

AMERICAN FINANCIAL GROUP INC
Form 10-K
February 28, 2014

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, 2013

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 and Nasdaq Global
Select Market

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

7% Senior Notes due September 30, 2050

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: \$3.9 billion.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 89,560,038 shares (excluding 14.9 million shares owned by subsidiaries) as of February 1, 2014.

Documents Incorporated by Reference:

Proxy Statement for 2014 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 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 and investment activities; recoverability of asset values; expected losses and the adequacy of reserves for long-term care, 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 and AFG’s run-off long-term care business;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- trends in persistency, mortality and morbidity;
- competitive pressures, including those in the annuity distribution channels;
- 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.)

Property and Casualty Insurance Segment

General

AFG’s property and casualty operations provide a wide range of commercial coverages through the approximately 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 5,300 people as of December 31, 2013. These operations are conducted through the subsidiaries listed in the following table, which includes independent ratings and 2013 net written premiums (in millions) for each major subsidiary. 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		Net Written Premiums
	AM Best	S&P	
Great American Insurance Pool (*)	A+	A+	\$2,135
National Interstate	A	not rated	538
Republic Indemnity	A	A+	216
Marketform Lloyd’s Syndicate	A	A+	166
Mid-Continent Casualty	A+	A+	147
American Empire Surplus Lines	A+	A+	80
Other			59
			\$3,341

(*) The Great American Insurance Pool represents Great American Insurance Company (“GAI”) and 10 subsidiaries.

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 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.

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AFG's statutory combined ratio averaged 94.1% for the period 2011 to 2013 as compared to 102.2% for the property and casualty industry over the same period (Source: "A.M. Best's U.S. Property/Casualty Review & Preview" — February 2014 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 operating profit 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):

	2013	2012	2011	
Gross written premiums	\$4,805	\$4,321	\$4,106	
Ceded reinsurance	(1,464)	(1,372)	(1,336))
Net written premiums	\$3,341	\$2,949	\$2,770	
Net earned premiums	\$3,204	\$2,847	\$2,759	
Loss and LAE	1,986	1,842	1,694	
Special asbestos and environmental ("A&E") charges	54	31	50	
Underwriting expenses	1,019	887	835	
Underwriting gain	\$145	\$87	\$180	
GAAP ratios:				
Loss and LAE ratio	63.7	% 65.8	% 63.2	%
Underwriting expense ratio	31.8	% 31.1	% 30.2	%
Combined ratio	95.5	% 96.9	% 93.4	%
Statutory ratios:				
Loss and LAE ratio	62.2	% 63.2	% 60.4	%
Underwriting expense ratio	31.9	% 32.4	% 32.3	%
Combined ratio	94.1	% 95.6	% 92.7	%

Industry statutory combined ratio (a)

All lines	97.6	%	102.2	%	106.7	%
Commercial lines	98.3	%	104.4	%	106.7	%

(a) The source of the industry ratios is “A.M. Best’s U.S. Property/Casualty — Review & Preview” (February 2014 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 \$31 million in 2013, \$46 million in 2012 and \$43 million in 2011 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 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 2.5% 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; and provides non-U.S. 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 January 2014, AFG announced that it had reached a definitive agreement to acquire Summit Holdings Southeast, Inc. and its related companies. Summit is a leading provider of workers' compensation solutions in the southeastern United

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States, with over \$500 million in net written premiums in 2013. Likewise, AFG will withdraw from markets that do not meet its profit objectives or business strategy, such as the withdrawal from certain program business in 2010 and 2011.

Premium Distribution

The following table shows the net written premiums by sub-segment for AFG's property and casualty insurance operations for 2013, 2012 and 2011 (dollars in millions):

	2013	2012	2011
Property and transportation	\$1,547	\$1,473	\$1,436
Specialty casualty	1,224	992	867
Specialty financial	486	411	398
Other	84	73	69
	\$3,341	\$2,949	\$2,770

The geographic distribution of statutory direct written premiums by AFG's U.S.-based insurers for 2013, 2012 and 2011 is shown below. Approximately 5% of AFG's direct written premiums in 2013 were derived from non U.S.-based insurers, primarily Marketform, a United Kingdom-based Lloyd's insurer.

