49,859	\$ 47,535	\$ 42,087	
Revenues				
Property and casualty insurance:				
Premiums earned:				
Specialty				
Property and transportation	\$ 1,599	\$ 1,544	\$ 1,521	
Specialty casualty	2,011	1,765	1,135	
Specialty financial	517	469	469	
Other specialty	97	100	79	
Total premiums earned	4,224	3,878	3,204	
Net investment income	319	294	263	
Other income (c)	78	9	15	
Total property and casualty insurance	4,621	4,181	3,482	
Annuity:				
Net investment income	1,224	1,136	1,034	
Other income	98	97	77	
Total annuity	1,322	1,233	1,111	
Run-off long-term care and life (b)	188	195	195	
Other	194	72	98	
Total revenues before realized gains (losses)	6,325	5,681	4,886	
Realized gains (losses) on securities	(19	) 52	221
Realized losses on subsidiaries	(161) —	(4)
Total revenues	\$ 6,145	\$ 5,733	\$ 5,103	

(a) Not allocable to sub-segments.

(b) AFG sold substantially all of its run-off long-term care insurance business in December 2015.

(c) Includes pretax income of \$51 million (before noncontrolling interest) from the sale of the Le Pavillon Hotel in the second quarter of 2015 and \$15 million from the sale of an apartment property in the fourth quarter of 2015.

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	2015	2014	2013
Earnings Before Income Taxes			
Property and casualty insurance:			
Underwriting:			
Specialty			
Property and transportation	\$48	\$21	\$12
Specialty casualty	146	136	102
Specialty financial	87	64	67
Other specialty	14	16	25
Other lines (a)	(70)	(25)	(61)
Total underwriting	225	212	145
Investment and other income, net (b)	351	244	230
Total property and casualty insurance	576	456	375
Annuity (c)	331	328	323
Run-off long-term care and life (d)	14	(10)	(10)
Other (e)	(176)	(200)	(216)
Total earnings before realized gains (losses) and income taxes	745	574	472
Realized gains (losses) on securities	(19)	52	221
Realized losses on subsidiaries	(161)	—	(4)
Total earnings before income taxes	\$565	\$626	\$689

(a) Includes special charges to increase asbestos and environmental (“A&E”) reserves of \$67 million, \$24 million and \$54 million in 2015, 2014 and 2013, respectively.

(b) Includes pretax income of \$51 million (before noncontrolling interest) from the sale of the Le Pavillon Hotel in the second quarter of 2015 and \$15 million from the sale of an apartment property in the fourth quarter of 2015.

(c) Includes a \$5 million charge in the second quarter of 2013 to cover expected assessments from state guaranty funds related to insolvency and liquidation of an unaffiliated life insurance company.

(d) AFG sold substantially all of its run-off long-term care insurance business in December 2015.

(e) Primarily holding company expenses, including a \$4 million loss on retirement of debt in the third quarter of 2015 and special charges to increase A&E reserves related to AFG’s former railroad and manufacturing operations (\$12 million in 2015, \$6 million in 2014 and \$22 million in 2013) and losses of managed investment entities attributable to noncontrolling interests (\$51 million in 2014 and \$26 million in 2013). Following the adoption of new guidance in the first quarter of 2015, there are no longer earnings (losses) of managed investment entities that are attributable to noncontrolling interests. See Note A — “Accounting Policies — Managed Investment Entities.”

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D. Fair Value Measurements

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

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

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

Level 3 — Valuations derived from market valuation techniques generally consistent with those used to estimate the fair values of Level 2 financial instruments in which one or more significant inputs are unobservable or when the market for a security exhibits significantly less liquidity relative to markets supporting Level 2 fair value measurements. The unobservable inputs may include management's own assumptions about the assumptions market participants would use based on the best information available in the circumstances. AFG's Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker quotes or internally developed using significant inputs not based on, or corroborated by, observable market information, and prior to 2015 certain liabilities of the CLOs.

