



2012 AFG ANNUAL REPORT | STRENGTH LIES IN THE ROOTS





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STRENGTH LIES IN THE ROOTS



The roots at American Financial Group run deep.

They have to.

Our customers depend on our strength and stability to help them manage financial risk. Doing that consistently and effectively is how we produce best-in-class service and superior operating results that build value for shareholders.



Our company's deep specialty expertise and disciplined underwriting culture served us well in successfully navigating the headwinds that we and the industry faced in 2012. Severe drought conditions, natural disasters and a continued low interest rate environment put our Property & Casualty (P&C) underwriting standards, reinsurance strategies and top-notch claims teams to the test. Similarly, our annuity team maintained its strict pricing discipline to ensure the delivery of consumer-friendly products that will meet our long-term return thresholds, despite strong and often irrational competition in their markets. Throughout these challenges, we are pleased that our P&C catastrophic losses were manageable, our financial position remains strong and our policyholders were well served.

AFG reported strong earnings in 2012. We were particularly pleased with the record earnings achieved in our annuity business. Careful segmentation of our business and an established specialization strategy have been instrumental in allowing us to identify and act upon opportunities and to scale business growth at healthy and profitable levels depending upon the circumstances at hand. We are proud of our track record in achieving industry-leading operating results. Our commitment to maintaining underwriting

and pricing discipline in our P&C businesses, achieving improved returns in our annuity business and creating value through superior investment execution has helped us to achieve compounded growth in AFG's adjusted book value of 11% over the past five years.

We believe that sustained success, especially in a challenging environment, serves as a hallmark of a strong company. We are pleased that because of AFG's consistent performance during 2012, we were able to return over \$500 million in capital to shareholders through share buybacks and dividends.

2012 Results

Net earnings were \$488 million or a record \$5.09 per share for the year. Realized gains, a gain on the sale of AFG's Medicare supplement and critical illness businesses, the favorable resolution of certain tax litigation and settlement of open tax years, and loss recognition in our long-term care business are non-recurring items included in these results. Core net operating earnings per share were \$3.27 for the year, which is about 7% lower than our 2011 results. Lower underwriting profit and lower investment income

TO OUR SHAREHOLDERS

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

Photograph by Ross Van Pelt, RVP Photography



Careful segmentation of our business and an established specialization strategy have been instrumental in allowing us to identify and act upon opportunities and to scale business growth at healthy and profitable levels.

in our Specialty P&C insurance operations were partially offset by increased earnings in our annuity operations.

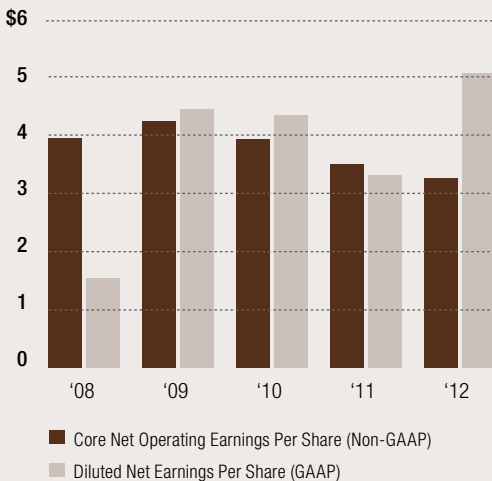
The combined ratio of 95% in our Specialty P&C Group during 2012 was three points higher than the previous year. The Midwest drought, which adversely impacted crop results, was a primary driver of lower profitability. Higher catastrophe losses and lower favorable reserve development were also factors in the lower P&C profitability. Our teams' effective use of reinsurance and careful risk selection were instrumental in making these events manageable. We were pleased to see overall sequential quarterly improvements in renewal pricing in our P&C business during the year, with most of our businesses achieving rate increases during 2012. Net written premiums in our Specialty P&C operations were up 6% in 2012, with growth driven by higher premiums in our Specialty Casualty Group. The broad-based growth achieved in many of these operations serves as an example of opportunities we pursued to organically grow our P&C business, particularly as certain markets have hardened. The start-up of our Public Sector Division this year also provided a channel to expand our products into new markets by offering excess insurance coverage for municipalities, schools and other special

service districts. We are always looking for opportunities to expand our Specialty P&C niche businesses through start-ups or acquisitions.

Our Annuity and Supplemental Group produced record core net operating earnings for the fifth consecutive year in 2012. These record results are attributable to our ability to maintain spreads on a larger base of invested assets, primarily the result of the fixed and fixed-indexed annuity premium growth we achieved over the last several years, accompanied by pricing discipline and excellent investment results. This group also includes run-off blocks of long-term care and life business. AFG recorded a non-core after-tax charge of \$99 million during the year due to loss recognition in our long-term care business. This charge was primarily due to lower projected future investment rates resulting from the continued low interest rate environment, as well as changes in claims, expense and persistency assumptions. The reserves associated with these run-off blocks of business, net of reinsurance, amount to less than 3% of AFG's total assets at December 31, 2012.