	2013	2012	2011		2013	2012	2011		
California	13.8	% 12.6	% 12.0	%	Georgia	2.3	% 2.4	% 2.4	%
Illinois	6.8	% 7.1	% 8.0	%	Indiana	2.3	% 2.6	% 2.9	%
Texas	6.8	% 6.9	% 6.8	%	New Jersey	2.3	% 2.1	% 2.1	%
New York	6.6	% 5.9	% 4.8	%	Pennsylvania	2.3	% 2.6	% 2.6	%
Florida	4.3	% 4.4	% 4.5	%	Ohio	2.1	% 2.3	% 2.4	%
Iowa	3.4	% 3.7	% 3.8	%	Oklahoma	2.1	% 2.2	% 2.0	%
Kansas	3.2	% 3.7	% 4.1	%	Nebraska	2.1	% 2.2	% 2.3	%
Missouri	3.1	% 2.9	% 3.2	%	North Dakota	2.1	% 2.1	% 2.2	%
South Dakota	2.7	% 2.5	% 2.7	%	Minnesota	2.0	% 2.1	% 2.1	%
Michigan	2.4	% 2.4	% 1.8	%	Other	24.9	% 25.0	% 25.1	%
North Carolina	2.4	% 2.3	% 2.2	%		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 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 (net of payables to reinsurers) at December 31, 2013: 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 \$191 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, 2014:

Coverage	Retention Maximum	Reinsurance Coverage (a)
California Workers’ Compensation	\$2	\$148
Other Workers’ Compensation	2	48
Commercial Umbrella	4	46
Property — General	5	45
Property — Catastrophe	19	81

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

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 premium 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 2013 and 2012, 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 2014.

The Balance Sheet caption “recoverables from reinsurers” included approximately \$82 million on paid losses and LAE and \$2.12 billion on unpaid losses and LAE at December 31, 2013. These amounts are net of allowances of approximately \$27 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):

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	2013	2012	2011
Reinsurance ceded	\$1,464	\$1,372	\$1,336
Reinsurance ceded, excluding crop	802	743	652
Reinsurance assumed — including involuntary pools and associations	61	38	45

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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, 2013. 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, particularly with regard to A&E charges, settlements and reallocations 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.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Liability for unpaid losses and loss adjustment expenses:											
As originally estimated	\$2,901	\$3,155	\$3,619	\$3,791	\$3,868	\$4,154	\$3,899	\$4,164	\$4,282	\$4,129	\$4,129
As re-estimated at December 31, 2013	\$3,527	\$3,383	\$3,391	\$3,317	\$3,295	\$3,784	\$3,664	\$4,041	\$4,252	\$4,114	\$4,114
Liability re-estimated:											
One year later	104.9 %	106.3 %	98.4 %	97.4 %	93.6 %	95.2 %	96.0 %	98.3 %	99.3 %	99.6 %	99.6 %
Two years later	114.0 %	106.1 %	98.8 %	92.3 %	89.7 %	91.6 %	94.2 %	97.2 %	99.3 %		
Three years later	114.7 %	107.7 %	95.2 %	89.5 %	85.8 %	90.4 %	93.9 %	97.0 %			
Four years later	118.0 %	106.0 %	93.6 %	87.0 %	84.5 %	90.8 %	94.0 %				
Five years later	118.5 %	105.5 %	92.1 %	86.5 %	84.7 %	91.1 %					
Six years later	118.8 %	104.4 %	92.1 %	87.0 %	85.2 %						
Seven years later	117.9 %	104.9 %	92.8 %	87.5 %							
Eight years later	118.7 %	105.8 %	93.7 %								
	119.9 %	107.2 %									