Under new guidance adopted in the first quarter of 2015, discussed in Note A — "Accounting Policies — Managed Investment Entities," AFG has elected to set the carrying value of the CLO liabilities equal to the fair value of the CLO assets (which have more observable fair values) as an alternative to reporting those liabilities at separately measured fair values. Following the adoption of the new guidance, the CLO liabilities are categorized within the fair value hierarchy on the same basis (proportionally) as the related CLO assets. Since the portion of the CLO liabilities allocated to Level 3 is derived from the fair value of the CLO assets, beginning with the first quarter of 2015, these amounts are excluded from the progression of Level 3 financial instruments.

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

communicates directly with the pricing service regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

On December 24, 2015, AFG completed the sale of substantially all of its run-off long-term care insurance business. As discussed in Note B — “Acquisitions and Sale of Businesses,” AFG recorded a loss in the first quarter of 2015 to write down the net carrying value of the assets and liabilities to be disposed to the estimated net sale proceeds (estimated fair value less costs to sell). The estimate of fair value used to determine that loss was derived using significant unobservable inputs (Level 3). At the closing date, approximately \$11 million (excluding cash) of the net proceeds was measured at fair value. These fair value measurements are categorized in the fair value hierarchy as follows: Level 1 — \$5 million; Level 2 — \$2 million and Level 3 — \$4 million.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

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

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Assets:				
Available for sale (“AFS”) fixed maturities:				
U.S. Government and government agencies	\$100	\$192	\$15	\$307
States, municipalities and political subdivisions	—	6,767	89	6,856
Foreign government	—	154	—	154
Residential MBS	—	3,305	224	3,529
Commercial MBS	—	2,148	39	2,187
Asset-backed securities (“ABS”)	—	4,464	470	4,934
Corporate and other	50	13,634	633	14,317
Total AFS fixed maturities	150	30,664	1,470	32,284
Trading fixed maturities	13	241	—	254
Equity securities	1,362	217	140	1,719
Assets of managed investment entities (“MIE”)	309	3,712	26	4,047
Variable annuity assets (separate accounts) (*)	—	608	—	608
Other investments — derivatives	—	241	—	241
Other assets — derivatives	—	2	—	2
Total assets accounted for at fair value	\$1,834	\$35,685	\$1,636	\$39,155
Liabilities:				
Liabilities of managed investment entities	\$289	\$3,468	\$24	\$3,781
Derivatives in annuity benefits accumulated	—	—	1,369	1,369
Derivatives in long-term debt	—	(2	) —	(2
Other liabilities — derivatives	—	8	—	8
Total liabilities accounted for at fair value	\$289	\$3,474	\$1,393	\$5,156
December 31, 2014				
Assets:				
Available for sale fixed maturities:				
U.S. Government and government agencies	\$164	\$174	\$15	\$353
States, municipalities and political subdivisions	—	6,647	100	6,747
Foreign government	—	194	—	194
Residential MBS	—	4,142	300	4,442
Commercial MBS	—	2,407	44	2,451
Asset-backed securities	—	3,661	226	3,887
Corporate and other	36	12,078	546	12,660
Total AFS fixed maturities	200	29,303	1,231	30,734
Trading fixed maturities	12	254	—	266
Equity securities	1,306	297	93	1,696
Assets of managed investment entities	174	2,903	31	3,108
Variable annuity assets (separate accounts) (*)	—	662	—	662
Other investments — derivatives	—	322	—	322
Total assets accounted for at fair value	\$1,692	\$33,741	\$1,355	\$36,788
Liabilities:				

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Liabilities of managed investment entities	\$118	\$—	\$2,701	\$2,819
Derivatives in annuity benefits accumulated	—	—	1,160	1,160
Other liabilities — derivatives	—	13	—	13
Total liabilities accounted for at fair value	\$118	\$13	\$3,861	\$3,992

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

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The transfers between Level 1 and Level 2 for the years ended December 31, 2015, 2014 and 2013 are reflected in the table below at fair value as of the end of the reporting period (dollars in millions):