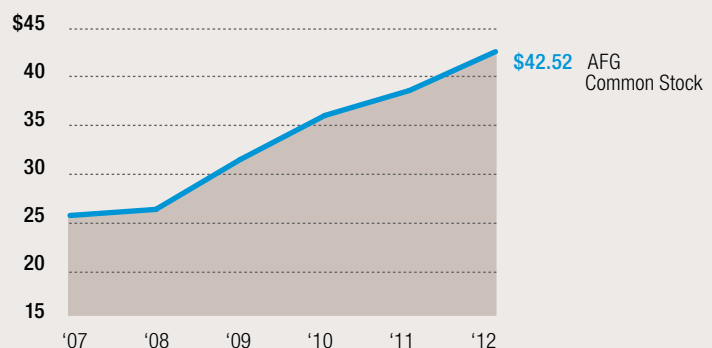
Earnings Per Share

For the year ended December 31



Adjusted Book Value Per Share

As of December 31 (excluding appropriated retained earnings and unrealized gains and losses on fixed maturities)



Additionally, in August 2012, we completed the sale of our Medicare supplement and critical illness businesses for \$326 million, resulting in an after-tax gain of \$114 million. Excluding the businesses sold, our pretax core operating earnings in the Annuity and Supplemental Group grew by more than 34%, due in part to exceptional investment returns. Annuity statutory premiums were \$3.0 billion in 2012, down 3% from the prior year. As a result of a consistent pattern of strong sales over the past three years, AFG's fixed annuity reserves have grown from \$11 billion at the beginning of 2010 to nearly \$18 billion at year-end 2012.

A commitment to creating value

Our overriding goal is to increase long-term shareholder value. We believe that the considerable ownership of AFG's stock by our management team and employees aligns our interests with those of our public shareholders. Return on equity was 13% for 2012 and has averaged 12% over the last five years. Solid earnings and share buybacks contributed to a 10% increase in AFG's adjusted book value per share during 2012 to \$42.52.

On a market value basis, the compounded annual growth rate of AFG's common stock plus dividends for the five-year period ended December 31, 2012, was approximately 9%,

compared to approximately 1% for the Standard & Poor's (S&P) Property & Casualty Insurance Index and 2% for the S&P 500 Index. These measures serve as benchmarks as we evaluate our effectiveness in value creation.

During 2012, we announced an increase in AFG's annual dividend to \$0.78 per share, the eighth consecutive annual dividend increase for the Company. In addition, we paid a special dividend of \$0.25 per share in December 2012. The five-year compounded annual growth in dividends paid to our shareholders is approximately 12.5%, excluding the 2012 special dividend. Since the beginning of 2008, we repurchased 35.5 million shares of AFG's stock at an average price that was 86% of our average adjusted book value per share over that period. Dividend payments and share repurchases have enabled us to return nearly \$1.5 billion to shareholders over that same period.

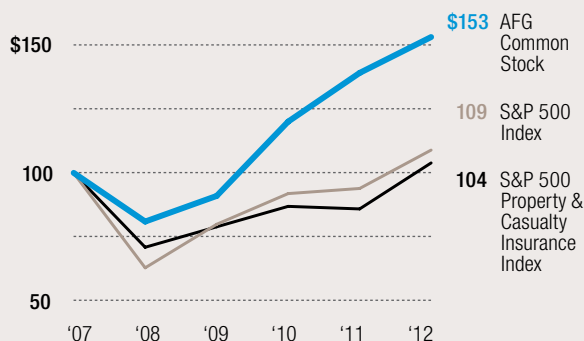
Our business model

As a premier specialty insurer, our business model is focused on offering products and services where we have niche expertise, capable distribution relationships and where we know we can deliver excellent policyholder service. Integral to the success of our model is an incentive-based compensation program, which helps us

TO OUR SHAREHOLDERS

5 Year Cumulative Total Shareholder Return

*on AFG Common Stock vs S&P Indices
As of December 31*



This graph assumes \$100 invested on December 31, 2007 in AFG's common stock, the S&P 500 Index and the S&P 500 Property & Casualty Insurance Index, including reinvestment of dividends.

During 2012, we returned over \$500 million in capital to shareholders through share buybacks and dividends.

ensure effective alignment of performance to strategic objectives. This model, coupled with robust succession planning, allows us to identify, develop and appropriately reward business leaders who will enhance the Company's intellectual capital. We know that sustained performance and financial strength will lead to growth in book value and increased shareholder value over the long run. We believe this model will allow us to achieve our long-term financial objectives to achieve returns on equity in excess of 12%, grow book value annually at double-digit rates, and maintain a strong balance sheet and adequate liquidity to provide financial flexibility.