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Nine years later																				
Ten years later	121.6	%																		
Cumulative deficiency (redundancy) (a)	21.6	%	7.2	%	(6.3)	%	(12.5)	%	(14.8)	%	(8.9)	%	(6.0)	%	(3.0)	%	(0.7)	%	(0.4)	%
Cumulative paid as of:																				
One year later	27.3	%	25.4	%	23.5	%	22.3	%	21.0	%	24.0	%	21.3	%	23.3	%	27.7	%	27.4	%
Two years later	46.4	%	40.8	%	37.5	%	34.8	%	32.9	%	37.2	%	35.9	%	38.6	%	45.7	%		
Three years later	58.8	%	52.4	%	46.9	%	43.6	%	41.6	%	47.0	%	47.1	%	52.7	%				
Four years later	68.5	%	60.1	%	53.6	%	49.9	%	47.5	%	54.5	%	57.7	%						
Five years later	75.2	%	65.6	%	58.7	%	54.2	%	52.6	%	62.4	%								
Six years later	80.1	%	70.5	%	62.1	%	58.0	%	58.5	%										
Seven years later	84.4	%	73.8	%	65.3	%	63.2	%												
Eight years later	87.4	%	77.1	%	70.3	%														
Nine years later	90.8	%	82.5	%																
Ten years later	96.4	%																		
(a) Cumulative deficiency (redundancy):																				
Special A&E charges, settlements and reallocations	12.8	%	11.7	%	5.3	%	5.0	%	3.8	%	3.2	%	3.5	%	3.2	%	2.0	%	1.3	%
Other	8.8	%	(4.5)	%	(11.6)	%	(17.5)	%	(18.6)	%	(12.1)	%	(9.5)	%	(6.2)	%	(2.7)	%	(1.7)	%
Total	21.6	%	7.2	%	(6.3)	%	(12.5)	%	(14.8)	%	(8.9)	%	(6.0)	%	(3.0)	%	(0.7)	%	(0.4)	%

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
As originally estimated:											
Net liability shown above	\$2,901	\$3,155	\$3,619	\$3,791	\$3,868	\$4,154	\$3,899	\$4,164	\$4,282	\$4,129	\$4,114
Add reinsurance recoverables	2,059	2,234	2,243	2,309	2,300	2,610	2,513	2,249	2,238	2,716	3,010
Gross liability	\$4,960	\$5,389	\$5,862	\$6,100	\$6,168	\$6,764	\$6,412	\$6,413	\$6,520	\$6,845	\$7,124
As re-estimated at December 31, 2013:											
Net liability shown above	\$3,527	\$3,383	\$3,391	\$3,317	\$3,295	\$3,784	\$3,664	\$4,041	\$4,252	\$4,114	\$4,114
Add reinsurance recoverables	2,791	2,586	2,348	2,138	1,930	2,292	1,981	1,987	2,082	3,010	3,010
Gross liability	\$6,318	\$5,969	\$5,739	\$5,455	\$5,225	\$6,076	\$5,645	\$6,028	\$6,334	\$7,124	\$7,124
Gross cumulative deficiency (redundancy)	27.4 %	10.8 %	(2.1 %) (10.6 %)	(15.3 %)	(10.2 %)	(12.0 %)	(6.0 %)	(2.9 %)	4.1 %		

(a) Gross cumulative deficiency

(redundancy):

Special A&E charges, settlements and reallocations

Other	9.2 %	8.6 %	4.4 %	4.2 %	3.2 %	2.6 %	2.8 %	2.8 %	1.9 %	6.9 %	
Total	18.2 %	2.2 %	(6.5 %) (14.8 %)	(18.5 %)	(12.8 %)	(14.8 %)	(8.8 %)	(4.8 %)	(2.8 %)		

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 \$54 million special A&E charge related to losses recorded in 2013, but incurred before 2003, 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, 2013 are as follows (in millions):

Liability reported on a SAP basis, net of \$135 million of retroactive reinsurance	\$3,709
Reinsurance recoverables, net of allowance	2,122
Other, including reserves of foreign insurers	579
Liability reported on a GAAP basis	\$6,410

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 studies of its asbestos and environmental reserves with the aid of outside actuarial and engineering firms and specialty 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 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. 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.

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The increase in environmental reserves was attributed primarily to a small number of claims where the estimated costs of remediation have increased. There were no newly identified or emerging broad industry trends that were identified in this study. 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. As a result of the in-depth internal review in 2012, AFG recorded a \$31 million pretax special charge (net of reinsurance) to increase the property and casualty group's A&E reserves. The charge relates primarily to an increase in environmental investigative costs and related loss adjustment expenses. In addition to the third quarter special charge, AFG increased A&E reserves for two individual claims by an aggregate of \$12 million in 2012 due to fact specific developments and refined estimates of exposure. The 2011 comprehensive study resulted in a \$50 million pretax special charge (net of reinsurance) in the second quarter of 2011 to increase the property and casualty group's A&E reserves.

