UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended March 31, 2023
or
☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ____ to ____

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	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock	AFG	New York Stock Exchange
5.875% Subordinated Debentures due March 30, 2059	AFGB	New York Stock Exchange
5.625% Subordinated Debentures due June 1, 2060	AFGD	New York Stock Exchange
5.125% Subordinated Debentures due December 15, 2059	AFGC	New York Stock Exchange
4.50% Subordinated Debentures due September 15, 2060	AFGE	New York Stock Exchange

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, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ☑ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of May 1, 2023, there were 85,179,671 shares of the Registrant’s Common Stock outstanding, excluding 14.9 million shares owned by subsidiaries.

AMERICAN FINANCIAL GROUP, INC. 10-Q

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PART I
ITEM 1. — FINANCIAL STATEMENTS
AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (UNAUDITED)
(Dollars in Millions)

	March 31, 2023	December 31, 2022
Assets:		
Cash and cash equivalents	$ 857	$ 872
Investments:		
Fixed maturities, available for sale at fair value (amortized cost — $10,583 and $10,736; allowance for expected credit losses of $16 and $11)	10,044	10,095
Fixed maturities, trading at fair value	36	32
Equity securities, at fair value	1,008	1,010
Investments accounted for using the equity method	1,733	1,700
Mortgage loans	646	676
Real estate and other investments	127	127
Total cash and investments	14,451	14,512
Recoverables from reinsurers	3,838	3,977
Prepaid reinsurance premiums	1,021	917
Agents' balances and premiums receivable	1,459	1,339
Deferred policy acquisition costs	285	288
Assets of managed investment entities	5,391	5,447
Other receivables	637	886
Other assets	1,153	1,219
Goodwill	246	246
Total assets	$ 28,481	$ 28,831
Liabilities and Equity:		
Unpaid losses and loss adjustment expenses	$ 11,761	$ 11,974
Unearned premiums	3,435	3,246
Payable to reinsurers	911	1,035
Liabilities of managed investment entities	5,258	5,332
Long-term debt	1,478	1,496
Other liabilities	1,697	1,696
Total liabilities	24,540	24,779
Shareholders' equity:		
Common Stock, no par value — 200,000,000 shares authorized — 85,171,658 and 85,204,006 shares outstanding	85	85
Capital surplus	1,374	1,368
Retained earnings	2,933	3,142
Accumulated other comprehensive income (loss), net of tax	(451)	(543)
Total shareholders' equity	3,941	4,052
Total liabilities and shareholders' equity	$ 28,481	$ 28,831

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Revenues:		
Property and casualty insurance net earned premiums	$ 1,437	$ 1,302
Net investment income	217	230
Realized gains (losses) on securities	(46)	(15)
Income of managed investment entities:		
Investment income	104	46
Gain (loss) on change in fair value of assets/liabilities	(4)	(5)
Other income	32	30
Total revenues	1,740	1,588
Costs and Expenses:		
Property and casualty insurance:		
Losses and loss adjustment expenses	820	693
Commissions and other underwriting expenses	473	414
Interest charges on borrowed money	19	23
Expenses of managed investment entities	95	39
Other expenses	69	58
Total costs and expenses	1,476	1,227
Earnings before income taxes	264	361
Provision for income taxes	52	71
Net Earnings	$ 212	$ 290
Earnings per Common Share:		
Total basic earnings	$ 2.49	$ 3.41
Total diluted earnings	$ 2.49	$ 3.40
Average number of Common Shares:		
Basic	85.2	85.0
Diluted	85.4	85.2

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

	Three months ended March 31,	
	2023	2022
Net earnings	$ 212	$ 290
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on securities:		
Unrealized holding gains (losses) on securities arising during the period	61	(247)
Reclassification adjustment for realized (gains) losses included in net earnings	23	2
Total net unrealized gains (losses) on securities	84	(245)
Net unrealized gains (losses) on cash flow hedges:		
Unrealized holding gains (losses) on cash flow hedges arising during the period	4	(3)
Reclassification adjustment for investment income included in net earnings	4	(1)
Total net unrealized gains (losses) on cash flow hedges	8	(4)
Foreign currency translation adjustments	—	(1)
Other comprehensive income (loss), net of tax	92	(250)
Comprehensive income	$ 304	$ 40

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

		Shareholders' Equity			
	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Accumulated Other Comp. Income (Loss)	Total
Balance at December 31, 2022	85,204,006	$ 1,453	$ 3,142	$ (543)	$ 4,052
Net earnings	—	—	212	—	212
Other comprehensive income	—	—	—	92	92
Dividends ($4.63 per share)	—	—	(394)	—	(394)
Shares issued:					
Exercise of stock options	64,339	3	—	—	3
Restricted stock awards	147,169	—	—	—	—
Other benefit plans	12,299	2	—	—	2
Dividend reinvestment plan	10,911	1	—	—	1
Stock-based compensation expense	—	5	—	—	5
Shares acquired and retired	(199,762)	(4)	(20)	—	(24)
Shares exchanged — benefit plans	(55,382)	(1)	(7)	—	(8)
Forfeitures of restricted stock	(11,922)	—	—	—	—
Balance at March 31, 2023	85,171,658	$ 1,459	$ 2,933	$ (451)	$ 3,941
Balance at December 31, 2021	84,920,965	$ 1,415	$ 3,478	$ 119	$ 5,012
Net earnings	—	—	290	—	290
Other comprehensive loss	—	—	—	(250)	(250)
Dividends ($2.56 per share)	—	—	(217)	—	(217)
Shares issued:					
Exercise of stock options	105,404	4	—	—	4
Restricted stock awards	151,080	—	—	—	—
Other benefit plans	10,607	1	—	—	1
Dividend reinvestment plan	6,282	1	—	—	1
Stock-based compensation expense	—	6	—	—	6
Shares acquired and retired	(35,201)	(1)	(4)	—	(5)
Shares exchanged — benefit plans	(47,909)	(1)	(6)	—	(7)
Forfeitures of restricted stock	(8,399)	—	—	—	—
Balance at March 31, 2022	85,102,829	$ 1,425	$ 3,541	$ (131)	$ 4,835

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Operating Activities:		
Net earnings	$ 212	$ 290
Adjustments:		
Depreciation and amortization	20	26
Realized (gains) losses on investing activities	45	15
Net purchases of trading securities	(3)	(1)
Change in:		
Reinsurance and other receivables	162	39
Other assets	48	1
Insurance claims and reserves	(24)	77
Payable to reinsurers	(124)	(10)
Other liabilities	(28)	18
Managed investment entities' assets/liabilities	139	172
Other operating activities, net	(44)	(124)
Net cash provided by operating activities	403	503
Investing Activities:		
Purchases of:		
Fixed maturities	(575)	(1,682)
Equity securities	(41)	(45)
Mortgage loans	—	(265)
Other investments	(49)	(47)
Real estate, property and equipment	(13)	(23)
Proceeds from:		
Maturities and redemptions of fixed maturities	381	959
Repayments of mortgage loans	32	1
Sales of fixed maturities	342	17
Sales of equity securities	56	60
Sales of other investments	33	59
Sales of real estate, property and equipment	1	—
Managed investment entities:		
Purchases of investments	(648)	(357)
Proceeds from sales and redemptions of investments	554	217
Other investing activities, net	—	(5)
Net cash provided by (used in) investing activities	73	(1,111)
Financing Activities:		
Reductions of long-term debt	(16)	(50)
Issuances of Common Stock	4	5
Repurchases of Common Stock	(24)	(5)
Cash dividends paid on Common Stock	(393)	(216)
Issuances of managed investment entities' liabilities	588	60
Retirements of managed investment entities' liabilities	(650)	(136)
Net cash used in financing activities	(491)	(342)
Net Change in Cash and Cash Equivalents	(15)	(950)
Cash and cash equivalents at beginning of period	872	2,131
Cash and cash equivalents at end of period	$ 857	$ 1,181

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A. Accounting Policies

Basis of Presentation The accompanying consolidated financial statements for American Financial Group, Inc. and its subsidiaries ("AFG") are unaudited; however, management believes that all adjustments (consisting only of normal recurring accruals unless otherwise disclosed herein) necessary for fair presentation have been made. The results of operations for interim periods are not necessarily indicative of results to be expected for the year. The financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary to be in conformity with U.S. generally accepted accounting principles ("GAAP").

Certain reclassifications have been made to prior periods to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated. The results of operations of companies since their formation or acquisition are included in the consolidated financial statements. Events or transactions occurring subsequent to March 31, 2023, and prior to the filing of this Form 10-Q, have been evaluated for potential recognition or disclosure herein.

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

Fair Value Measurements Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The standards establish a hierarchy of valuation techniques based on whether the assumptions that market participants would use in pricing the asset or liability ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect AFG's assumptions about the assumptions market participants would use in pricing the asset or liability. AFG did not have any material nonrecurring fair value measurements in the first three months of 2023.

Investments Equity securities other than those accounted for under the equity method are reported at fair value with holding gains and losses generally recorded in realized gains (losses) on securities. However, AFG records holding gains and losses on limited partnerships and similar investments that do not qualify for equity method accounting (and are therefore carried at fair value), and certain other securities classified at purchase as "fair value through net investment income" in net investment income.

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

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

Limited partnerships and similar investments are generally accounted for using the equity method of accounting. Under the equity method, AFG records its share of the earnings or losses of the investee based on when it is reported by the investee in its financial statements rather than in the period in which the investee declares a dividend. AFG's share of the earnings or losses from equity method investments is generally recorded on a quarter lag due to the timing of the receipt of the investee's financial statements. AFG's equity in the earnings (losses) of limited partnerships and similar investments is included in net investment income.