Capital and liquidity

Capital management remains a priority for us. AFG's financial condition is strong, with \$625 million in excess capital (including cash at the parent company of approximately \$279 million) as of December 31, 2012. We are committed to deploying our capital in a manner that creates long-term shareholder value. We will invest capital in businesses that have potential for healthy, profitable, organic growth, and in opportunities to expand our specialty niche businesses through acquisitions and start-ups that meet our target return thresholds. In this regard we have added or grown businesses where it made sense to do so. Expansions of existing businesses, start-ups

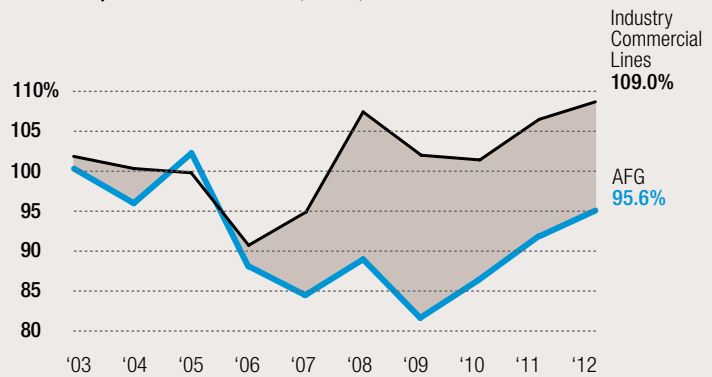
and acquisitions of smaller targeted businesses, adjustments to premium retentions in selected P&C businesses and growth in our indexed annuity and bank annuity businesses serve as examples of capital allocation decisions. We will evaluate business opportunities that have the potential to produce desired long-term returns and align well with our existing businesses.

We expect to return excess capital to shareholders through dividends and opportunistic share repurchases. We will maintain financial leverage and capital adequacy at levels that are prudent for our business and consistent with our commitments to rating agencies while maintaining a cushion of capital. The capital in our insurance businesses is at levels that exceed, or are consistent with, amounts required for our rating levels. Holding capital in excess of current rating levels allows us to operate confidently in forming business plans and in maintaining the financial strength to effectively compete in the marketplace.

Our shares traded at a meaningful discount to book value throughout 2012. We viewed this as an opportunity to purchase \$415 million of AFG's common shares at an average price that was approximately 90% of year-end book value, an effective means of increasing shareholder value.

Dividend payments and share repurchases have enabled us to return nearly \$1.5 billion to shareholders over the last five years.

Statutory Combined Ratio (COR)



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

Investments

Our focus remains on achieving investment returns over the long-term that outperform market indices while effectively managing our portfolio risk. In fact, we view our investment management activities as a core competency. An in-house team of investment professionals manages our \$28 billion investment portfolio and has executed a consistent strategy over many years and diverse economic cycles, delivering results exceeding comparable indices. Our investment portfolio is primarily comprised of investment grade fixed maturity securities providing a predictable, steady stream of income.

For the five years ended December 31, 2012, we achieved an annualized total return in our fixed income portfolio that was over 160 basis points higher than a composite estimate for the insurance industry during that same time period, creating approximately \$1.6 billion in total return outperformance. Opportunistic purchases of non-agency residential mortgage-backed securities were the primary

driver of these returns, which significantly surpassed those of other fixed income indices over that same time period.

During 2012, AFG recorded pretax net realized gains on securities of \$210 million, including \$93 million resulting from sales of a portion of our remaining interest in Verisk Analytics. At December 31, 2012, the Company held 1.0 million shares of Verisk Analytics, our largest equity position, with an unrealized pretax gain of approximately \$53 million. We are very pleased with our returns on this investment as cumulative realized and unrealized gains total approximately \$325 million on a pretax basis since Verisk's initial public offering in 2009.

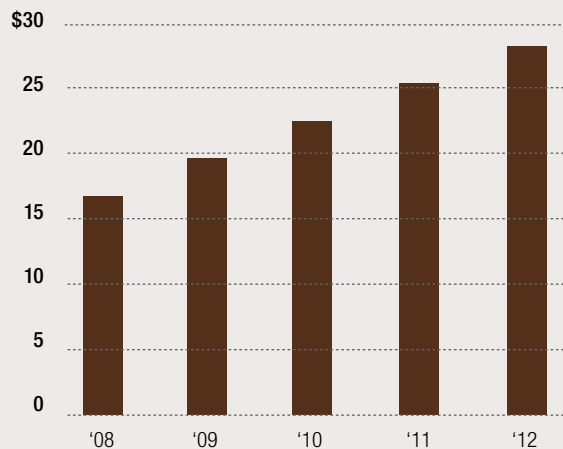
Looking ahead

As we look forward, we remain committed to the core aspects of our strategic focus that have enabled us to increase shareholder value over the long run. We expect our 2013 core net operating earnings to be between \$3.60–\$4.00 per share.

TO OUR SHAREHOLDERS

Invested Assets

As of December 31 (in billions)



We view our investment management activities as a core competency and have executed a consistent strategy over many years and diverse economic cycles, delivering results exceeding comparable indices.

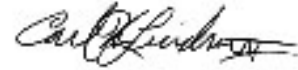
We believe our business model positions us well to produce solid results that will continue to outperform the industry. Our roots run deep, as does our experience. We recognize the importance of discipline and agility in navigating different phases of the overall insurance cycle, changes in the interest rate environment, and new opportunities in the marketplace. We remain committed to pricing our business in a manner that produces appropriate returns and allocating capital in a manner that produces long-term value. We know that we must be positioned to grow our businesses when and where it makes sense, while resisting the temptation to grow premium through inadequate pricing. Our business leaders understand that this is a delicate balancing act, and recognize the importance of providing superior service to policyholders and agents.