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

	2013	2012	2011
Reserves at beginning of year	\$373	\$362	\$342
Incurred losses and LAE	59	43	50
Paid losses and LAE (*)	(131) (32) (30
Reserves at end of year, net of reinsurance recoverable	301	373	362
Reinsurance recoverable, net of allowance	83	98	92
Gross reserves at end of year	\$384	\$471	\$454

(*) Paid losses and LAE in 2013 include payments totaling \$106 million (net of reinsurance recoveries) associated with the settlement of A.P. Green Industries 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, 2013. These operations are conducted primarily through the subsidiaries listed in the following table, which includes 2013 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	\$3,795	329,500	A	A+
Annuity Investors Life Insurance Company	233	129,000	A	A+

AFG believes that the ratings assigned by independent insurance rating agencies are an important competitive factor because agents, potential policyholders, banks, 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		
	2013	2012	2011
Retail single premium annuities — indexed	\$1,879	\$1,662	\$1,549
Retail single premium annuities — fixed	165	153	239
Financial institutions single premium annuities — indexed	1,102	291	216
Financial institutions single premium annuities — fixed	628	587	755
Education market — 403(b) fixed and indexed annuities	207	237	257
Total fixed annuity premiums	3,981	2,930	3,016
Variable annuities	52	61	70
Total annuity premiums	\$4,033	\$2,991	\$3,086

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. 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.

Marketing

AFG sells its single premium annuities, excluding bank production (discussed below), primarily through a retail network of approximately 65 national marketing organizations (“NMOs”) and managing general agents (“MGAs”) who, in turn, direct over 1,500 actively producing agents.

AFG also sells single premium annuities in financial institutions through direct relationships with certain banks and through independent agents and brokers. Premiums generated through AFG’s direct relationship with PNC Bank and through BB&T and Regions Bank by independent brokers were the largest individual sources of annuity premiums in 2013 and accounted for approximately 11%, 7% and 6%, respectively, of AFG’s overall annuity premiums in 2013.

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.

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. In 2013, the only states that accounted for 5% or more of AFG’s annuity premiums were Florida (9%), California (7%), Ohio (7%), Pennsylvania (7%) and North Carolina (5%). At December 31, 2013, AFG had approximately 480,000 annuity policies in force.

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 bank annuity market, AFG’s annuities compete directly against competitors’ bank 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 and that are likely to become more aggressive in marketing their products.

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. Renewal premiums on approximately 56,000 policies covering approximately 60,000 lives will be accepted unless those policies lapse. Renewal premiums, net of reinsurance, were \$76 million in 2013, \$79 million in 2012 and \$81 million in 2011. At December 31, 2013, AFG's long-term care insurance reserves were \$726 million, net of reinsurance recoverables.

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 180,000 policies and \$17.98 billion gross (\$4.55 billion net of reinsurance) of life insurance in force at December 31, 2013. Renewal premiums, net of reinsurance, were \$33 million in 2013, \$34 million in 2012 and \$35 million in 2011. At December 31, 2013, AFG's life insurance reserves were \$406 million, net of reinsurance recoverables.

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The vast majority of AFG's investment in its run-off long-term care and life operations (including 100% of its long-term care business) is in the following subsidiaries:

Company	Products
United Teacher Associates Insurance Company	Long-term care, life, annuities
Continental General Insurance Company	Long-term care, life, annuities
Manhattan National Life Insurance Company	Life

The combined GAAP equity (excluding net unrealized gains on marketable securities) of these three companies was \$227 million at December 31, 2013. Approximately 80% of this equity was associated with the run-off long-term care business and about 10% was associated with run-off life business. The remainder of this equity was associated with AFG's ongoing annuity operations.

Medicare Supplement and Critical Illness Segment

In 2012, AFG sold its Medicare supplement and critical illness businesses, which included Loyal American Life Insurance Company and four other insurance companies, to Cigna Corporation for \$326 million in cash. This business generated premiums of \$199 million in 2012 (through the August sale date) and \$304 million in 2011.

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), New Orleans (Le Pavillon 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), Florida City, Florida (retail commercial development) and apartments in Louisville and Pittsburgh. These operations employed approximately 500 full-time employees at December 31, 2013.