	Level 2 To Level 1 Transfers						Level 1 To Level 2 Transfers					
	# of Transfers			Fair Value			# of Transfers			Fair Value		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Perpetual preferred stocks	5	14	15	\$19	\$96	\$70	7	13	2	\$31	\$83	\$10
Common stocks	7	—	2	80	—	35	—	7	—	—	26	—
Redeemable preferred stocks	2	1	3	11	5	21	—	—	—	—	—	—

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

Approximately 4% of the total assets carried at fair value on December 31, 2015, were Level 3 assets. Approximately 76% (\$1.24 billion) of the Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by AFG. Since internally developed Level 3 asset fair values represent less than 10% of AFG's shareholders' equity, any justifiable changes in unobservable inputs used to determine internally developed fair values would not have a material impact on AFG's financial position.

The only significant Level 3 assets or liabilities carried at fair value in the financial statements that were not measured using broker quotes are the derivatives embedded in AFG's fixed-indexed annuity liabilities, which are measured using a discounted cash flow approach and had a fair value of \$1.37 billion at December 31, 2015. The following table presents information about the unobservable inputs used by management in determining fair value of these embedded derivatives. See Note F — "Derivatives."

Unobservable Input	Range
Adjustment for insurance subsidiary's credit risk	0.30% – 2.95% over the risk free rate
Risk margin for uncertainty in cash flows	0.58% reduction in the discount rate
Surrenders	3% – 18% of indexed account value
Partial surrenders	2% – 10% of indexed account value
Annuity payments	0.75% – 1.5% of indexed account value
Deaths	1.5% – 4.0% of indexed account value
Budgeted option costs	1.75% – 3.5% of indexed account value

The range of adjustments for insurance subsidiary's credit risk reflects credit spread variations across the yield curve. The range of projected surrender rates reflects the specific surrender charges and other features of AFG's individual fixed-indexed annuity products with an expected range of 5% to 10% in the majority of future calendar years (3% to 18% over all periods). Increasing the budgeted option cost or risk margin for uncertainty in cash flows assumptions in the table above would increase the fair value of the fixed-indexed annuity embedded derivatives, while increasing any of the other unobservable inputs in the table above would decrease the fair value of the embedded derivatives.

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Changes in balances of Level 3 financial assets and liabilities carried at fair value during 2015, 2014 and 2013 are presented below (in millions). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

	Bal. at Dec. 31, 2014	Impact of accounting change (a)	Net income	Total realized/unrealized gains (losses) included in Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Sale of subsidiaries	Bal. at Dec. 31, 2015
AFS fixed maturities:										
U.S. government agency	\$15	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$15
State and municipal	100	—	—	(1)	34	(1)	2	(39)	(6)	89
Residential MBS	300	—	(11)	(1)	—	(34)	86	(88)	(28)	224
Commercial MBS	44	—	(1)	(1)	—	(2)	4	(1)	(4)	39
Asset-backed securities	226	—	1	(7)	265	(56)	53	(10)	(2)	470
Corporate and other	546	—	(5)	(9)	161	(90)	41	(5)	(6)	633
Equity securities	93	—	(4)	(9)	77	—	—	(17)	—	140
Assets of MIE	31	—	(11)	—	6	—	—	—	—	26
Liabilities of MIE	(2,701)	2,701	—	—	—	—	—	—	—	—
Embedded derivatives (b)	(1,160)	—	(17)	—	(257)	65	—	—	—	(1,369)

(a) The impact of implementing new guidance adopted in 2015, as discussed above and in Note A — “Accounting Policies — Managed Investment Entities.”

(b) Total realized/unrealized gains (losses) included in net income for the embedded derivatives reflects losses related to the unlocking of actuarial assumptions of \$28 million in 2015.