The Company's financial strength, diversified specialty insurance portfolio, investment core competency and underwriting and risk management skills have provided the strong "roots" that have given us a foundation for

success and the basis for creating long-term shareholder value. We thank God, our talented management team and employees for a successful year and for helping us maintain the financial strength that allows us to best serve our policyholders, agents and brokers. We also thank you, our shareholders, for your investment and confidence.



S. Craig Lindner
Co-Chief Executive Officer



Carl H. Lindner III
Co-Chief Executive Officer



We remain committed to the core aspects of our strategic focus that have enabled us to increase shareholder value over the long run.

Great American Insurance Group Tower,
Cincinnati, Ohio

Dollars in millions, except per share amounts

BALANCE SHEET DATA	2012	2011	2010
Cash and investments	\$28,449	\$25,577	\$22,670
Total assets	39,171	35,838	32,241
Long-term debt	953	934	952
Shareholders' equity	4,578	4,411	4,331
Book value per share ^A	\$50.61	\$43.32	\$39.31
Shareholders' equity ^B	3,784	3,779	3,793
Book value per share ^B	\$42.52	\$38.63	\$36.06
Cash dividends per share ^C	\$0.97	\$0.6625	\$0.575
Ratio of debt to total capital ^D	19%	19%	20%
Shares outstanding	89.0	97.8	105.2
SUMMARY OF OPERATIONS	2012	2011	2010
Total revenues	\$5,062	\$4,750	\$4,497
Components of net earnings:			
Core net operating earnings ^E	\$314	\$363	\$436
Gain on sale of Med supp and critical illness	114	—	—
Other realized gains	128	45	46
Long-term care reserve charge	(99)	—	—
Special A&E charges	(21)	(38)	—
AFG tax case and settlement of open tax years	67	—	—
Valuation allowance on deferred tax assets	—	(28)	—
Other	(15)	—	—
Net earnings attributable to shareholders – GAAP	\$488	\$342	\$482
Return on Shareholders' Equity:			
Core net operating earnings ^B	8%	10%	12%
Net earnings ^B	13%	9%	13%
Components of diluted earnings per share:			
Core net operating earnings ^E	\$3.27	\$3.52	\$3.95
Gain on sale of Med supp and critical illness	1.19	—	—
Other realized gains	1.34	0.45	0.41
Long-term care reserve charge	(1.03)	—	—
Special A&E charges	(0.22)	(0.37)	—
AFG tax case and settlement of open tax years	0.70	—	—
Valuation allowance on deferred tax assets	—	(0.28)	—
Other	(0.16)	—	—
Net earnings attributable to shareholders – GAAP	\$5.09	\$3.32	\$4.36

A Excludes appropriated retained earnings.

B Excludes appropriated retained earnings and unrealized gains and losses on fixed maturity investments.

C 2012 includes a special cash dividend of \$0.25.

D For this calculation, capital includes long-term debt, noncontrolling interests and shareholders' equity (excluding appropriated retained earnings and unrealized gains and losses on fixed maturity investments).

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

Financial Strength Ratings

	A.M. Best	Standard & Poor's
Specialty Property & Casualty Insurance Group		
Great American Insurance Company	A (Excellent)	A+ (Strong)
American Empire Surplus Lines Insurance Company	A+ (Superior)	A+ (Strong)
Mid-Continent Casualty Company	A+ (Superior)	A+ (Strong)
National Interstate Insurance Company	A (Excellent)	Not Rated
Vanliner Insurance Company	A (Excellent)	Not Rated
Republic Indemnity Company of America	A (Excellent)	A+ (Strong)
Marketform/Lloyd's Syndicate	A (Excellent)	A+ (Strong)
Annuity Group		
Great American Life Insurance Company	A (Excellent)	A+ (Strong)
Annuity Investors Life Insurance Company	A (Excellent)	A+ (Strong)

Business Overview

Specialty Property & Casualty Insurance Operations

Property and Transportation Group

Inland and Ocean Marine

Builders' risk, contractors' equipment, property, motor truck cargo, marine cargo, boat dealers, marina operators/dealers and excursion vessels.

Agricultural-related

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

Commercial Automobile

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

Specialty Casualty Group

Executive and Professional Liability

Liability coverage for directors and officers of businesses and non-profit organizations, errors and omissions and non-U.S. medical malpractice insurance.

Umbrella and Excess Liability

Liability coverage in excess of primary layers.

Excess and Surplus

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

General Liability

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

Targeted Programs

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

Workers' Compensation

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

Specialty Financial Group

Fidelity and Surety

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

Lease & Loan Services

Coverage for insurance risk management programs for lending and leasing institutions, including equipment leasing and collateral and mortgage protection.

Annuity Operations

Traditional Fixed and Fixed-Indexed Annuities

Sold primarily in the individual, bank and education markets.

Run-Off Long-Term Care and Life Insurance

In-force blocks of business that are not actively marketed.

American Financial Group has a rich history of providing insurance products to businesses and individuals to help them manage the ever-changing financial risk exposures they face. Our roots go back to 1872 with the founding of our flagship company, Great American Insurance Company. Over the past 140 years, we have believed that specialization, relationships and innovation have enabled us to be market leaders in approximately 30 niche specialty insurance industries we serve under our brand, Great American Insurance Group. Nearly half of the gross written premium in our P&C operations is generated by businesses that have top ten market rankings. Similarly, our annuity business ranked among the top five in sales of fixed annuities through banks and independent agents.