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.

	2013	2012	2011	
Yield on Fixed Maturities (a):				
Excluding realized gains and losses	5.2	% 5.6	% 5.7	%
Including realized gains and losses	5.3	% 5.8	% 5.8	%
Yield on Equity Securities (a):				
Excluding realized gains and losses	5.5	% 4.5	% 4.8	%
Including realized gains and losses	26.4	% 25.2	% 18.5	%

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

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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.

	2013		2012		2011	
Total return on AFG's fixed maturities	1.3	%	9.1	%	7.7	%
Barclays Capital U.S. Universal Bond Index	(1.3	%)	5.5	%	7.4	%
Total return on AFG's equity securities	27.1	%	18.7	%	6.9	%
Standard & Poor's 500 Index	32.4	%	16.0	%	2.1	%

Fixed Maturity Investments

AFG's bond portfolio is invested primarily in taxable bonds. The following table shows AFG's available for sale fixed maturities by Standard & Poor's Corporation or comparable rating as of December 31, 2013 (dollars in millions).

	Amortized Cost	Fair Value Amount		%
S&P or comparable rating				
AAA, AA, A	\$17,048	\$17,542	66	%
BBB	4,907	5,160	20	%
Total investment grade	21,955	22,702	86	%
BB	686	717	3	%
B	504	524	2	%
CCC, CC, C	1,010	1,154	4	%
D, not rated	1,211	1,359	5	%
Total non-investment grade	3,411	3,754	14	%
Total	\$25,366	\$26,456	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 26% of AFG's fixed maturity investments are MBS. At December 31, 2013, 97% (based on statutory carrying value of \$25.38 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).

Equity Investments

At December 31, 2013, AFG held common and perpetual preferred stocks with a fair value of \$1.18 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 2014 from its insurance subsidiaries without seeking regulatory clearance is approximately \$610 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,

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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. It is too early to 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 likely 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. In the second quarter of 2013, AFG's annuity segment recorded a pretax charge of \$5 million to cover expected assessments from state guaranty funds related to the insolvency and liquidation of Executive Life Insurance Company of New York, an unaffiliated life insurance company. 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 in Europe. Economic growth in the U.S. and internationally may not continue or may be slow for an extended period of time. In addition, other economic conditions (such as unemployment) may continue to be weak. See Item 7A — Quantitative and Qualitative Disclosures about Market Risk — "European Debt Exposure." At December 31, 2013, AFG's net unrealized gain on fixed maturity investments was \$1.09 billion consisting of gross gains of \$1.40 billion and gross losses of \$305 million. Although AFG intends to hold its investments with unrealized losses until they recover in value, its intent may change for a variety of reasons as discussed in Item 7 — Management's Discussion and Analysis — "Investments." A change in AFG's ability or intent with regard to a security in an unrealized loss position would result in the recognition of a realized loss.

AFG's investment performance could also be adversely impacted by the types of investments, industry groups and/or individual securities in which it invests. As of December 31, 2013, 85% 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. AFG's equity securities, which represent 4% of its investment portfolio, are subject to market price volatility.

MBS represented about 26% of AFG's fixed maturity securities at December 31, 2013. 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 3% of AFG's total fixed maturity portfolio at December 31, 2013; MBS in which the underlying collateral is Alt-A mortgages (risk profile between prime and subprime) represented approximately 4%. 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.

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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.

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.