Realized gains or losses on the disposal of fixed maturity securities are determined on the specific identification basis. When a decline in the value of an available for sale fixed maturity is considered to be other-than-temporary at the balance sheet date, an allowance for credit losses (impairment), including any write-off of accrued interest, is charged to earnings (included in realized gains (losses) on securities). If management can assert that it does not intend to sell the security and it is not more likely than not that it will have to sell it before recovery of its amortized cost basis (net of allowance), then the impairment is separated into two components: (i) the allowance related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in other comprehensive income). The credit-related portion is measured by comparing a security's amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the charge. The allowance is limited to the difference between a security's amortized cost basis and its fair value. Subsequent increases or decreases in expected credit losses are recorded immediately in net earnings through realized gains (losses). If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment is recorded in earnings to reduce the amortized cost (net of allowance) of that security to fair value.

Credit Losses on Financial Instruments Measured at Amortized Cost Credit-related impairments for financial instruments measured at amortized cost (mortgage loans, premiums receivable and reinsurance recoverables) reflect estimated credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. Expected credit losses, and subsequent increases or decreases in such expected losses, are recorded immediately through net earnings as an allowance that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

Derivatives Derivatives included in AFG's Balance Sheet are recorded at fair value. Changes in fair value of derivatives are included in earnings unless the derivatives are designated and qualify as highly effective cash flow hedges. AFG's derivatives that do not qualify for hedge accounting under GAAP consist primarily of components of certain fixed maturity securities (primarily interest-only and principal-only MBS) and a total return swap related to its deferred compensation obligations to employees.

To qualify for hedge accounting, at the inception of a derivative contract, AFG formally documents the relationship between the terms of the hedge and the hedged items and its risk management objective. This documentation includes defining how hedge effectiveness is evaluated at the inception date and over the life of the derivative.

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

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

Reinsurance Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. AFG reports as assets (i) the estimated reinsurance recoverable on paid and unpaid losses, including an estimate for losses incurred but not reported, and (ii) amounts paid or due to reinsurers applicable to the unexpired terms of policies in force. Payable to reinsurers includes ceded premiums due to reinsurers, as well as ceded premiums retained by AFG under contracts to fund ceded losses as they become due. AFG also assumes reinsurance from other companies. Earnings on reinsurance assumed is recognized based on information received from ceding companies.

Deferred Policy Acquisition Costs ("DPAC") Policy acquisition costs (principally commissions, premium taxes and certain underwriting and policy issuance costs) directly related to the successful acquisition or renewal of an insurance contract are deferred. DPAC is limited based upon recoverability without any consideration for anticipated investment income and is charged against income ratably over the terms of the related policies. A premium deficiency is recognized if the sum of expected claims costs, claims adjustment expenses and unamortized acquisition costs exceed the related unearned premiums. A premium deficiency is first recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency is greater than unamortized acquisition costs, a liability is accrued for the excess deficiency and reported with unpaid losses and loss adjustment expenses.

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

AFG manages, and has investments in, collateralized loan obligations ("CLOs") that are VIEs (see *Note F — "Managed Investment Entities"*). AFG has determined that it is the primary beneficiary of these CLOs because (i) its role as asset manager gives it the power to direct the activities that most significantly impact the economic performance of the CLOs and (ii) through its investment in the CLO debt tranches, it has exposure to CLO losses (limited to the amount AFG invested) and the right to receive CLO benefits that could potentially be significant to the CLOs.

Because AFG has no right to use the CLO assets and no obligation to pay the CLO liabilities, the assets and liabilities of the CLOs are shown separately in AFG's Balance Sheet. AFG has elected the fair value option for reporting on the CLO assets and liabilities to improve the transparency of financial reporting related to the CLOs. The net gain or loss from accounting for the CLO assets and liabilities at fair value is presented separately in AFG's Statement of Earnings.

The fair values of a CLO's assets may differ from the separately measured fair values of its liabilities even though the CLO liabilities only have recourse to the CLO assets. AFG has set the carrying value of the CLO liabilities equal to the fair value of the CLO assets (which have more observable fair values) as an alternative to reporting those liabilities at a separately measured fair value. CLO earnings attributable to AFG's shareholders are measured by the change in the fair value of AFG's investments in the CLOs and management fees earned.

At March 31, 2023, assets and liabilities of managed investment entities included $66 million in assets and $53 million in liabilities of a temporary warehousing entity that was established to provide AFG the ability to form a new CLO. At closing, all warehoused assets will be transferred to the new CLO and the liabilities will be repaid.

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

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

Debt Issuance Costs Debt issuance costs related to AFG's outstanding debt are presented in its Balance Sheet as a direct reduction in the carrying value of long-term debt and are amortized over the life of the related debt using the effective interest method as a component of interest expense. Debt issuance costs related to AFG's revolving credit facilities are included in other assets in AFG's Balance Sheet.

Leases Leases for terms of longer than one year are recognized as assets and liabilities for the rights and obligations created by those leases on the balance sheet based on the present value of contractual cash flows.

At March 31, 2023 AFG has a $126 million lease liability included in other liabilities and a lease right-of-use asset of $114 million included in other assets compared to $116 million and $103 million, respectively, at December 31, 2022.

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

Income Taxes Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. A valuation allowance is established to reduce total deferred tax assets to an amount that will more likely than not be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recorded in net earnings in the period that includes the enactment date.

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

Stock-Based Compensation All share-based grants are recognized as compensation expense on a straight-line basis over their vesting periods based on their calculated fair value at the date of grant.

AFG records excess tax benefits or deficiencies for share-based payments through income tax expense in the statement of earnings. In addition, AFG accounts for forfeitures of awards when they occur.

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

Earnings Per Share Although basic earnings per share only considers shares of common stock outstanding during the period, the calculation of diluted earnings per share includes the following adjustments to weighted average common shares related to stock-based compensation plans: first three months of both 2023 and 2022 — 0.2 million.

There were no anti-dilutive potential common shares for the first three months of 2023 or 2022.

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

B. Segments of Operations

AFG manages its business as two segments: Property and casualty insurance and Other, which includes holding company costs and operations attributable to the noncontrolling interests of the managed investment entities.

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

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Revenues		
Property and casualty insurance:		
Premiums earned:		
Specialty		
Property and transportation	$ 475	$ 443
Specialty casualty	704	639
Specialty financial	196	163
Other specialty	62	57
Total premiums earned	1,437	1,302
Net investment income	207	223
Other income	5	4
Total property and casualty insurance	1,649	1,529
Other	137	74
Total revenues before realized gains (losses)	1,786	1,603
Realized gains (losses) on securities	(46)	(15)
Total revenues	$ 1,740	$ 1,588
Earnings Before Income Taxes		
Property and casualty insurance:		
Underwriting:		
Specialty		
Property and transportation	$ 43	$ 62
Specialty casualty	88	124
Specialty financial	26	29
Other specialty	(2)	(7)
Other lines	(1)	(1)
Total underwriting	154	207
Investment and other income, net	196	215
Total property and casualty insurance	350	422
Other (*)	(40)	(46)
Total earnings before realized gains (losses) and income taxes	310	376
Realized gains (losses) on securities	(46)	(15)
Total earnings before income taxes	$ 264	$ 361

(*) Includes holding company interest and expenses, including a gain of $2 million and a loss of $2 million on retirement of debt in the first three months of 2023 and 2022, respectively.

C. Fair Value Measurements

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

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

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

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

The contingent consideration liability (included in other liabilities in AFG's Balance Sheet) relates primarily to AFG's acquisition of Verikai in December 2021. This liability is remeasured at fair value at each balance sheet date with changes in fair value recognized in net earnings. To estimate the fair value of the contingent consideration liability related to the Verikai acquisition ($23 million at March 31, 2023), AFG uses a weighted probability-based income approach which includes significant unobservable inputs and is classified as Level 3. There was no change to the estimated fair value of this liability during the first three months of 2023.

As discussed in *Note A — "Accounting Policies — Managed Investment Entities,"* AFG has set the carrying value of its CLO liabilities equal to the fair value of the CLO assets (which have more observable fair values) as an alternative to reporting those liabilities at separately measured fair values. As a result, the CLO liabilities are categorized within the fair value hierarchy on the same basis (proportionally) as the related CLO assets. Since the portion of the CLO liabilities allocated to Level 3 is derived from the fair value of the CLO assets, these amounts are excluded from the progression of Level 3 financial instruments.