	Balance at December 31, 2013	Net income	Total realized/unrealized gains (losses) included in Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2014
AFS fixed maturities:								
U.S. government agency	\$15	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$15
State and municipal	61	(1)	—	30	—	10	—	100
Residential MBS	316	4	3	13	(31)	111	(116)	300
Commercial MBS	28	(1)	—	—	—	17	—	44
Asset-backed securities	75	3	(2)	99	(39)	117	(27)	226

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Corporate and other	335	2	13	102	(73)	172	(5)	546		
Equity securities	31	1	2	62	(9)	22	(16)	93		
Assets of MIE	30	(3	)	—	6	(2	)	—	—	31
Liabilities of MIE (a)	(2,411)	22	—	(817)	505	—	—	(2,701)	
Embedded derivatives (b)	(804)	(182)	—	(221)	47	—	—	(1,160)

(a) Total realized/unrealized gains (losses) included in net income includes gains of \$50 million related to liabilities outstanding as of December 31, 2014. See Note H — “Managed Investment Entities.”

(b) Total realized/unrealized gains (losses) included in net income for the embedded derivatives reflects gains related to the unlocking of actuarial assumptions of \$58 million in 2014.

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	Balance at December 31, 2012	Total realized/unrealized gains (losses) included in Net income	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at December 31, 2013
AFS fixed maturities:								
U.S. government agency	\$20	\$(2)	\$(3)	\$—	\$—	\$—	\$—	\$15
State and municipal	58	(1)	(2)	10	—	—	(4)	61
Residential MBS	371	5	24	6	(53)	86	(123)	316
Commercial MBS	22	(1)	(1)	—	—	8	—	28
Asset-backed securities	253	4	(3)	12	(57)	11	(145)	75
Corporate and other	236	1	(14)	113	(17)	24	(8)	335
Equity securities	37	(1)	6	53	(12)	—	(52)	31
Assets of MIE	40	(5)	—	8	(7)	—	(6)	30
Liabilities of MIE (a)	(2,745)	(25)	—	(728)	1,068	—	19	(2,411)
Embedded derivatives (b)	(465)	(182)	—	(192)	35	—	—	(804)

(a) Total realized/unrealized gains (losses) included in net income includes gains of \$7 million related to liabilities outstanding as of December 31, 2013. See Note H — “Managed Investment Entities.”

(b) Total realized/unrealized gains (losses) included in net income for the embedded derivatives reflects gains related to the unlocking of actuarial assumptions of \$2 million in 2013.

Fair Value of Financial Instruments The carrying value and fair value of financial instruments that are not carried at fair value in the financial statements at December 31 are summarized below (in millions):

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
2015					
Financial assets:					
Cash and cash equivalents	\$1,220	\$1,220	\$1,220	\$—	\$—
Mortgage loans	1,067	1,074	—	—	1,074
Policy loans	201	201	—	—	201
Total financial assets not accounted for at fair value	\$2,488	\$2,495	\$1,220	\$—	\$1,275
Financial liabilities:					
Annuity benefits accumulated (*)	\$26,422	\$25,488	\$—	\$—	\$25,488
Long-term debt	1,022	1,120	—	1,105	15
Total financial liabilities not accounted for at fair value	\$27,444	\$26,608	\$—	\$1,105	\$25,503
2014					
Financial assets:					
Cash and cash equivalents	\$1,343	\$1,343	\$1,343	\$—	\$—
Mortgage loans	1,117	1,124	—	—	1,124
Policy loans	228	228	—	—	228
Total financial assets not accounted for at fair value	\$2,688	\$2,695	\$1,343	\$—	\$1,352
Financial liabilities:					

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Annuity benefits accumulated (*)	\$23,561	\$23,187	\$—	\$—	\$23,187
Long-term debt	1,061	1,180	—	1,106	74
Total financial liabilities not accounted for at fair value	\$24,622	\$24,367	\$—	\$1,106	\$23,261

(*) Excludes \$200 million and \$203 million of life contingent annuities in the payout phase at December 31, 2015 and 2014, respectively.