Our experienced insurance professionals have a depth of knowledge and expertise in their fields, which allows us to deliver greater value to our agents and policyholders. We think this specialty expertise also gives us a competitive edge that drives value for our shareholders. Our commitment to product innovation, superior claims service and disciplined underwriting has resulted in underwriting outperformance within the commercial P&C insurance industry in 25 of the past 27 years. Over the past 10 years, the combined operating ratio of AFG's property and casualty operations has been more favorable than the industry by an average of nearly 10 points.

Our business is founded and continues to prosper on an entrepreneurial spirit that promotes local decision-making for underwriting, claims and policy servicing



THE STRENGTH OF SPECIALIZATION

Specialty Property and Casualty Insurance Operations

Year Ended December 31 (in millions)

	2012	2011	2010
Gross Written Premiums	\$4,321	\$4,106	\$3,589
Net Written Premiums	\$2,949	\$2,770	\$2,408
GAAP Combined Ratio	95%	92%	88%

Nearly half of the gross written premium in our Property and Casualty operations is generated by businesses that have top ten market rankings.

in each of our niches. These businesses are managed by experienced professionals who focus on a particular industry, product or market. This decentralized structure promotes agility and provides autonomy to individual business units to design products, develop distribution strategies and build and sustain lasting relationships in the markets they serve. This organizational structure promotes an entrepreneurial spirit and accountability, which allows our teams to react more quickly to changes in the marketplace and to more efficiently meet our customers' needs. Centralized business support and investment management functions provide a framework for success so they can focus on growing their businesses and serving their customers. Business unit leaders are rewarded for strong performance through incentive-based compensation programs that align with the strategic and financial goals of AFG.

At AFG, we know that how we deliver our products and services and how we stand behind our promises are at the core of our success. We are proud of the commitment to excellence exhibited by each of our Great American Insurance Group operating brands.

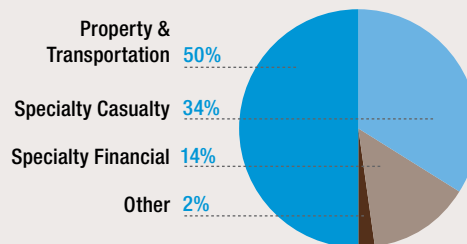
AFG and its Great American Insurance Group member companies have 6,600 employees in over 100 locations throughout North America and Western Europe.

Our business success is highly dependent on our ability to attract and retain qualified employees. AFG places a high priority on identifying and developing key talent through a formal succession planning process. Our commitment to leadership development, at all levels, enables us to attract, retain and empower a strong talent pipeline.



Leadership training class, Learning and Conference Center
Great American Insurance Group Tower
Cincinnati, Ohio

Specialty Property and Casualty Insurance Operations 2012 Net Written Premiums



We are proud that Great American Insurance Company, our flagship insurer in our P&C Group, is one of only four property and casualty insurers to maintain a financial strength rating of “A” Excellent from A.M. Best Company for over 100 years. The thousands of agents and brokers who write business on behalf of our P&C insurance group rely on the financial strength that is signified by this rating.

AFG manages its catastrophe exposures through individual risk selection, including minimizing coastal and known fault-line exposures, and the strategic use of reinsurance across all lines of business. The need for a well-conceived and executed risk management plan was perhaps no more evident than in 2012, a year when much of the Midwest struggled under the worst drought conditions in decades and Superstorm Sandy brought widespread destruction to the northeastern United States. While industry insured losses approached \$25 billion for Superstorm Sandy alone, AFG’s pretax losses from these

events combined were less than \$45 million, or less than 1% of shareholders’ equity, primarily due to our strategic use of reinsurance. Furthermore, AFG’s exposure to a catastrophic earthquake or windstorm that industry models indicate could occur once in every 500 years is estimated to be less than 3% of AFG’s shareholders’ equity.

The company continually evaluates opportunities to grow its businesses organically, expand into new niche markets that meet strategic objectives and/or acquire businesses as add-ons to existing specialty businesses. Expansion of our ocean marine, political risk, equine mortality/bloodstock and specie lines through our Lloyd’s-based Marketform platform and growth in our workers’ compensation businesses serve as good examples of this. We also continue to grow start-up operations including Great American’s Public Sector Division, launched in 2012. Similarly, AFG will withdraw from markets that do not meet its profit objectives or business strategy.

OPERATIONAL OVERVIEW

Specialty Property and Casualty Insurance Operations



The **P&C Specialty Insurance Operations** generated an underwriting profit of \$131 million in 2012. Our combined operating ratio of 95% was three points higher than the prior year period. The Midwest drought, which adversely impacted crop insurance results, was a primary driver of lower profitability. Higher catastrophe losses and lower favorable reserve development were also factors. Net written premiums were up 6% from 2011, due primarily to higher premiums in our Specialty Casualty Group.