AFG's management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. AFG's internal investment professionals are a group of approximately 20 investment professionals whose primary responsibility is to manage AFG's investment portfolio. These professionals monitor individual investments as well as overall industries and are active in the financial markets on a daily basis. The group is led by AFG's chief investment officer, who reports directly to one of AFG's Co-CEOs. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by AFG's internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, the Company communicates directly with the pricing services regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

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

	Level 1	Level 2	Level 3	Total
March 31, 2023				
Assets:				
Available for sale ("AFS") fixed maturities:				
U.S. government and government agencies	$ 225	$ —	$ —	$ 225
States, municipalities and political subdivisions	—	988	5	993
Foreign government	—	226	—	226
Residential MBS	—	1,584	5	1,589
Commercial MBS	—	78	—	78
Collateralized loan obligations	—	1,898	1	1,899
Other asset-backed securities	—	1,906	335	2,241
Corporate and other	8	2,426	359	2,793
Total AFS fixed maturities	233	9,106	705	10,044
Trading fixed maturities	—	36	—	36
Equity securities	568	29	411	1,008
Assets of managed investment entities ("MIE")	477	4,902	12	5,391
Other assets — derivatives	—	4	—	4
Total assets accounted for at fair value	$ 1,278	$ 14,077	$ 1,128	$ 16,483
Liabilities:				
Contingent consideration — acquisitions	$ —	$ —	$ 25	$ 25
Liabilities of managed investment entities	465	4,781	12	5,258
Other liabilities — derivatives	—	28	—	28
Total liabilities accounted for at fair value	$ 465	$ 4,809	$ 37	$ 5,311
December 31, 2022				
Assets:				
Available for sale fixed maturities:				
U.S. government and government agencies	$ 219	$ —	$ —	$ 219
States, municipalities and political subdivisions	—	1,181	5	1,186
Foreign government	—	226	—	226
Residential MBS	—	1,589	9	1,598
Commercial MBS	—	85	—	85
Collateralized loan obligations	—	1,919	2	1,921
Other asset-backed securities	—	1,916	329	2,245
Corporate and other	8	2,288	319	2,615
Total AFS fixed maturities	227	9,204	664	10,095
Trading fixed maturities	—	32	—	32
Equity securities	556	27	427	1,010
Assets of managed investment entities	659	4,777	11	5,447
Total assets accounted for at fair value	$ 1,442	$ 14,040	$ 1,102	$ 16,584
Liabilities:				
Contingent consideration — acquisitions	$ —	$ —	$ 25	$ 25
Liabilities of managed investment entities	645	4,676	11	5,332
Other liabilities — derivatives	—	42	—	42
Total liabilities accounted for at fair value	$ 645	$ 4,718	$ 36	$ 5,399

Approximately 7% of the total assets carried at fair value at March 31, 2023, were Level 3 assets. Approximately 11% ($120 million) of those Level 3 assets were priced using non-binding broker quotes, for which there is a lack of transparency as to the inputs used to determine fair value. Details as to the quantitative inputs are neither provided by the brokers nor otherwise reasonably obtainable by AFG. Approximately 5% ($58 million) of the Level 3 assets were priced by pricing services where either a single price was not corroborated, prices varied enough among the providers, or other market factors led management to determine these securities be classified as Level 3 assets. Approximately 25% ($279 million) of the Level 3 assets were equity investments in limited partnerships and similar investments that do not qualify for equity method accounting whose prices were determined based on financial information provided by the limited partnerships.

Internally developed prices for fixed maturities are estimated using a variety of inputs, including appropriate credit spreads over the treasury yield (of a similar duration), trade information and prices of comparable securities and other security specific features (such as optional early redemption). Internally developed Level 3 asset fair values represent approximately $671 million (59%) of the total fair value of Level 3 assets at March 31, 2023. Approximately 70% ($472 million) of these internally developed Level 3 assets are priced using a pricing model that uses a discounted cash flow approach to estimate the fair value of fixed maturity securities. The credit spread applied by management is the significant unobservable input of the pricing model. In instances where the security is currently callable at par value and the pricing model suggests a higher price, management caps the fair value at par value. Approximately 18% ($123 million) of the internally developed Level 3 assets are equity securities which are priced primarily using broker quotes and internal models with some inputs that are not market observable. Management believes that any justifiable changes in unobservable inputs used to determine internally developed fair values would not have resulted in a material change in AFG's financial position.

Changes in balances of Level 3 financial assets and liabilities carried at fair value during the first three months of 2023 and 2022 are presented below (in millions). The transfers into and out of Level 3 were due to changes in the availability of market observable inputs. All transfers are reflected in the table at fair value as of the end of the reporting period.

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2022	Net earnings (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at March 31, 2023
AFS fixed maturities:								
U.S. government agency	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
State and municipal	5	—	—	—	—	—	—	5
Residential MBS	9	—	—	—	(3)	4	(5)	5
Commercial MBS	—	—	—	—	—	—	—	—
Collateralized loan obligations	2	—	—	—	—	—	(1)	1
Other asset-backed securities	329	—	4	7	(5)	—	—	335
Corporate and other	319	5	2	44	(11)	—	—	359
Total AFS fixed maturities	664	5	6	51	(19)	4	(6)	705
Equity securities	427	(3)	—	31	(22)	—	(22)	411
Assets of MIE	11	(1)	—	2	—	—	—	12
Total Level 3 assets	$ 1,102	$ 1	$ 6	$ 84	$ (41)	$ 4	$ (28)	$ 1,128
Contingent consideration — acquisitions	$ (25)	$ —	$ —	$ —	$ —	$ —	$ —	$ (25)
Total Level 3 liabilities	$ (25)	$ —	$ —	$ —	$ —	$ —	$ —	$ (25)

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2021	Net earnings (loss)	Other comprehensive income (loss)	Purchases and issuances	Sales and settlements	Transfer into Level 3	Transfer out of Level 3	Balance at March 31, 2022
AFS fixed maturities:								
U.S. government agency	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
State and municipal	41	—	(2)	—	(1)	—	(5)	33
Residential MBS	14	—	—	—	(1)	—	(2)	11
Commercial MBS	—	—	—	—	—	—	—	—
Collateralized loan obligations	—	—	—	—	—	—	—	—
Other asset-backed securities	278	2	(9)	47	(15)	34	—	337
Corporate and other	267	—	(10)	28	(7)	—	(34)	244
Total AFS fixed maturities	600	2	(21)	75	(24)	34	(41)	625
Equity securities	313	22	—	30	(3)	3	(4)	361
Assets of MIE	13	(1)	—	—	—	—	—	12
Total Level 3 assets	$ 926	$ 23	$ (21)	$ 105	$ (27)	$ 37	$ (45)	$ 998
Contingent consideration — acquisitions	$ (23)	$ —	$ —	$ —	$ —	$ —	$ —	$ (23)
Total Level 3 liabilities	$ (23)	$ —	$ —	$ —	$ —	$ —	$ —	$ (23)

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

	Carrying Value	Fair Value Total	Level 1	Level 2	Level 3
March 31, 2023					
Financial assets:					
Cash and cash equivalents	$ 857	$ 857	$ 857	$ —	$ —
Mortgage loans	646	600	—	—	600
Total financial assets not accounted for at fair value	$ 1,503	$ 1,457	$ 857	$ —	$ 600
Long-term debt	$ 1,478	$ 1,286	$ —	$ 1,283	$ 3
Total financial liabilities not accounted for at fair value	$ 1,478	$ 1,286	$ —	$ 1,283	$ 3
December 31, 2022					
Financial assets:					
Cash and cash equivalents	$ 872	$ 872	$ 872	$ —	$ —
Mortgage loans	676	626	—	—	626
Total financial assets not accounted for at fair value	$ 1,548	$ 1,498	$ 872	$ —	$ 626
Long-term debt	$ 1,496	$ 1,302	$ —	$ 1,299	$ 3
Total financial liabilities not accounted for at fair value	$ 1,496	$ 1,302	$ —	$ 1,299	$ 3

D. Investments

Available for sale fixed maturities at March 31, 2023 and December 31, 2022, consisted of the following (in millions):

	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized	Fair Value
March 31, 2023						
Fixed maturities:						
U.S. government and government agencies	$ 236	$ —	$ —	$ (11)	$ (11)	$ 225
States, municipalities and political subdivisions	1,024	—	4	(35)	(31)	993
Foreign government	238	—	—	(12)	(12)	226
Residential MBS	1,743	2	23	(175)	(152)	1,589
Commercial MBS	80	—	—	(2)	(2)	78
Collateralized loan obligations	1,950	1	3	(53)	(50)	1,899
Other asset-backed securities	2,395	8	2	(148)	(146)	2,241
Corporate and other	2,917	5	22	(141)	(119)	2,793
Total fixed maturities	$ 10,583	$ 16	$ 54	$ (577)	$ (523)	$ 10,044
December 31, 2022						
Fixed maturities:						
U.S. government and government agencies	$ 233	$ —	$ —	$ (14)	$ (14)	$ 219
States, municipalities and political subdivisions	1,234	—	3	(51)	(48)	1,186
Foreign government	240	—	—	(14)	(14)	226
Residential MBS	1,757	2	23	(180)	(157)	1,598
Commercial MBS	88	—	—	(3)	(3)	85
Collateralized loan obligations	1,988	1	1	(67)	(66)	1,921
Other asset-backed securities	2,435	7	1	(184)	(183)	2,245
Corporate and other	2,761	1	11	(156)	(145)	2,615
Total fixed maturities	$ 10,736	$ 11	$ 39	$ (669)	$ (630)	$ 10,095

Equity securities which are reported at fair value with holding gains and losses recognized in net earnings, consisted of the following at March 31, 2023 and December 31, 2022 (in millions):

	March 31, 2023			December 31, 2022		
	Actual Cost	Fair Value	Fair Value over (under) Cost	Actual Cost	Fair Value	Fair Value over (under) Cost
Common stocks	$ 595	$ 579	$ (16)	$ 556	$ 553	$ (3)
Perpetual preferred stocks	434	429	(5)	436	457	21
Total equity securities carried at fair value	$ 1,029	$ 1,008	$ (21)	$ 992	$ 1,010	$ 18

The following table shows the carrying value and net investment income from investments accounted for using the equity method (in millions):

	Carrying Value		Net Investment Income Three months ended March 31,	
	March 31, 2023	December 31, 2022	2023	2022
Real estate-related investments (*)	$ 1,297	$ 1,229	$ 47	$ 100
Private equity	401	438	8	33
Private debt	35	33	2	—
Total investments accounted for using the equity method	$ 1,733	$ 1,700	$ 57	$ 133

(*) 92% of the carrying value relates to underlying investments in multi-family properties at both March 31, 2023 and December 31, 2022.

The earnings (losses) from these investments are generally reported on a quarter lag due to the timing required to obtain the necessary information from the funds. AFG regularly reviews and discusses fund performance with the fund managers to corroborate the reasonableness of the underlying reported asset values and to assess whether any events have occurred within the lag period that may materially affect the valuation of these investments.