The carrying amount of cash and cash equivalents approximates fair value. Fair values for mortgage loans are estimated by discounting the future contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. The fair value of policy loans is estimated to approximate carrying value; policy loans have no defined maturity dates and are inseparable from insurance contracts. The fair value of annuity benefits was estimated based on expected

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

cash flows discounted using forward interest rates adjusted for the Company's credit risk and includes the impact of maintenance expenses and capital costs. Fair values of long-term debt are based primarily on quoted market prices.

E. Investments

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

	2015				2014			
	Amortized Cost	Fair Value	Gross Gains	Unrealized Losses	Amortized Cost	Fair Value	Gross Gains	Unrealized Losses
Fixed maturities:								
U.S. Government and government agencies	\$305	\$307	\$5	\$(3)	\$347	\$353	\$8	\$(2)
States, municipalities and political subdivisions	6,642	6,856	249	(35)	6,393	6,747	364	(10)
Foreign government	147	154	7	—	184	194	10	—
Residential MBS	3,236	3,529	308	(15)	4,046	4,442	411	(15)
Commercial MBS	2,111	2,187	77	(1)	2,294	2,451	158	(1)
Asset-backed securities	4,961	4,934	25	(52)	3,872	3,887	37	(22)
Corporate and other	14,163	14,317	422	(268)	11,938	12,660	751	(29)
Total fixed maturities	\$31,565	\$32,284	\$1,093	\$(374)	\$29,074	\$30,734	\$1,739	\$(79)
Common stocks	\$1,051	\$1,118	\$146	\$(79)	\$885	\$1,087	\$227	\$(25)
Perpetual preferred stocks	\$418	\$435	\$23	\$(6)	\$398	\$414	\$21	\$(5)

The non-credit related portion of other-than-temporary impairment charges is included in other comprehensive income. Cumulative non-credit charges taken for securities still owned at December 31, 2015 and December 31, 2014, respectively, were \$205 million and \$220 million. Gross unrealized gains on such securities at December 31, 2015 and December 31, 2014 were \$134 million and \$151 million, respectively. Gross unrealized losses on such securities at December 31, 2015 and December 31, 2014 were \$6 million and \$8 million, respectively. These amounts represent the non-credit other-than-temporary impairment charges recorded in AOCI adjusted for subsequent changes in fair values and nearly all relate to residential MBS.

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The following tables show gross unrealized losses (dollars in millions) on fixed maturities and equity securities by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014.

	Less Than Twelve Months			Twelve Months or More		
	Unrealized Loss	Fair Value	% of Cost	Unrealized Loss	Fair Value	% of Cost
2015						
Fixed maturities:						
U.S. Government and government agencies	\$(1)	\$112	99 %	\$(2)	\$15	88 %
States, municipalities and political subdivisions	(33)	1,419	98 %	(2)	50	96 %
Residential MBS	(7)	438	98 %	(8)	201	96 %
Commercial MBS	—	95	100 %	(1)	28	97 %
Asset-backed securities	(42)	2,706	98 %	(10)	455	98 %
Corporate and other	(229)	4,661	95 %	(39)	165	81 %
Total fixed maturities	\$(312)	\$9,431	97 %	\$(62)	\$914	94 %
Common stocks	\$(79)	\$509	87 %	\$—	\$—	— %
Perpetual preferred stocks	\$(3)	\$91	97 %	\$(3)	\$22	88 %
2014						
Fixed maturities:						
U.S. Government and government agencies	\$—	\$39	100 %	\$(2)	\$15	88 %
States, municipalities and political subdivisions	(2)	222	99 %	(8)	408	98 %
Residential MBS	(4)	298	99 %	(11)	209	95 %
Commercial MBS	(1)	38	97 %	—	11	100 %
Asset-backed securities	(11)	1,389	99 %	(11)	622	98 %
Corporate and other	(16)	588	97 %	(13)	433	97 %
Total fixed maturities	\$(34)	\$2,574	99 %	\$(45)	\$1,698	97 %
Common stocks	\$(25)	\$260	91 %	\$—	\$—	— %
Perpetual preferred stocks	\$(1)	\$45	98 %	\$(4)	\$55	93 %

At December 31, 2015, the gross unrealized losses on fixed maturities of \$374 million relate to approximately 1,285 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 77% of the gross unrealized loss and 91% of the fair value.