Our **Property and Transportation Group**, the largest segment within our specialty P&C operations, is comprised of several specialty insurance niche operations that are leaders in the markets they serve. Our crop insurance operations rank fourth in terms of gross written premium. Our National Interstate subsidiary ranks as one of the largest providers of insurance coverage for the passenger transportation and moving and storage industries. Our equine mortality business is regarded as the

number one provider of coverage in the equine community. We are also among the top providers of coverage for independent owner/operators in the trucking industry.

The Property and Transportation Group reported an underwriting profit of \$19 million, compared to \$113 million in the prior year. The effects of the Midwest drought and Superstorm Sandy were the primary drivers of lower underwriting profitability in 2012. The majority of the other businesses in this group produced solid underwriting margins for the year. Catastrophe losses in this group were \$40 million in 2012, compared to \$32 million in the comparable 2011 period. Gross and net written premiums for the full year of 2012 were impacted by lower spring agricultural commodity prices for corn and soybeans, which had the effect of reducing crop insurance premiums. This decrease in net written premiums was more than offset by growth in our transportation businesses. Overall renewal rates for this group increased by approximately 3% during 2012, with improvements in pricing achieved throughout the year.

Property and Transportation Group

Year Ended December 31 (in millions)

	2012	2011	2010
Gross Written Premiums	\$2,271	\$2,273	\$1,778
Net Written Premiums	\$1,473	\$1,436	\$1,159
GAAP Combined Ratio	99%	92%	88%

Our Property and Transportation Group, the largest segment within our specialty P&C operations, is comprised of several specialty niche operations that are leaders in the markets they serve.

The Property and Transportation Group is expected to produce a combined ratio in the range of 92% to 96% in 2013. Guidance assumes normalized crop earnings for the year. We expect this group's net written premiums to be up 3% to 7%. This guidance reflects opportunities we see for growth in our transportation and property and inland marine businesses.

Our *Specialty Casualty Group* includes our non-profit social services business, which is ranked third in terms of market share. Other businesses in this group include our executive liability, general liability, excess and surplus, workers' compensation and targeted markets operations. Our Specialty Casualty Group reported an underwriting profit of \$53 million in 2012, about \$18 million higher than in 2011. Improved 2012 accident year results in several of our operations were partially offset by lower favorable development in our executive liability and excess and surplus businesses. Increased favorable reserve development in our

general liability lines also contributed to higher profitability in this group during 2012. The majority of businesses in this group produced strong underwriting profit margins during 2012.

Average renewal rates for this group during 2012 were up 4%. During the fourth quarter, this group achieved a 6% renewal rate increase, a sequential improvement from the third quarter and continuation of the momentum we have seen in this group during 2012. Loss costs trends were stable and appeared to be benign across our portfolio of businesses, which helps to drive meaningful growth and value creation in our business over time.

Gross and net written premiums grew by double-digit percentages for the full year and were primarily the result of more business opportunities in our excess and surplus operations, growth in our workers' compensation businesses and agency captive insurance businesses, and market hardening in many of our other Specialty Casualty operations.

OPERATIONAL OVERVIEW

Specialty Property and Casualty Insurance Operations

Specialty Casualty Group

Year Ended December 31 (in millions)

	2012	2011	2010
Gross Written Premiums	\$1,484	\$1,302	\$1,295
Net Written Premiums	\$992	\$867	\$864
GAAP Combined Ratio	95%	96%	95%

Gross and net written premiums in our Specialty Casualty Group grew by double-digit percentages for the full year.

For 2013, we expect this group to produce a combined ratio in the 91% to 95% range. We anticipate net written premiums will be up 10% to 14% based on indications of market hardening and continued growth in our workers' compensation, international and excess and surplus businesses.

Our *Specialty Financial Group* includes our fidelity and crime and surety operations, which are ranked fifth and eleventh, respectively, in terms of market share. Other businesses in this group include mortgage protection insurance for lenders and our trade credit operations. The Specialty Financial Group reported an underwriting profit of \$44 million for 2012, compared to \$65 million in 2011. Lower profitability in our financial institutions, surety and foreign credit businesses contributed to this decline.

Almost all of the businesses in this group produced strong underwriting profit margins during 2012. Net written premiums in 2012 were higher primarily as a result of higher premiums in our financial institutions business. Average renewal rates for this group for the year were flat compared to the prior year period.

We expect the Specialty Financial Group's 2013 combined ratio to be between 88% and 92%. We project the change in net written premiums to be flat to up 4% in this group.

Our **Annuity and Supplemental Operations** include our annuity and run-off long-term care and life businesses, as well as results of operations of our Medicare supplement and critical illness businesses through the date that these operations were sold in August 2012.

Over the past 36 months, we have maintained a heightened focus on those areas of our business where we see the best opportunities to produce improved returns. Similarly, we have restructured or sold operations that are not an integral part of our strategy. The sale of our Medicare supplement and critical illness businesses in August 2012 was one such opportunity. Additionally, the Company ceased writing new long-term care business in January 2010. The reserves associated with our run-off long-term care and life businesses, net of reinsurance, amount to less than 3% of AFG's total assets at December 31, 2012.