With respect to partnerships and similar investments, AFG had unfunded commitments of $412 million and $396 million as of March 31, 2023 and December 31, 2022, respectively.

The following table shows gross unrealized losses (dollars in millions) on available for sale fixed maturities by investment category and length of time that individual securities have been in a continuous unrealized loss position at the following balance sheet dates.

	Less Than Twelve Months			Twelve Months or More		
	Unrealized Loss	Fair Value	Fair Value as % of Cost	Unrealized Loss	Fair Value	Fair Value as % of Cost
March 31, 2023						
Fixed maturities:						
U.S. government and government agencies	$ (1)	$ 43	98 %	$ (10)	$ 173	95 %
States, municipalities and political subdivisions	(17)	468	96 %	(18)	240	93 %
Foreign government	(2)	14	88 %	(10)	209	95 %
Residential MBS	(18)	397	96 %	(157)	939	86 %
Commercial MBS	—	20	100 %	(2)	49	96 %
Collateralized loan obligations	(12)	697	98 %	(41)	908	96 %
Other asset-backed securities	(17)	600	97 %	(131)	1,457	92 %
Corporate and other	(39)	945	96 %	(102)	933	90 %
Total fixed maturities	$ (106)	$ 3,184	97 %	$ (471)	$ 4,908	91 %
December 31, 2022						
Fixed maturities:						
U.S. government and government agencies	$ (4)	$ 111	97 %	$ (10)	$ 107	91 %
States, municipalities and political subdivisions	(50)	967	95 %	(1)	15	94 %
Foreign government	(5)	90	95 %	(9)	134	94 %
Residential MBS	(115)	1,078	90 %	(65)	315	83 %
Commercial MBS	(2)	44	96 %	(1)	33	97 %
Collateralized loan obligations	(44)	1,224	97 %	(23)	587	96 %
Other asset-backed securities	(100)	1,361	93 %	(84)	740	90 %
Corporate and other	(105)	1,665	94 %	(51)	413	89 %
Total fixed maturities	$ (425)	$ 6,540	94 %	$ (244)	$ 2,344	91 %

At March 31, 2023, the gross unrealized losses on fixed maturities of $577 million relate to approximately 1,700 securities. Investment grade securities (as determined by nationally recognized rating agencies) represented approximately 94% of the gross unrealized loss and 95% of the fair value of securities with unrealized losses.

To evaluate fixed maturities for expected credit losses (impairment), management considers whether the unrealized loss is credit-driven or a result of changes in market interest rates, the extent to which fair value is less than cost basis, historical operating, balance sheet and cash flow data from the issuer, third party research and communications with industry specialists and discussions with issuer management.

AFG analyzes its MBS for expected credit losses (impairment) each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan to collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data.

Management believes AFG will recover its cost basis (net of any allowance) in the securities with unrealized losses and that AFG has the ability to hold the securities until they recover in value and had no intent to sell them at March 31, 2023.

Credit losses on available for sale fixed maturities are measured based on the present value of expected future cash flows compared to amortized cost. Impairment losses are recognized through an allowance and recoveries of previously impaired amounts are recorded as an immediate reversal of all or a portion of the allowance. In addition, the allowance on available for sale fixed maturities cannot cause the amortized cost net of the allowance to be below fair value. Accordingly, future changes in the fair value of an impaired security (when the allowance was limited by the fair value) due to reasons other than issuer credit (e.g. changes in market interest rates) result in increases or decreases in the allowance, which are recorded through realized gains (losses) on securities. A progression of the allowance for expected credit losses on fixed maturity securities is shown below (in millions):

	Structured Securities (*)	Corporate and Other	Total
Balance at January 1, 2023	$ 10	$ 1	$ 11
Provision for expected credit losses on securities with no previous allowance	1	5	6
Additions (reductions) to previously recognized expected credit losses	—	(1)	(1)
Reductions due to sales or redemptions	—	—	—
Balance at March 31, 2023	$ 11	$ 5	$ 16
Balance at January 1, 2022	$ 8	$ 1	$ 9
Provision for expected credit losses on securities with no previous allowance	—	—	—
Additions (reductions) to previously recognized expected credit losses	(2)	—	(2)
Reductions due to sales or redemptions	—	—	—
Balance at March 31, 2022	$ 6	$ 1	$ 7

(*) Includes mortgage-backed securities, collateralized loan obligations and other asset-backed securities.

In the first three months of 2023 and 2022, AFG did not purchase any securities with expected credit losses.

The table below sets forth the scheduled maturities of AFG's available for sale fixed maturities as of March 31, 2023 (dollars in millions). Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Amortized	Fair Value	
	Cost, net (*)	Amount	%
Maturity			
One year or less	$ 350	$ 345	3 %
After one year through five years	2,633	2,514	25 %
After five years through ten years	1,043	1,008	10 %
After ten years	384	370	4 %
	4,410	4,237	42 %
Collateralized loan obligations and other ABS (average life of approximately 3 years)	4,336	4,140	41 %
MBS (average life of approximately 6 years)	1,821	1,667	17 %
Total	$ 10,567	$ 10,044	100 %

(*) Amortized cost, net of allowance for expected credit losses.

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

There were no investments in individual issuers that exceeded 10% of shareholders' equity at March 31, 2023 or December 31, 2022.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Investment income:		
Fixed maturities	$ 122	$ 80
Equity securities:		
Dividends	9	7
Change in fair value (*)	16	7
Equity in earnings of partnerships and similar investments	57	133
Other	18	7
Gross investment income	222	234
Investment expenses	(5)	(4)
Net investment income	$ 217	$ 230

(*) Although the change in the fair value of the majority of AFG's equity securities is recorded in realized gains (losses) on securities, AFG records holding gains and losses in net investment income on limited partnerships and similar investments that do not qualify for equity method accounting and certain other securities classified at purchase as "fair value through net investment income."

Realized gains (losses) and changes in unrealized appreciation (depreciation) included in AOCI related to fixed maturity securities are summarized as follows (in millions):

	Three months ended March 31, 2023				Three months ended March 31, 2022			
	Realized gains (losses)				Realized gains (losses)			
	Before Impairments	Impairment Allowance	Total	Change in Unrealized	Before Impairments	Impairment Allowance	Total	Change in Unrealized
Fixed maturities	$ (23)	$ (5)	$ (28)	$ 107	$ (4)	$ 2	$ (2)	$ (311)
Equity securities	(18)	—	(18)	—	(13)	—	(13)	—
Mortgage loans and other investments	—	—	—	—	—	—	—	—
Total pretax	(41)	(5)	(46)	107	(17)	2	(15)	(311)
Tax effects	8	1	9	(23)	3	—	3	66
Net of tax	$ (33)	$ (4)	$ (37)	$ 84	$ (14)	$ 2	$ (12)	$ (245)

All equity securities other than those accounted for under the equity method are carried at fair value through net earnings. AFG recorded net holding gains (losses) on equity securities during the first three months of 2023 and 2022 on securities that were still owned at March 31, 2023 and March 31, 2022 as follows (in millions):

	Three months ended March 31, 2023	Three months ended March 31, 2022
Included in realized gains (losses)	$ (23)	$ (13)
Included in net investment income	16	4
	$ (7)	$ (9)

Gross realized gains and losses (excluding changes in impairment allowance and mark-to-market of derivatives) on available for sale fixed maturity investment transactions consisted of the following (in millions):

	Three months ended March 31, 2023	Three months ended March 31, 2022
Gross gains	$ 1	$ 1
Gross losses	(25)	—

E. Derivatives

As discussed under "*Derivatives*" in *Note A — "Accounting Policies*," AFG uses derivatives to mitigate certain market risks related to its investment portfolio and deferred compensation obligations to employees.

The following table presents the classification of derivative assets and liabilities included in AFG's Balance Sheet at fair value (in millions):

		March 31, 2023		December 31, 2022	
	Balance Sheet Line	Asset	Liability	Asset	Liability
Derivatives designated and qualifying as cash flow hedges:					
Interest rate swaps	Other assets/Other liabilities	$ 2	$ 28	$ —	$ 37
Derivatives not designated as hedging instruments:					
MBS with embedded derivatives	Fixed maturities	40	—	40	—
Total return swap	Other assets/Other liabilities	2	—	—	5
		$ 44	$ 28	$ 40	$ 42

AFG's interest rate swaps are designated and qualify as highly effective cash flow hedges to mitigate interest rate risk related to certain floating-rate securities included in AFG's portfolio of fixed maturity securities. The purpose of each of these swaps is to effectively convert a portion of AFG's floating-rate fixed maturity securities to fixed rates by offsetting the variability in cash flows attributable to changes in short-term reference rates (LIBOR or SOFR).

Under the terms of the swaps, AFG receives fixed-rate interest payments in exchange for variable interest payments based on short-term LIBOR or SOFR. The notional amounts of the interest rate swaps generally decline over each swap's respective life (the swaps expire between July 2024 and July 2028) in anticipation of the expected decline in AFG's portfolio of fixed maturity securities with floating interest rates based on short-term LIBOR or SOFR. The total outstanding notional amount of AFG's interest rate swaps was $1.34 billion at March 31, 2023 compared to $1.25 billion at December 31, 2022, reflecting the issuance of three new swaps with a total notional amount of $120 million in the first three months of 2023, partially offset by scheduled amortization. In the first three months of 2023 and 2022, a loss of $5 million and income of $1 million, respectively, were reclassified from AOCI to net earnings. A collateral receivable supporting these swaps of $57 million and $62 million at March 31, 2023 and December 31, 2022, respectively, is included in other assets in AFG's Balance Sheet.