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.

AFG analyzes its MBS securities for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data. During 2015, AFG recorded \$7 million in other-than-temporary impairment charges related to its residential MBS.

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In 2015, AFG recorded approximately \$31 million and \$4 million in other-than-temporary impairment charges related to corporate bonds and municipal bonds, respectively.

AFG recorded \$94 million in other-than-temporary impairment charges on common stocks in 2015. At December 31, 2015, the gross unrealized losses on common stocks of \$79 million relate to 63 securities, none of which has been in an unrealized loss position for more than 12 months.

At December 31, 2015, the gross unrealized losses on preferred stocks of \$6 million relate to 19 securities. All of the preferred stocks that have been in an unrealized loss position for 12 months or more (3 securities) have investment grade ratings.

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.

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

	2015	2014	2013
Balance at January 1	\$170	\$194	\$192
Additional credit impairments on:			
Previously impaired securities	1	—	—
Securities without prior impairments	2	—	3
Reductions due to:			
Sales or redemptions	(9	) (24	) (1
Sale of subsidiaries	(4) —	—
Balance at December 31	\$160	\$170	\$194

The table below sets forth the scheduled maturities of available for sale fixed maturities as of December 31, 2015 (dollars in millions). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

Maturity	Amortized Cost	Fair Value Amount	%	
One year or less	\$922	\$935	3	%
After one year through five years	5,208	5,417	17	%
After five years through ten years	11,007	11,054	34	%
After ten years	4,120	4,228	13	%
	21,257	21,634	67	%
ABS (average life of approximately 5 years)	4,961	4,934	15	%
MBS (average life of approximately 4 years)	5,347	5,716	18	%
Total	\$31,565	\$32,284	100	%

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

There were no investments in individual issuers that exceeded 10% of Shareholders' Equity at December 31, 2015 or 2014.

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

	Pretax	Deferred Tax and Amounts Attributable	Net to Noncontrolling Interests
December 31, 2015			
Unrealized gain on:			
Fixed maturities — annuity segment (*)	\$523	\$ (183)	\$340
Fixed maturities — all other	196	(72)	124
Equity securities	84	(30)	54
Deferred policy acquisition costs — annuity segment	(233 )	) 82	(151)
Annuity benefits accumulated	(64 )	) 22	(42)
Unearned revenue	11	(4)	7
	\$517	\$ (185)	\$332
December 31, 2014			
Unrealized gain on:			
Fixed maturities — annuity segment (*)	\$1,157	\$ (405)	\$752
Fixed maturities — all other	503	(185)	318
Equity securities	218	(79)	139
Deferred policy acquisition costs — annuity segment	(531 )	) 186	(345)
Annuity benefits accumulated	(112 )	) 39	(73)
Life, accident and health reserves	(104 )	) 36	(68)
Unearned revenue	31	(11)	20
	\$1,162	\$ (419)	\$743

(*) Unrealized gains on fixed maturity investments supporting AFG’s annuity benefits accumulated.

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

	2015	2014	2013
Investment income:			
Fixed maturities	\$1,461	\$1,352	\$1,241
Equity securities	76	66	50
Equity in earnings of partnerships and similar investments (*)	27	18	—
Other	87	77	72
Gross investment income	1,651	1,513	1,363
Investment expenses	(18 )	) (12)	(17)
Net investment income	\$1,633	\$1,501	\$1,346

(*)

Prior to 2014, equity in the earnings of partnerships was not material and was included in realized gains (losses) on securities.