Specialty Financial Group
Year Ended December 31 (in millions)

	2012	2011	2010
Gross Written Premiums	\$566	\$529	\$514
Net Written Premiums	\$411	\$398	\$323
GAAP Combined Ratio	89%	84%	72%



The pretax core operating earnings of the Annuity and Supplemental Operations, excluding the businesses sold, grew by more than 34% in 2012 to a record \$252 million. The continued growth in earnings is largely the result of the fixed and fixed-indexed annuity premium growth we have achieved over the last several years, accompanied by pricing discipline and excellent investment results.

Our Annuity Group offers fixed and fixed-indexed annuities in the individual, bank and education markets. Single premium annuities sold through independent agents and banks represent about 90% of this group's statutory annuity premiums.

AFG sells its fixed annuities through banks and a network of approximately 70 national marketing organizations and managing general agents who, in turn, direct over 1,400 actively producing agents. Additionally, over 2,000 writing agents serve the educator market. Our products are ranked in the top five in sales through bank and independent producer channels. As a consistent, experienced player in the market, we continue to look for ways to best serve the

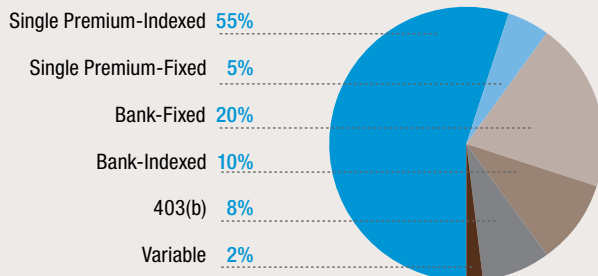
needs of our policyholders and distribution partners. We are committed to the development of innovative products that optimize customer and shareholder value. Growth in our fixed and fixed-indexed annuity premiums, accompanied by pricing discipline and exceptional investment results, has been instrumental in achieving compounded growth in pretax core operating earnings of 26% in our Annuity Group over the past three years.

Total annuity premiums for 2012 were \$3.0 billion, a decrease of about 3% from the prior year. This slight decrease in overall premiums was the direct result of lowering agent commissions and crediting rates on several products, actions AFG took to offset the challenging impact of persistent low interest rates. While total premiums were down slightly, fixed-indexed annuity premiums were up 11% over the prior year. The strong growth in this product line ranks Great American among the top five competitors in the industry for sales of fixed-indexed annuities. The bank market continues to be a valuable source of annuity sales for AFG. In a five-year span, annuities sold through banks have grown to represent nearly 30% of total annuity premiums. While sales in this channel

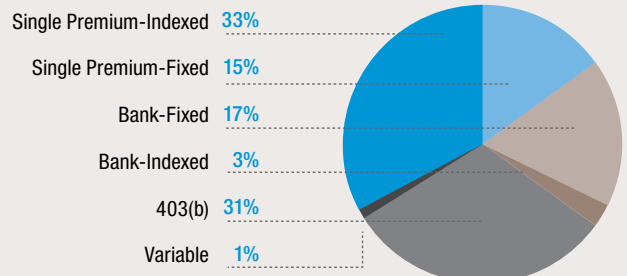
OPERATIONAL OVERVIEW

Annuity Operations

Annuity Premiums – \$3.0 Billion



Annuity Reserves (GAAP) – \$17.6 Billion



slowed in the latter part of 2012, as anticipated, bank sales are expected to increase once again when the interest rate environment improves and as we continue to expand our presence in a wider network of banks. We anticipate full year 2013 core pretax operating earnings to be 5% to 10% higher than our 2012 results.

Investments

Our investment philosophy is to focus on high-quality, diversified, liquid investments and to maximize return on a long-term basis, rather than focusing on short-term performance. Fixed income securities, primarily investment grade bonds and mortgage-backed securities, account for approximately 95% of our total investments. Approximately 86% of our fixed maturity investments are rated investment grade, and 96% have an NAIC designation of 1 or 2, the highest two levels. Stocks, real estate and other investments make up the remaining 5% of our portfolio. During 2012, our unrealized after-tax gain on investments improved by approximately \$245 million to \$823 million.

Our real estate investments include office buildings, hotels, resorts, marinas, apartments and a retail commercial development. Our real estate investment strategy is based upon our history of buying under-performing or out-of-favor assets, developing and managing them “in house” and selling them when we believe value has been maximized. Over the past 10 years, we have realized net pretax gains of over \$250 million on sales of real estate properties.

For 2013, we expect investment income in our property and casualty business to be approximately 5% lower than 2012 results, primarily due to the sale and run-off of higher yielding securities and generally lower reinvestment rates. We continue to look for attractive investment opportunities and will capitalize on our strong internal investment capabilities that we believe give us a competitive advantage. We anticipate that our investment returns will continue to be a major contributor to our earnings and book value growth.