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

AFG is exposed to fair value changes from certain equity and fixed maturity market-based exposures related to its deferred compensation obligations to certain employees. To mitigate this risk, AFG entered into a total return swap in 2022. A payable of $1 million to return collateral related to this swap is included in other liabilities in AFG's Balance Sheet at March 31, 2023 and a collateral receivable of $7 million supporting this swap is included in other assets in AFG's Balance Sheet at December 31, 2022.

The following table summarizes the gains (losses) included in AFG's Statement of Earnings for changes in the fair value of derivatives for the three months ended March 31, 2023 and 2022 (in millions):

		Three months ended March 31,	
	Statement of Earnings Line	2023	2022
Qualifying cash flow hedges - gains (losses) reclassified from AOCI to net earnings:			
Interest rate swaps	Net investment income	$ (5)	$ 1
Non-designated hedges - gains (losses) included in net earnings:			
MBS with embedded derivatives	Realized gains (losses) on securities	$ 1	$ (5)
Total return swap	Other expenses	6	—
Earnings (losses) on non-designated hedges		7	(5)
Total earnings (losses) on derivatives		$ 2	$ (4)

Based on forward interest rate curves at March 31, 2023, management estimates that it will reclassify approximately $22 million of pre-tax net losses on interest rate swaps in AOCI to net investment income over the next twelve months. The actual amount will vary based on interest rates at the reset dates, which occur every one to three months.

F. Managed Investment Entities

AFG is the investment manager and it has investments ranging from 7.4% to 100% of the most subordinate debt tranche of sixteen active collateralized loan obligation entities ("CLOs"), which are considered variable interest entities. AFG also owns portions of the senior debt tranches of certain of these CLOs. Upon formation between 2012 and 2023, these entities issued securities in various senior and subordinate classes and invested the proceeds primarily in secured bank loans, which serve as collateral for the debt securities issued by each CLO. None of the collateral was purchased from AFG. AFG's investments in the subordinate debt tranches of these entities receive residual income from the CLOs only after the CLOs pay expenses (including management fees to AFG) and interest on and returns of capital to senior levels of debt securities. There are no contractual requirements for AFG to provide additional funding for these entities. AFG has not provided and does not intend to provide any financial support to these entities.

AFG's maximum exposure to economic loss on the CLOs that it manages is limited to its investment in those CLOs, which had an aggregate fair value of $132 million (including $87 million invested in the most subordinate tranches and $13 million invested in a temporary warehousing entity) at March 31, 2023, and $115 million at December 31, 2022.

In March 2023, AFG formed one new CLO, which issued $407 million face amount of liabilities (including $16 million face amount purchased by AFG).

The following table shows a progression of the fair value of AFG's investment in CLO tranches (in millions):

	Three months ended March 31,	
	2023	2022
Balance at beginning of period	$ 112	$ 76
Purchases	11	18
Sales	—	—
Distributions	(5)	(3)
Change in fair value	1	(2)
Balance at end of period (*)	$ 119	$ 89

(*) Excludes $13 million and $30 million invested in temporary warehousing entities at March 31, 2023 and March 31, 2022, respectively, that were established to provide AFG the ability to form new CLOs.

The revenues and expenses of the CLOs are separately identified in AFG’s Statement of Earnings, after the elimination of management fees and earnings attributable to AFG as measured by the change in the fair value of AFG’s investments in the CLOs. Selected financial information related to the CLOs is shown below (in millions):

	Three months ended March 31,	
	2023	2022
Gains (losses) on change in fair value of assets/liabilities (*):		
Assets	$ 34	$ (57)
Liabilities	(38)	52
Management fees paid to AFG	4	4
CLO earnings (losses) attributable to AFG	1	(2)

(*) Included in revenues in AFG’s Statement of Earnings.

The aggregate unpaid principal balance of the CLOs’ fixed maturity investments exceeded the fair value of the investments by $282 million and $339 million at March 31, 2023 and December 31, 2022, respectively. The aggregate unpaid principal balance of the CLOs’ debt exceeded its carrying value by $385 million and $413 million at those dates. The CLO assets include loans with an aggregate fair value of less than $1 million at March 31, 2023 and $4 million at December 31, 2022, for which the CLOs are not accruing interest because the loans are in default (aggregate unpaid principal balance of $5 million at March 31, 2023 and $17 million at December 31, 2022).

In addition to the CLOs that it manages, AFG had investments in CLOs that are managed by third parties (therefore not consolidated), which are included in available for sale fixed maturity securities and had a fair value of $1.90 billion at March 31, 2023 and $1.92 billion at December 31, 2022.

G. Goodwill and Other Intangibles

There were no changes in the goodwill balance of $246 million during the first three months of 2023.

Included in other assets in AFG’s Balance Sheet is $105 million at March 31, 2023 and $108 million at December 31, 2022 in amortizable intangible assets related to acquisitions. These amounts are net of accumulated amortization of $27 million and $24 million, respectively. Amortization of intangibles was $3 million and $2 million in the first three months of 2023 and 2022, respectively.

H. Long-Term Debt

Long-term debt consisted of the following (in millions):

	March 31, 2023			December 31, 2022		
	Principal	Discount and Issue Costs	Carrying Value	Principal	Discount and Issue Costs	Carrying Value
Direct Senior Obligations of AFG:						
4.50% Senior Notes due June 2047	$ 567	$ (1)	$ 566	$ 582	$ (1)	$ 581
5.25% Senior Notes due April 2030	258	(5)	253	261	(5)	256
Other	3	—	3	3	—	3
	828	(6)	822	846	(6)	840
Direct Subordinated Obligations of AFG:						
4.50% Subordinated Debentures due September 2060	200	(5)	195	200	(5)	195
5.125% Subordinated Debentures due December 2059	200	(6)	194	200	(6)	194
5.625% Subordinated Debentures due June 2060	150	(4)	146	150	(4)	146
5.875% Subordinated Debentures due March 2059	125	(4)	121	125	(4)	121
	675	(19)	656	675	(19)	656
	$ 1,503	$ (25)	$ 1,478	$ 1,521	$ (25)	$ 1,496

Scheduled principal payments on debt for the balance of 2023, the subsequent five years and thereafter are as follows: 2023 — none; 2024 — none; 2025 — none; 2026 — none; 2027 — none; 2028 — none and thereafter — $1.50 billion.

In the first three months of 2023, AFG repurchased $15 million principal amount of its 4.50% Senior Notes due in June 2047 for $13 million and $3 million principal amount of its 5.25% Senior Notes due in April 2030 for $3 million in open market transactions.

In the first three months of 2022, AFG repurchased $48 million principal amount of its 3.50% Senior Notes due in August 2026 in open market transactions for $50 million.

AFG can borrow up to $500 million under its revolving credit facility, which expires in December 2025. Amounts borrowed under this agreement bear interest at rates ranging from 1.00% to 1.875% (currently 1.375%) over LIBOR based on AFG's credit rating. No amounts were borrowed under this facility at March 31, 2023 or December 31, 2022.

I. Shareholders' Equity

AFG is authorized to issue 12.5 million shares of Voting Preferred Stock and 12.5 million shares of Nonvoting Preferred Stock, each without par value.

Accumulated Other Comprehensive Income (Loss), Net of Tax ("AOCI") Comprehensive income is defined as all changes in shareholders' equity except those arising from transactions with shareholders. Comprehensive income includes net earnings and other comprehensive income (loss), which consists primarily of changes in net unrealized gains or losses on available for sale fixed maturity securities.

The progression of the components of accumulated other comprehensive income (loss) follows (in millions):

	AOCI Beginning Balance	Other Comprehensive Income (Loss)			AOCI Ending Balance
		Pretax	Tax	Net of tax	
Three months ended March 31, 2023					
Net unrealized gains (losses) on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ 78	$ (17)	$ 61	
Reclassification adjustment for realized (gains) losses included in net earnings (*)		29	(6)	23	
Total net unrealized gains (losses) on securities	$ (497)	107	(23)	84	$ (413)
Net unrealized gains (losses) on cash flow hedges:					
Unrealized holding gains (losses) on cash flow hedges arising during the period		5	(1)	4	
Reclassification adjustment for investment income included in net earnings		5	(1)	4	
Total net unrealized gains (losses) on cash flow hedges	(29)	10	(2)	8	(21)
Foreign currency translation adjustments	(20)	—	—	—	(20)
Pension and other postretirement plan adjustments	3	—	—	—	3
Total	$ (543)	$ 117	$ (25)	$ 92	$ (451)
Three months ended March 31, 2022					
Net unrealized gains (losses) on securities:					
Unrealized holding gains (losses) on securities arising during the period		$ (313)	$ 66	$ (247)	
Reclassification adjustment for realized (gains) losses included in net earnings (*)		2	—	2	
Total net unrealized gains (losses) on securities	$ 136	(311)	66	(245)	$ (109)
Net unrealized gains (losses) on cash flow hedges:					
Unrealized holding gains (losses) on cash flow hedges arising during the period		(4)	1	(3)	
Reclassification adjustment for investment income included in net earnings		(1)	—	(1)	
Total net unrealized gains (losses) on cash flow hedges	—	(5)	1	(4)	(4)
Foreign currency translation adjustments	(18)	(2)	1	(1)	(19)
Pension and other postretirement plan adjustments	1	—	—	—	1
Total	$ 119	$ (318)	$ 68	$ (250)	$ (131)

The reclassification adjustment out of net unrealized gains (losses) on securities affected the following lines in AFG's Statement of Earnings:

OCI component	Affected line in the statement of earnings
Pretax	Realized gains (losses) on securities
Tax	Provision for income taxes

Stock Incentive Plans Under AFG's stock incentive plans, employees of AFG and its subsidiaries are eligible to receive equity awards in the form of stock options, stock appreciation rights, restricted stock awards, restricted stock units and stock awards. In the first three months of 2023, AFG issued 147,169 shares of restricted Common Stock (fair value of $132.18 per share) under the Stock Incentive Plan.