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

	Fixed Maturities	Equity Securities	Mortgage Loans and Other Investments	Other (*)	Total Pretax	Tax Effects	Noncon- trolling Interests	Total
Year ended December 31, 2015								
Realized before impairments	\$ 19	\$ 94	\$ (2)	\$(5)	\$ 106	\$(38)	\$(2)	\$ 66
Realized — impairments	(43)	(94)	(3)	15	(125)	45	2	(78)
Change in unrealized	(941)	(134)	—	430	(645)	226	8	(411)
Year ended December 31, 2014								
Realized before impairments	\$ 36	\$ 53	\$ 1	\$(2)	\$ 88	\$(32)	\$(2)	\$ 54
Realized — impairments	(15)	(26)	—	5	(36)	13	1	(22)
Change in unrealized	570	26	—	(314)	282	(99)	(3)	180
Year ended December 31, 2013								
Realized before impairments	\$ 36	\$ 196	\$ 2	\$(1)	\$ 233	\$(82)	\$(2)	\$ 149
Realized — impairments	(5)	(5)	(5)	3	(12)	4	—	(8)
Change in unrealized	(945)	31	—	504	(410)	144	6	(260)

(*) Primarily adjustments to deferred policy acquisition costs and reserves related to annuities and long-term care business.

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

	2015	2014	2013
Fixed maturities:			
Gross gains	\$ 38	\$ 36	\$ 44
Gross losses	(7)	(2)	(5)
Equity securities:			
Gross gains	99	53	193
Gross losses	(5)	—	—

F. Derivatives

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

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

Derivative	Balance Sheet Line	December 31, 2015		December 31, 2014	
		Asset	Liability	Asset	Liability
MBS with embedded derivatives	Fixed maturities	\$ 130	\$—	\$ 158	\$—
Public company warrants	Equity securities	4	—	19	—
Fixed-indexed annuities (embedded derivative)	Annuity benefits accumulated	—	1,369	—	1,160

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Equity index call options	Other investments	241	—	322	—
Reinsurance contracts (embedded derivative)	Other liabilities	—	7	—	13
		\$375	\$1,376	\$499	\$1,173

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

Warrants to purchase shares of publicly traded companies, which represent a small component of AFG's overall investment portfolio, are considered to be derivatives that must be marked to market through earnings.

AFG's 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 receives collateral from its counterparties to support its purchased call option assets. This collateral (\$211 million at December 31, 2015 and \$285 million at December 31, 2014) is included in other assets in AFG's Balance Sheet with an offsetting liability to return the collateral, which is included in other liabilities. AFG's strategy is designed so that the change in the fair value of the call option assets will generally offset the economic change in the liabilities from the index participation. Both the index-based component of the annuities and the related call options are considered derivatives. Fluctuations in interest rates and the stock market, among other factors, can cause volatility in the periodic measurement of fair value of the embedded derivative that management believes can be inconsistent with the long-term economics of these products.

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

The following table summarizes the gain (loss) included in the Statement of Earnings for changes in the fair value of derivatives that do not qualify for hedge accounting for 2015, 2014 and 2013 (in millions):

Derivative	Statement of Earnings Line	2015	2014	2013
MBS with embedded derivatives	Realized gains on securities	\$(16)	\$3	\$(3)
Public company warrants	Realized gains on securities	—	—	3
Interest rate swaptions	Realized gains on securities	—	(2)	1
Fixed-indexed annuities (embedded derivative) (*)	Annuity benefits	(17)	(182)	(182)
Equity index call options	Annuity benefits	(56)	181	210
Reinsurance contracts (embedded derivative)	Net investment income	6	(3)	7
		\$(83)	\$(3)	\$36

The change in fair value of the embedded derivative includes losses related to unlocking of actuarial assumptions (*) of \$28 million in 2015 compared to gains related to unlocking of actuarial assumptions of \$58 million in 2014 and \$2 million in 2013.

Derivatives Designated and Qualifying as Cash Flow Hedges In the second quarter of 2015, AFG entered into two interest rate swaps (a five-year, \$195 million notional amount swap and a fifteen-year, \$132 million notional amount swap) under which AFG receives fixed-rate interest payments in exchange for variable interest payments based on three-month LIBOR. In the third quarter of 2014, AFG entered into a five-year \$431 million notional amount interest rate swap under which AFG receives fixed-rate interest payments in exchange for variable interest payments based on

one-month LIBOR. The purpose of each of these swaps is to effectively convert a portion of AFG's floating rate fixed maturity securities to fixed rates by offsetting the variability in cash flows attributable to changes in LIBOR.