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 major competitors in some or all of AFG's specialty lines include the following companies and/or their subsidiaries: ACE Ltd., American International Group Inc., Arch Capital Group Ltd., Chubb Corp., Cincinnati Financial Corp., CNA Financial Corp., Liberty Mutual, Markel Corp., Munich Re Group (American Modern Insurance), Hartford Financial Services Group, HCC Insurance Holdings, Inc., Ironshore Insurance Ltd., RLI Corp., The Travelers Companies Inc., Tokio Marine Holdings, Inc. (Philadelphia Consolidated), W.R. Berkley Corp., Wells Fargo Corp. (Rural Community Insurance), XL Group Plc, Fairfax Financial Holdings Limited (Zenith National) 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: ING Life Insurance and Annuity Company, Metropolitan Life Insurance Company, American International Group Inc., Western National Life Insurance Company, Life Insurance Company of the Southwest, Midland National Life Insurance Company, Allianz Life Insurance Company of North America, Guggenheim Life and Annuity Company, Apollo Global Management (Aviva Life and Annuity Company and Athene), Forethought Life Insurance Company, Jackson National Life Insurance Company, Pacific Life Insurance Company and Mutual of Omaha Insurance Company. Financial institutions annuity premiums represented 43% of AFG's annuity premiums in 2013 and have been a key driver in the growth of AFG's annuity business since 2009. Approximately 57% of AFG's financial institutions annuity premiums in 2013 were generated through three large banks. Although AFG has been able to add several new banks in the last few years, the failure to replace these banks 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' bank 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: 2013 — \$1.46 billion (31%), 2012 — \$1.37 billion (32%) and 2011 — \$1.34 billion (33%). 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 \$953 million, including \$586 million from Hannover Life Reassurance Company of America (rated A+ by A.M. Best) and \$200 million from Loyal American Life Insurance Company, a subsidiary of Cigna (rated A- by A.M. Best), related primarily to the reinsurance of certain benefits in its run-off long-term care and life operations and the August 2012 sale of its Medicare supplement and critical illness businesses. AFG is also subject to credit

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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.

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 authorizes 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 2013, 2012 or 2011. In 2014, AFG would have to sustain terrorism losses in excess of \$400 million to be eligible for reinsurance under the program, which also has a total industry cap of \$100 billion. The program is due to expire at the end of 2014; however, legislation to extend the program has been introduced in Congress. 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.

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Despite the implementation of security measures, these systems may also be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any compromise of security could have a material adverse effect on AFG's business or reputation and could subject AFG to liability if confidential customer information is misappropriated from its computer systems.

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 \$31 million in 2013 (primarily from spring storms in the southeastern United States), \$46 million in 2012 (primarily from Superstorm Sandy) and \$43 million in 2011 (primarily from tornadoes). 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 and did negatively impact 2012 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.

Changes in interest rates could adversely impact the spread AFG earns on its annuity products.

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). Most of AFG’s annuity products have guaranteed minimum

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crediting rates (ranging from 4% down to currently 1% on new business). 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.

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

The earnings on AFG's annuity products depend significantly upon the extent to which actual experience is consistent with the assumptions used in setting reserves and establishing and amortizing deferred policy acquisition costs ("DPAC"). These assumptions relate to investment yields (and spreads over fixed annuity crediting rates), benefit utilization rates, equity market performance, mortality, surrenders, annuitizations and other withdrawals. Developing such assumptions is complex and involves information obtained from company-specific and industry-wide data, as well as general economic information. These assumptions, and therefore AFG's results of operations, could be negatively impacted by changes in any of the factors listed above. For example, AFG recorded a \$2 million pretax charge in 2013 in its annuity business from the net impact of changes in assumptions related to future investment yields, future expected call option costs in the fixed-indexed annuity business, crediting rates and lapses.

The ability to get price increases and appropriate investment yields and variations from the actuarial assumptions used in loss recognition testing in AFG's closed block of long-term care policies may adversely affect AFG's profitability.

AFG ceased writing new long-term care insurance policies in January 2010. Previous policies written are guaranteed renewable, but can be re-priced, subject to regulatory approval, to reflect adverse experience. Inability to get needed regulatory approval may adversely impact AFG's results of operations. In addition, given the duration of the long-term care product, AFG may be unable to purchase appropriate assets with cash flows and durations necessary to match those of future claims in that business.

For long-duration contracts (such as long-term care policies), loss recognition occurs when, based on current expectations as of the measurement date, the 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, related settlement and maintenance costs, and unamortized acquisition costs. Based on loss recognition testing at December 31, 2012, AFG recorded a \$153 million pretax charge in 2012 to write off deferred policy acquisition costs and strengthen reserves on its closed block of long-term care insurance, due primarily to the impact of changes in assumptions related to future investment yields resulting from the continued low interest rate environment, as well as changes in claims, expense and persistency assumptions. Although no additional loss recognition charges were recorded in 2013, adverse changes in any of the reserve assumptions in future periods could result in additional loss recognition for this business.

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 2013.