Total compensation expense related to stock incentive plans of AFG and its subsidiaries was $5 million and $6 million in the first three months of 2023 and 2022, respectively.

J. Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 21% to the provision for income taxes as shown in AFG's Statement of Earnings (dollars in millions):

	Three months ended March 31,			
	2023		2022	
	Amount	% of EBT	Amount	% of EBT
Earnings before income taxes ("EBT")	$ 264		$ 361	
Income taxes at statutory rate	$ 55	21 %	$ 76	21 %
Effect of:				
Employee stock ownership plan dividend paid deduction	(3)	(1 %)	(2)	(1 %)
Stock-based compensation	(2)	(1 %)	(2)	(1 %)
Tax exempt interest	(1)	— %	(2)	(1 %)
Dividends received deduction	(1)	— %	(1)	— %
Nondeductible expenses	3	1 %	2	1 %
Foreign operations	2	1 %	5	2 %
Change in valuation allowance	—	— %	(2)	(1 %)
Other	(1)	(1 %)	(3)	— %
Provision for income taxes as shown in the statement of earnings	$ 52	20 %	$ 71	20 %

On January 1, 2023, the two major tax provisions of the Inflation Reduction Act ("IRA") became effective. The IRA created a new corporate alternative minimum tax ("AMT") based on the earnings that a company reports in its financial statements and imposes a 1% excise tax on corporate stock repurchases. Due to the lack of specific guidance at this time, AFG cannot determine whether it will be subject to the new AMT. Any AMT incurred would be available to offset AFG's taxes payable under the standard calculation in future periods. Accordingly, the AMT is a timing difference and would result in the recording of an offsetting deferred tax asset with no impact on overall income tax expense. The excise tax on stock repurchases in excess of any issuances is recorded as part of the cost of the repurchases directly in shareholders' equity. AFG does not have a net stock repurchase excise tax liability at March 31, 2023.

K. Contingencies

There have been no significant changes to the matters discussed and referred to in *Note N — "Contingencies"* of AFG's 2022 Form 10-K, which covers property and casualty insurance reserves for claims related to environmental exposures, asbestos and other mass tort claims and environmental and occupational injury and disease claims of subsidiaries' former railroad and manufacturing operations.

L. Insurance

Property and Casualty Insurance Reserves The following table provides an analysis of changes in the liability for losses and loss adjustment expenses during the first three months of 2023 and 2022 (in millions):

	Three months ended March 31,	
	2023	2022
Balance at beginning of year	$ 11,974	$ 11,074
Less reinsurance recoverables, net of allowance	3,767	3,419
Net liability at beginning of year	8,207	7,655
Provision for losses and LAE occurring in the current period	883	781
Net decrease in the provision for claims of prior years	(63)	(88)
Total losses and LAE incurred	820	693
Payments for losses and LAE of:		
Current year	(66)	(67)
Prior years	(815)	(647)
Total payments	(881)	(714)
Foreign currency translation and other	1	—
Net liability at end of period	8,147	7,634
Add back reinsurance recoverables, net of allowance	3,614	3,352
Gross unpaid losses and LAE included in the balance sheet at end of period	$ 11,761	$ 10,986

The net decrease in the provision for claims of prior years during the first three months of 2023 reflects (i) lower than anticipated losses in the crop business, lower than expected claim frequency and severity in the trucking business and lower than anticipated claim frequency in the property and inland marine business (within the Property and transportation sub-segment), (ii) lower than anticipated claim severity in the workers' compensation businesses and lower than expected claim frequency in the executive liability, excess and surplus and environmental businesses (within the Specialty casualty sub-segment) and (iii) lower than anticipated claim frequency in the surety and trade credit businesses (within the Specialty financial sub-segment). This favorable development was partially offset by (i) higher than anticipated claim severity in the public sector and excess liability businesses (within the Specialty casualty sub-segment) and (ii) net adverse development associated with AFG's internal reinsurance program (within Other specialty).

The net decrease in the provision for claims of prior years during the first three months of 2022 reflects (i) lower than anticipated losses in the crop business, lower than expected claim frequency in the trucking and ocean marine businesses and at the Singapore branch and lower than anticipated claim severity in the property and inland marine business (within the Property and transportation sub-segment), (ii) lower than anticipated claim severity in the workers' compensation businesses, lower than expected claim frequency in the executive liability business and lower than anticipated claim frequency and severity in the excess and surplus business (within the Specialty casualty sub-segment) and (iii) lower than anticipated claim frequency in the surety, trade credit and financial institutions businesses (within the Specialty financial sub-segment). This favorable development was partially offset by (i) higher than anticipated claim severity in the targeted markets businesses (within the Specialty casualty sub-segment) and (ii) net adverse development associated with AFG's internal reinsurance program (within Other specialty).

Recoverables from Reinsurers and Premiums Receivable Progressions of the 2023 and 2022 allowance for expected credit losses on recoverables from reinsurers and premiums receivable are shown below (in millions):

	Recoverables from Reinsurers		Premiums Receivable	
	2023	2022	2023	2022
Balance at January 1	$ 8	$ 8	$ 8	$ 8
Provision (credit) for expected credit losses	1	(1)	—	(1)
Write-offs charged against the allowance	—	—	—	—
Balance at March 31	$ 9	$ 7	$ 8	$ 7

M. Subsequent Event

On May 2, 2023, AFG announced that it has entered into a definitive agreement whereby AFG will purchase Crop Risk Services ("CRS") from American International Group ("AIG"). CRS is a primary crop insurance general agent based in Decatur, Illinois, with crop year 2022 gross written premiums of approximately $1.2 billion and was the seventh largest provider of multi-peril crop insurance in the United States based on 2022 premiums. Under the terms of the transaction, AFG will pay AIG approximately $240 million (which includes an estimated $30 million in net tangible assets) in cash at closing. AFG expects to use cash on hand to fund the acquisition and the parties anticipate the closing to take place during the third quarter of 2023, subject to obtaining required regulatory approvals and the satisfaction of other customary closing conditions.

AFG's Great American Insurance Company has been providing crop-hail coverage since 1915 and began writing multi-peril crop insurance in 1980 after Congress authorized the program. Great American's existing Crop Division generated gross written premiums of approximately $1.8 billion in 2022 and was the fifth largest provider of multi-peril crop insurance in the United States. As part of the AFG organization, CRS will continue to do business in all 37 states in which it currently operates.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INDEX TO MD&A

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of words such as "anticipates", "believes", "expects", "projects", "estimates", "intends", "plans", "seeks", "could", "may", "should", "will" or the negative version of those words or other comparable terminology. Such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings, investment activities, and the amount and timing of share repurchases; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate changes; improved loss experience; anticipated timing of closing of the acquisition of Crop Risk Services ("CRS"); and performance of the CRS business under the ownership of AFG.

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:

- 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;
- 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;
- changes in insurance law or regulation, including changes in statutory accounting rules, including modifications to capital requirements;
- 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 pandemics, civil unrest and other major losses;
- disruption caused by cyber-attacks or other technology breaches or failures by AFG or its business partners and service providers, which could negatively impact AFG's business and/or expose AFG to litigation;
- development of insurance loss reserves and establishment of other reserves, particularly with respect to amounts associated with asbestos and environmental claims;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- competitive pressures;
- the ability to obtain adequate rates and policy terms;
- changes in AFG's credit ratings or the financial strength ratings assigned by major ratings agencies to AFG's operating subsidiaries;
- the impact of the conditions in the international financial markets and the global economy relating to AFG's international operations; and
- effects on AFG's reputation, including as a result of environmental, social and governance matters.

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.

OBJECTIVE

The objective of Management's Discussion and Analysis is to provide a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of AFG's financial condition, changes in financial condition and results of operations. The tables and narrative that follow are presented in a manner that is consistent with the information that AFG's management uses to make operational decisions and allocate capital resources. They are provided to demonstrate the nature of the transactions and events that could impact AFG's financial results. This discussion should be read in conjunction with the financial statements beginning on page 2.

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 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.

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.

AFG reported net earnings of $212 million ($2.49 per share, diluted) for the first three months of 2023 compared to $290 million ($3.40 per share, diluted) for the first three months of 2022. The year-over-year decrease was due primarily to lower returns on AFG's alternative investment portfolio (partnerships and similar investments and AFG-managed CLOs) when compared to the exceptionally strong performance of this portfolio in the prior year period, lower underwriting profit, and higher realized losses on securities. These items were partially offset by the impact of higher yields on fixed maturity investments.

Outlook

AFG's financial condition, results of operations and cash flows are impacted by the economic, legal and regulatory environment. Inflation (including social inflation), supply chain disruption, labor shortages, banking system instability and other economic conditions may impact premium levels, loss cost trends and investment returns. Management believes that AFG's strong financial position and current liquidity and capital at its subsidiaries will give AFG the flexibility to continue to effectively address and respond to the ongoing uncertainties presented by the macro-economic environment, the conflict between Russia and Ukraine and any lingering effects of the COVID-19 pandemic. AFG's insurance subsidiaries continue to have capital at or in excess of the levels required by ratings agencies in order to maintain their current ratings, and the parent company does not have any near-term debt maturities.

Management expects continued premium growth and strong underwriting results in the ongoing favorable property and casualty insurance market. In addition, the deployment of cash during the elevated interest rate environment (since early 2022) will continue to have a positive impact on investment income on fixed maturity investments throughout 2023.