The notional amounts amortize down over each swap's respective life in anticipation of an expected decline in AFG's portfolio of fixed maturity securities with floating interest rates based on LIBOR (\$614 million and \$401 million total notional amounts at December 31, 2015 and December 31, 2014, respectively). The fair value of the effective portion of the interest rate swaps in an asset position and included in other assets was \$2 million at December 31, 2015 and less than \$1 million at December 31, 2014. The fair value of the effective portion of interest rate swaps in a liability position and included in other liabilities was less than \$1 million at December 31, 2015 and zero at December 31, 2014. The net unrealized gain or loss on cash flow hedges is included in AOCI, net of DPAC and tax. During 2015 and 2014, \$6 million and \$2 million was reclassified from AOCI to net investment income. There was no ineffectiveness recorded in Net Earnings during these periods.

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Derivative Designated and Qualifying as a Fair Value Hedge In June 2015, AFG entered into an interest rate swap to mitigate the interest rate risk associated with its fixed-rate 9-7/8% Senior Notes due June 2019 by effectively converting the interest rate on those notes to a floating rate of three-month LIBOR plus 8.099% (8.6110% at December 31, 2015). Since the terms of the interest rate swap match the terms of the hedged debt, changes in the fair value of the interest rate swap are offset by changes in the fair value of the hedged debt attributable to changes in interest rates. The fair value of the interest rate swap (an asset of \$2 million at December 31, 2015) and the offsetting adjustment to the carrying value of the 9-7/8% Senior Notes are both included in long-term debt on AFG's Balance Sheet. Accordingly, the net impact on AFG's current period earnings is that the interest expense associated with the hedged debt is effectively recorded at the floating rate. The net reduction in interest expense from the swap for 2015 was \$2 million.

G. Deferred Policy Acquisition Costs

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

	P&C Deferred Costs	Annuity and Run-off Deferred Sales Costs	Long-term Care and Life Inducements	PVFP	Subtotal	Unrealized	Total	Consolidated Total
Balance at December 31, 2012	\$ 204	\$ 787	\$ 170	\$ 99	\$ 1,056	\$(710)	\$ 346	\$ 550
Additions	468	222	11	—	233	—	233	701
Amortization:								
Periodic amortization	(460)	(140)	(30)	(14)	(184)	—	(184)	(644)
Annuity unlocking	—	4	(2)	—	2	—	2	2
Included in realized gains	—	2	—	—	2	—	2	2
Foreign currency translation	(1)	—	—	—	—	—	—	(1)
Change in unrealized	—	—	—	—	—	365	365	365
Balance at December 31, 2013	211	875	149	85	1,109	(345)	764	975
Additions	497	198	8	—	206	—	206	703
Amortization:								
Periodic amortization	(485)	(130)	(26)	(11)	(167)	—	(167)	(652)
Annuity unlocking	—	(20)	—	—	(20)	—	(20)	(20)
Included in realized gains	—	2	1	—	3	—	3	3
Foreign currency translation	(2)	—	—	—	—	—	—	(2)
Change in unrealized	—	—	—	—	—	(186)	(186)	(186)
Balance at December 31, 2014	221	925	132	74	1,131	(531)	600	821
Additions	519	224	11	—	235	—	235	754
Amortization:								
Periodic amortization	(511)	(162)	(26)	(11)	(199)	—	(199)	(710)
Annuity unlocking	—	31	4	—	35	—	35	35
Included in realized gains	—	8	1	—	9	—	9	9
Sale of subsidiaries	—	(8)	(3)	(8)	(19)	—	(19)	(19)
Foreign currency translation	(3)	—	—	—	—	—	—	—