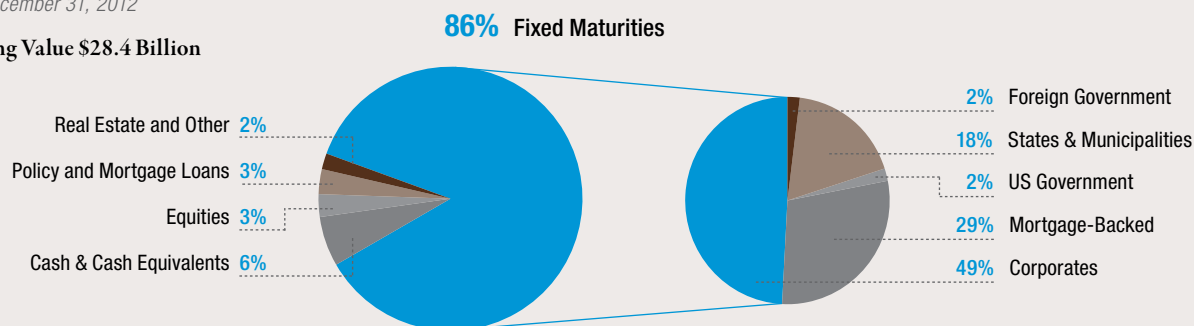
OPERATIONAL OVERVIEW

Investments

Investment Portfolio

As of December 31, 2012

Carrying Value \$28.4 Billion



Board of Directors

As of March 15, 2013

Carl H. Lindner III

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

S. Craig Lindner

Co-Chief Executive Officer,
American Financial Group, Inc.
President and Chief Executive Officer,
Great American Financial Resources, Inc.
Chairman, American Money
Management Corporation

Kenneth C. Ambrecht^{2,3}

Principal, KCA Associates, LLC,
an investment banking firm

John B. Berding

President, American Money
Management Corporation

Joseph E. (Jeff) Consolino

Executive Vice President and Chief Financial
Officer, American Financial Group, Inc.
Chairman, National Interstate Corporation

Virginia (Gina) C. Drosos

Retired Group President, Procter &
Gamble Company, a multinational
consumer goods company

Theodore H. Emmerich^{1*}

Retired Managing Partner, Ernst & Young
LLP, certified public accountants

James E. Evans

Senior Vice President and Executive
Counsel, American Financial Group, Inc.

Terry S. Jacobs^{1,2*}

Chairman and Chief Executive
Officer, JFP Group, LLC, a real estate
development company, and Chairman
Emeritus, Jamos Capital, LLC, a
private equity firm specializing in
alternative investment strategies

Gregory G. Joseph^{1,3}

Executive Vice President and Principal, Joseph
Automotive Group, an automobile dealership
and real estate management company

William W. Verity^{2,3*}

President, Verity & Verity, LLC, an
investment management company

John I. Von Lehman^{1,3}

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

Board of Directors Committees:

- 1 Audit Committee
- 2 Compensation Committee
- 3 Corporate Governance Committee
- * Chairman of Committee

Corporate Management

As of March 15, 2013

Carl H. Lindner III

Co-Chief Executive Officer

S. Craig Lindner

Co-Chief Executive Officer

Joseph E. (Jeff) Consolino

Executive Vice President and
Chief Financial Officer

James E. Evans

Senior Vice President and
Executive Counsel

Michelle A. Gillis

Senior Vice President and
Chief Administrative Officer

Keith A. Jensen

Senior Vice President

Vito C. Peraino

Senior Vice President and General Counsel

H. Kim Baird

Vice President – Taxes

Kathleen J. Brown

Vice President – Taxes

Robert E. Dobbs

Vice President – Internal Audit

Karl J. Grafe

Vice President, Assistant General
Counsel and Secretary

Sandra W. Heimann

Vice President

Piyush K. Singh

Vice President

David J. Witzgall

Vice President and Treasurer

Annual Shareholders Meeting

The Annual Shareholders' Meeting will be held at our Company's headquarters,
Great American Insurance Group Tower, in Cincinnati on May 22, 2013.
Notices will be mailed to all holders of the Company's common stock.

Common Stock Market Information

American Financial Group's Common Stock is traded on both the New York
Stock Exchange and the Nasdaq Global Select Market under the symbol AFG.
On February 1, 2013, approximately 6,900 holders of record own our shares.

Dividend Reinvestment Plan

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

Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Toll-Free: (866) 662-3946
www.amstock.com

Additional Information

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

Investor Relations
American Financial Group, Inc.
Great American Insurance Group Tower
301 E. Fourth Street
Cincinnati, Ohio 45202
(513) 579-6739
AFGInvestorRelations@amfin.com

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

Forward-Looking Statements

The disclosures in this 2012 Annual Report and in the accompanying Form 10-K contain certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of words such as "anticipates," "believes," "expects," "projects," "estimates," "intends," "plans," "seeks," "could," "may," "should," "will" or the negative version of those words or other comparable terminology. Such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings and investment activities; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate changes; and improved loss experience.

Actual results and/or financial condition could differ materially from those contained in or implied by such forward-looking statements for a variety of reasons including but not limited to the following and those discussed in our filings with the Securities and Exchange Commission:

- 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;
- the unpredictability of possible future litigation if certain settlements of current litigation do not become effective;
- 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.

STRENGTH LIES IN THE ROOTS

America's roots can be found in generations of farmers, teachers, builders, truckers and shopkeepers who proudly uphold our country's most cherished ideal: that with hard work, good sense and fair play, our dreams become possible, our children will thrive and tomorrow will be even better than today.

At AFG, our vision is to provide the products that meet today's needs and fulfill tomorrow's dreams; a vision nourished by our roots and unwavering optimism for the future.