CRITICAL ACCOUNTING POLICIES

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

- the valuation of investments, including the determination of impairment allowances,
- the establishment of insurance reserves, especially asbestos and environmental-related reserves,
- the recoverability of reinsurance, and
- the establishment of asbestos and environmental liabilities of former railroad and manufacturing operations.

For a discussion of these policies, see *Management's Discussion and Analysis — "Critical Accounting Policies"* in AFG's 2022 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

Ratios

AFG's debt to total capital ratio on a consolidated basis is shown below (dollars in millions):

			December 31,	
		March 31, 2023	2022	2021
Principal amount of long-term debt		$ 1,503	$ 1,521	$ 1,993
Total capital		5,878	6,099	6,869
Ratio of debt to total capital:				
Including subordinated debt		25.6 %	24.9 %	29.0 %
Excluding subordinated debt		14.1 %	13.9 %	19.2 %

The ratio of debt to total capital is a non-GAAP measure that management believes is useful for investors, analysts and ratings agencies to evaluate AFG's financial strength and liquidity and to provide insight into how AFG finances its operations. In addition, maintaining a ratio of debt, excluding subordinated debt and debt secured by real estate (if any), to total capital of 35% or lower is a financial covenant in AFG's bank credit facility. The ratio is calculated by dividing the principal amount of AFG's long-term debt by its total capital, which includes long-term debt and shareholders' equity (excluding unrealized gains (losses) related to fixed maturity investments).

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. Cash flows from operating, investing and financing activities as detailed in AFG's Consolidated Statement of Cash Flows are shown below (in millions):

	Three months ended March 31,	
	2023	2022
Net cash provided by operating activities	$ 403	$ 503
Net cash provided by (used in) investing activities	73	(1,111)
Net cash used in financing activities	(491)	(342)
Net change in cash and cash equivalents	$ (15)	$ (950)

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. Cash flows provided by operating activities also include the activity of AFG's managed investment entities (collateralized loan obligations ("CLO")) other than those activities included in investing or financing activities. The changes in the assets and liabilities of the managed investment entities included in operating activities increased cash flows from operating activities by $139 million during the first three months of 2023 and $172 million in the first three months of 2022, accounting for a $33 million decline in cash flows from operating activities in the 2023 period compared to the 2022 period. As discussed in *Note A — "Accounting Policies — Managed Investment Entities"* to the financial statements, AFG has no right to use the CLO assets and no obligation to pay the CLO liabilities and such assets and liabilities are shown separately in AFG's Balance Sheet. Excluding the impact of the managed investment entities, net cash provided by operating activities was $264 million and $331 million in the first three months of 2023 and 2022, respectively.

Net Cash Provided by (Used in) Investing Activities AFG's investing activities consist primarily of the investment of funds provided by its property and casualty businesses. Investing activities also include the purchase and disposal of managed investment entity investments, which are presented separately in AFG's Balance Sheet. Net investment activity in the managed investment entities was a $94 million use of cash in the first three months of 2023 compared to $140 million in the comparable 2022 period, accounting for a $46 million decrease in net cash used in investing activities in the first three months of 2023 compared to the same 2022 period. See *Note A — “Accounting Policies — Managed Investment Entities”* and *Note F — “Managed Investment Entities”* to the financial statements. Excluding the activity of the managed investment entities, net cash provided by investing activities was $167 million in the first three months of 2023 compared to a $971 million use of cash in the first three months of 2022, a change of $1.14 billion reflecting the opportunistic investment of cash on hand in the property and casualty operations during the rising interest rate environment in the first three months of 2022.

Net Cash Used in Financing Activities AFG’s financing activities consist primarily of issuances and retirements of long-term debt, issuances and repurchases of common stock and dividend payments. Net cash used in financing activities was $491 million for the first three months of 2023 compared to $342 million in the first three months of 2022, an increase of $149 million. Debt retirements were a $16 million use of cash in the first three months of 2023 compared to $50 million in the first three months of 2022, a decrease in cash used in financing activities of $34 million. During the first three months of 2023, AFG repurchased $24 million of its Common Stock compared to $5 million in the comparable 2022 period, resulting in a $19 million increase in net cash used in financing activities in the first three months of 2023 compared to the first three months of 2022. AFG paid cash dividends totaling $393 million in the first three months of 2023 compared to $216 million in the first three months of 2022. Financing activities also include issuances and retirements of managed investment entity liabilities, which are nonrecourse to AFG and presented separately in AFG’s Balance Sheet. Retirements of managed investment entity liabilities exceeded issuances by $62 million in the first three months of 2023 compared to $76 million in the first three months of 2022, accounting for a $14 million decrease in net cash used in financing activities in the 2023 period compared to the 2022 period. See *Note A — “Accounting Policies — Managed Investment Entities”* and *Note F — “Managed Investment Entities”* to the financial statements.

Parent and Subsidiary Liquidity

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

AFG's operations continue to generate significant excess capital for returns of capital to shareholders in the form of regular and special cash dividends and through opportunistic share repurchases or to be deployed into its property and casualty businesses as management identifies the potential for profitable organic growth and opportunities to expand through acquisitions of established businesses and acquisitions of or investments in start-ups that meet target return thresholds.

During the first three months of 2023, AFG repurchased 199,762 shares of its Common Stock for $24 million and paid a special cash dividend of $4.00 per share in February totaling $341 million.

AFG may, at any time and from time to time, seek to retire or purchase its outstanding debt through cash purchases or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will be upon such terms and at such prices as management may determine, and will depend on prevailing market conditions, AFG’s liquidity requirements, contractual restrictions and other factors. During the first three months of 2023, AFG repurchased $18 million principal amount of its senior notes for $16 million cash.

During 2022, AFG repurchased 89,368 shares of its Common Stock for $11 million and paid special cash dividends totaling $1.02 billion ($2.00 per share in March, $8.00 per share in May and $2.00 per share in November). In 2022, AFG repurchased $472 million principal amount of its senior notes for $477 million cash.

At March 31, 2023, AFG (parent) held approximately $672 million in cash and investments. Management believes that AFG’s cash balances are held at stable banking institutions, although the amounts of many of these deposits are in excess of federally insured balances. In addition, AFG can borrow up to $500 million under its revolving credit facility, which expires in December 2025. Amounts borrowed under this agreement bear interest at rates ranging from 1.00% to 1.875% (currently 1.375%) over LIBOR based on AFG’s credit rating. The credit facility is in the process of being amended to replace the LIBOR-based interest rate to a similar rate based on SOFR. There were no borrowings under this agreement, or under any other parent company short-term borrowing arrangements, during 2022 or the first three months of 2023.

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

Subsidiary Liquidity The liquidity requirements of AFG's insurance subsidiaries relate primarily to the policyholder claims and underwriting expenses and payments of dividends and taxes to AFG. Historically, cash flows from premiums and investment income have generally provided more than sufficient funds to meet these requirements. Funds received in excess of cash requirements are generally invested in marketable securities. In addition, the insurance subsidiaries generally hold a significant amount of highly liquid, short duration investments.

AFG believes its insurance subsidiaries maintain sufficient liquidity to pay claims and underwriting expenses. In addition, these subsidiaries have sufficient capital to meet commitments in the event of unforeseen events such as reserve deficiencies, inadequate premium rates or reinsurer insolvencies. Even in the current uncertain economic environment, management believes that the capital levels in AFG's insurance subsidiaries are adequate to maintain its business and rating agency ratings. Nonetheless, changes in statutory accounting rules, significant declines in the fair value of the insurance subsidiaries' investment portfolios or significant ratings downgrades on these investments, could create a need for additional capital.

Investments

AFG's investment portfolio at March 31, 2023, contained $10.04 billion in fixed maturity securities classified as available for sale and carried at fair value with unrealized gains and losses included in accumulated other comprehensive income and $36 million in fixed maturities classified as trading with holding gains and losses included in net investment income. In addition, AFG's investment portfolio includes $624 million in equity securities carried at fair value with holding gains and losses included in realized gains (losses) on securities and $384 million in equity securities carried at fair value with holding gains and losses included in net investment income.

Fair values for AFG's portfolio are determined by AFG's internal investment professionals using data from nationally recognized pricing services, non-binding broker quotes and other market information. Fair values of equity securities are generally based on published closing prices. For AFG's fixed maturity portfolio, approximately 88% was priced using pricing services at March 31, 2023 and 6% was priced using non-binding broker quotes. When prices obtained for the same security vary, AFG's internal investment professionals select the price they believe is most indicative of an exit price.

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

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

In general, the fair value of AFG’s fixed maturity investments is inversely correlated to changes in interest rates. The following table demonstrates the sensitivity of such fair values to reasonably likely changes in interest rates by illustrating the estimated effect on AFG’s fixed maturity portfolio that an immediate increase of 100 basis points in the interest rate yield curve would have had at March 31, 2023 (dollars in millions). Effects of increases or decreases from the 100 basis points illustrated would be approximately proportional.

Fair value of fixed maturity portfolio	$ 10,080
Percentage impact on fair value of 100 bps increase in interest rates	(3.0 %)
Pretax impact on fair value of fixed maturity portfolio	$ (302)

Approximately 93% of the fixed maturities held by AFG at March 31, 2023, were rated “investment grade” (credit rating of AAA to BBB) by nationally recognized rating agencies, 4% were rated “non-investment grade” and 3% were not rated. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and non-investment grade. Management believes that the high-quality investment portfolio should generate a stable and predictable investment return.

Municipal bonds represented approximately 10% of AFG’s fixed maturity portfolio at March 31, 2023. AFG’s municipal bond portfolio is high quality, with over 99% of the securities rated investment grade at that date. The portfolio is well diversified across the states of issuance and individual issuers. At March 31, 2023, approximately 92% of the municipal bond portfolio was held in revenue bonds, with the remaining 8% held in general obligation bonds.