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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 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 10.1% of AFG's outstanding Common Stock as of February 1, 2014. 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.

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, listed on the NYSE and Nasdaq Global Select Market, constantly changes. During 2013, AFG's Common Stock traded at prices ranging between \$39.76 and \$58.44. 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.

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ITEM 2

Properties

Subsidiaries of AFG own several buildings in downtown Cincinnati. AFG and its affiliates occupy approximately 40% 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 85% of the 177,000 square feet of 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 and the Nasdaq Global Select Market 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.

	2013		2012	
	High	Low	High	Low
First Quarter	\$47.50	\$39.76	\$38.97	\$36.24
Second Quarter	49.88	46.45	40.54	37.37
Third Quarter	54.48	49.01	39.64	36.28
Fourth Quarter	58.44	52.44	40.40	36.92

There were approximately 6,200 shareholders of record of AFG Common Stock at February 1, 2014. AFG declared and paid regular quarterly dividends of \$0.195 per share in January, April and July 2013. In August 2013, AFG increased its quarterly dividend to \$0.22 and declared and paid its first dividend at that rate in October 2013. In December 2013, AFG declared and paid a special cash dividend of \$1.00 per share of AFG Common Stock. In 2012, AFG declared and paid quarterly dividends of \$0.175 per share in January, April and July and \$0.195 per share in October. In December 2012, AFG declared and paid a special cash dividend of \$0.25 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 2013 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 Quarter	61,586	\$43.71	61,586	7,501,271
Second Quarter	1,386,570	48.37	1,386,570	6,114,701
Third Quarter	—	—	—	6,114,701
Fourth Quarter	—	—	—	6,114,701
Total	1,448,156	\$48.17	1,448,156	

(a) Represents the remaining shares that may be repurchased under the Plans authorized by AFG's Board of Directors in August 2012 and February 2013.

In addition, AFG acquired 45,179 shares of its Common Stock (at an average of \$46.38 per share) in the first nine months of 2013, 4,412 shares (at an average of \$56.18 per share) in November 2013 and 9,383 shares (at an average of \$57.96 per share) in December 2013 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).

	2013	2012	2011	2010	2009
Earnings Statement Data:					
Total revenues	\$5,092	\$4,957	\$4,643	\$4,400	\$4,208
Earnings before income taxes	689	537	558	694	818
Net earnings, including noncontrolling interests	453	402	319	426	534
Less: Net earnings (loss) attributable to noncontrolling interests	(18)	(86)	(23)	(56)	11
Net earnings attributable to shareholders	471	488	342	482	523
Earnings attributable to shareholders per Common Share:					
Basic	\$5.27	\$5.18	\$3.37	\$4.41	\$4.52
Diluted	5.16	5.09	3.32	4.36	4.48
Cash dividends paid per share of Common Stock (a)	\$1.805	\$0.97	\$0.6625	\$0.575	\$0.52
Ratio of earnings to fixed charges including annuity benefits (b)	2.15	1.98	1.95	2.42	2.59
Balance Sheet Data:					
Cash and investments	\$31,313	\$28,449	\$25,577	\$22,670	\$19,791
Total assets	42,087	39,171	35,838	32,241	27,442
Property and casualty insurance reserves:					
Unpaid losses and loss adjustment expenses	6,410	6,845	6,520	6,413	6,412
Unearned premiums	1,757	1,651	1,484	1,534	1,568
Annuity benefits accumulated	20,944	17,609	15,420	12,905	11,335
Life, accident and health reserves	2,008	2,059	1,727	1,650	1,603
Long-term debt	913	953	934	952	828
Shareholders' equity	4,599	4,578	4,411	4,331	3,623
Less:					
Net unrealized gain on fixed maturities (c)	441	719	459	341	49
Appropriated retained earnings	49	75	173	197	—
Adjusted shareholders' equity (d)	4,109	3,784	3,779	3,793	3,574
Book value per share	\$51.38	\$51.45	\$45.08	\$41.18	\$31.95
Adjusted book value per share (d)	45.90	42.52	38.63	36.06	31.52

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

(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 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 8.86, 7.16, 6.59, 9.14 and 11.03 for 2013, 2012, 2011, 2010 and 2009, 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 (d) shareholders' equity excluding these items to be meaningful as (i) the unrealized gain on fixed maturities fluctuates with changes in interest rates in a way that is primarily only meaningful to AFG if it sells those investments and (ii) appropriated retained earnings represents amounts that will ultimately inure to the benefit of the debt holders of the collateralized loan obligations managed by AFG.

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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, 2013, AFG (parent) held approximately \$576 million in cash and securities and had \$500 million available under a bank line of credit expiring in December 2016. See "Liquidity and Capital Resources — Parent and Subsidiary Liquidity" for a discussion of the planned acquisition of Summit Holdings Southeast, Inc.

Results of Operations

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

Net earnings attributable to AFG's shareholders were \$158 million (\$1.73 per share, diluted) for the fourth quarter of 2013 compared to \$50 million (\$0.54 per share) in the fourth quarter of 2012, reflecting significantly higher profits in the annuity segment and improved underwriting results in the Specialty property and casualty businesses. The fourth quarter 2012 results include a \$99 million (\$1.08 per share) after-tax charge to write off deferred policy acquisition costs and strengthen reserves in AFG's closed block of long-term care insurance. This non-core charge was partially offset by \$39 million (\$0.43 per share) of tax benefits related to the settlement of open tax years following the favorable resolution of certain tax litigation.

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Net earnings attributable to AFG's shareholders were \$471 million (\$5.16 per share) in 2013 compared to \$488 million (\$5.09 per share) in 2012. Significantly higher profits in the annuity segment and improved underwriting results in the Specialty property and casualty businesses were partially offset by higher special A&E charges and the absence of earnings from the Medicare supplement and critical illness segment, which was sold in August 2012. The \$17 million overall decrease in net earnings attributable to shareholders reflects the net impact of the following items recorded during 2012: (i) the gain on the sale of the Medicare supplement and critical illness segment, (ii) tax benefits related to the favorable resolution of certain tax litigation and settlement of open tax years, and (iii) a fourth quarter charge to write off deferred policy acquisition costs and strengthen reserves in AFG's closed block of long-term care insurance.

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 make accounting policies critical are as follows:

- the establishment of insurance reserves, especially asbestos and environmental-related reserves and reserves for AFG's closed block of long-term care insurance,
- 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.

Reserves for future policy benefits related to AFG's closed block of long-term care insurance are established (and related acquisition costs are amortized) over the life of the policies based on policy benefit assumptions as of the date of issuance, including investment yields, mortality, morbidity, persistency, and expenses. Once these assumptions are established for a given policy or group of policies, they are not changed over the life of the policy unless a loss recognition event (premium deficiency) occurs. 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 as well as unamortized acquisition costs. AFG recorded a loss recognition charge in its long-term care business in the fourth quarter of 2012. As a result of this charge, all remaining unamortized acquisition costs in the long-term care business were written off and policy benefit assumptions were reset to 2012 assumptions, resulting in an increase to the reserve for future policy benefits. These assumptions will not be changed again unless a future loss recognition event occurs. Although no additional loss recognition occurred in 2013, adverse changes in any of the current policy benefit assumptions could result in a future loss recognition event and additional charges to earnings.

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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,		
	2013	2012	
Long-term debt	\$913	\$953	
Total capital	5,192	4,907	
Ratio of debt to total capital:			
Including debt secured by real estate	17.6	% 19.4	%
Excluding debt secured by real estate	16.6	% 18.4	%

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 2.15 for the year ended December 31, 2013. Excluding annuity benefits, this ratio was 8.86. Although the ratio excluding annuity benefits is not required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholder accounts is not always considered a borrowing cost for an insurance company.

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, 2013, 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,		
	2013	2012	2011
Net cash provided by operating activities	\$760	\$817	\$667
Net cash used in investing activities	(2,915)	(1,425)	(2,439)
Net cash provided by financing activities	2,089	989	1,997
Net change in cash and cash equivalents	\$(66)	\$381	\$225

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 \$760 million, \$817 million and \$667 million in 2013, 2012 and 2011, respectively. The \$57 million decrease in net cash provided by operating activities in 2013 compared to 2012 and the \$150 million increase in net cash provided by operating activities in 2012 compared to 2011 is due primarily to the timing of claims payments and reinsurance recoveries in the property and casualty insurance operations.

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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