AFG has less than $100 million of direct exposure to office commercial real estate through property ownership, mortgages or equity method investments. AFG’s exposure to office commercial real estate within its fixed maturity portfolio includes securities (the majority of which are AAA-rated) with a carrying value of approximately $670 million that have minimal exposure to office commercial real estate.

Summarized information for the unrealized gains and losses recorded in AFG’s Balance Sheet at March 31, 2023, is shown in the following table (dollars in millions). Approximately $180 million of available for sale fixed maturity securities had no unrealized gains or losses at March 31, 2023.

	Securities With Unrealized Gains	Securities With Unrealized Losses
Available for Sale Fixed Maturities		
Fair value of securities	$ 1,772	$ 8,092
Amortized cost of securities, net of allowance for expected credit losses	$ 1,718	$ 8,669
Gross unrealized gain (loss)	$ 54	$ (577)
Fair value as % of amortized cost	103 %	93 %
Number of security positions	473	1,712
Number individually exceeding $2 million gain or loss	2	59
Concentration of gains (losses) by type or industry (exceeding 5% of unrealized):		
Mortgage-backed securities	$ 23	$ (177)
Banking	7	(23)
States and municipalities	4	(35)
Collateralized loan obligations	3	(53)
Other asset-backed securities	2	(148)
Asset managers	1	(43)
Percentage rated investment grade	88 %	95 %

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The table below sets forth the scheduled maturities of AFG’s available for sale fixed maturity securities at March 31, 2023, based on their fair values. Securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Securities With Unrealized Gains	Securities With Unrealized Losses
Maturity		
One year or less	5 %	3 %
After one year through five years	21 %	25 %
After five years through ten years	27 %	7 %
After ten years	10 %	3 %
	63 %	38 %
Collateralized loan obligations and other asset-backed securities (average life of approximately 3 years)	26 %	45 %
Mortgage-backed securities (average life of approximately 6 years)	11 %	17 %
	100 %	100 %

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

	Aggregate Fair Value	Aggregate Unrealized Gain (Loss)	Fair Value as % of Cost
Fixed Maturities at March 31, 2023			
Securities with unrealized gains:			
Exceeding $500,000 (17 securities)	$ 142	$ 16	113 %
$500,000 or less (456 securities)	1,630	38	102 %
	$ 1,772	$ 54	103 %
Securities with unrealized losses:			
Exceeding $500,000 (300 securities)	$ 3,460	$ (428)	89 %
$500,000 or less (1,412 securities)	4,632	(149)	97 %
	$ 8,092	$ (577)	93 %

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

	Aggregate Fair Value	Aggregate Unrealized Loss	Fair Value as % of Cost
Securities with Unrealized Losses at March 31, 2023			
Investment grade fixed maturities with losses for:			
Less than one year (630 securities)	$ 2,989	$ (97)	97 %
One year or longer (794 securities)	4,676	(447)	91 %
	$ 7,665	$ (544)	93 %
Non-investment grade fixed maturities with losses for:			
Less than one year (176 securities)	$ 195	$ (9)	96 %
One year or longer (112 securities)	232	(24)	91 %
	$ 427	$ (33)	93 %

When a decline in the value of a specific investment is considered to be other-than-temporary, an allowance for credit losses (impairment) is charged to earnings (accounted for as a realized loss). The determination of whether unrealized losses are other-than-temporary requires judgment based on subjective as well as objective factors as detailed in AFG’s 2022 Form 10-K under *Management’s Discussion and Analysis — “Investments.”*

Based on its analysis, management believes AFG will recover its cost basis (net of any allowance) in the fixed maturity securities with unrealized losses and that AFG has the ability to hold the securities until they recover in value and had no intent to sell them at March 31, 2023. Although AFG has the ability to continue holding its fixed maturity investments with unrealized losses, its intent to hold them may change due to deterioration in the issuers’ creditworthiness, decisions to lessen exposure to a particular issuer or industry, asset/liability management decisions, market movements, changes in views about appropriate asset allocation or the desire to offset taxable realized gains. Should AFG’s ability or intent change regarding a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, increases in the allowance for credit losses could be material to results of operations in future periods. Significant declines in the fair value of AFG’s investment portfolio could have a significant adverse effect on AFG’s liquidity. For information on AFG’s realized gains (losses) on securities, see *“Results of Operations — Realized Gains (Losses) on Securities.”*

Uncertainties

Management believes that the areas posing the greatest risk of material loss are the adequacy of its insurance reserves and contingencies arising out of its former railroad and manufacturing operations. See *Management’s Discussion and Analysis — “Uncertainties — Asbestos and Environmental-related (“A&E”) Insurance Reserves*” in AFG’s 2022 Form 10–K.

MANAGED INVESTMENT ENTITIES

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

CONDENSED CONSOLIDATING BALANCE SHEET

	Before CLO Consolidation	Managed Investment Entities	Consol. Entries		Consolidated As Reported
March 31, 2023					
Assets:					
Cash and investments	$ 14,583	$ —	$ (132)	(*)	$ 14,451
Assets of managed investment entities	—	5,391	—		5,391
Other assets	8,640	—	(1)	(*)	8,639
Total assets	$ 23,223	$ 5,391	$ (133)		$ 28,481
Liabilities:					
Unpaid losses and loss adjustment expenses and unearned premiums	$ 15,196	$ —	$ —		$ 15,196
Liabilities of managed investment entities	—	5,378	(120)	(*)	5,258
Long-term debt and other liabilities	4,086	—	—		4,086
Total liabilities	19,282	5,378	(120)		24,540
Shareholders' equity:					
Common Stock and Capital surplus	1,459	13	(13)		1,459
Retained earnings	2,933	—	—		2,933
Accumulated other comprehensive income (loss), net of tax	(451)	—	—		(451)
Total shareholders' equity	3,941	13	(13)		3,941
Total liabilities and shareholders' equity	$ 23,223	$ 5,391	$ (133)		$ 28,481
December 31, 2022					
Assets:					
Cash and investments	$ 14,627	$ —	$ (115)	(*)	$ 14,512
Assets of managed investment entities	—	5,447	—		5,447
Other assets	8,872	—	—	(*)	8,872
Total assets	$ 23,499	$ 5,447	$ (115)		$ 28,831
Liabilities:					
Unpaid losses and loss adjustment expenses and unearned premiums	$ 15,220	$ —	$ —		$ 15,220
Liabilities of managed investment entities	—	5,444	(112)	(*)	5,332
Long-term debt and other liabilities	4,227	—	—		4,227
Total liabilities	19,447	5,444	(112)		24,779
Shareholders' equity:					
Common Stock and Capital surplus	1,453	3	(3)		1,453
Retained earnings	3,142	—	—		3,142
Accumulated other comprehensive income (loss), net of tax	(543)	—	—		(543)
Total shareholders' equity	4,052	3	(3)		4,052
Total liabilities and shareholders' equity	$ 23,499	$ 5,447	$ (115)		$ 28,831

(*) Elimination of the fair value of AFG's investment in CLOs and related accrued interest.

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

	Before CLO Consol. (a)	Managed Investment Entities	Consol. Entries		Consolidated As Reported
Three months ended March 31, 2023					
Revenues:					
Property and casualty insurance net earned premiums	$ 1,437	$ —	$ —		$ 1,437
Net investment income	218	—	(1)	(b)	217
Realized gains (losses) on securities	(46)	—	—		(46)
Income of managed investment entities:					
Investment income	—	104	—		104
Gain (loss) on change in fair value of assets/liabilities	—	(1)	(3)	(b)	(4)
Other income	36	—	(4)	(c)	32
Total revenues	1,645	103	(8)		1,740
Costs and Expenses:					
Insurance benefits and expenses	1,293	—	—		1,293
Expenses of managed investment entities	—	103	(8)	(b)(c)	95
Interest charges on borrowed money and other expenses	88	—	—		88
Total costs and expenses	1,381	103	(8)		1,476
Earnings before income taxes	264	—	—		264
Provision for income taxes	52	—	—		52
Net earnings	$ 212	$ —	$ —		$ 212
Three months ended March 31, 2022					
Revenues:					
Property and casualty insurance net earned premiums	$ 1,302	$ —	$ —		$ 1,302
Net investment income	228	—	2	(b)	230
Realized gains (losses) on securities	(15)	—	—		(15)
Income of managed investment entities:					
Investment income	—	46	—		46
Gain (loss) on change in fair value of assets/liabilities	—	—	(5)	(b)	(5)
Other income	34	—	(4)	(c)	30
Total revenues	1,549	46	(7)		1,588
Costs and Expenses:					
Insurance benefits and expenses	1,107	—	—		1,107
Expenses of managed investment entities	—	46	(7)	(b)(c)	39
Interest charges on borrowed money and other expenses	81	—	—		81
Total costs and expenses	1,188	46	(7)		1,227
Earnings before income taxes	361	—	—		361
Provision for income taxes	71	—	—		71
Net earnings	$ 290	$ —	$ —		$ 290

(a) Includes income of $1 million in the first three months of 2023 and a loss of $2 million in the first three months of 2022, representing the change in fair value of AFG’s CLO investments and $4 million of income in both the first three months of 2023 and 2022, in CLO management fees earned.
(b) Elimination of the change in fair value of AFG’s investments in the CLOs, including $4 million and $3 million in the first three months of 2023 and 2022, respectively, in distributions recorded as interest expense by the CLOs.
(c) Elimination of management fees earned by AFG.

RESULTS OF OPERATIONS

General

AFG's net earnings, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. Core net operating earnings excludes realized gains (losses) on securities because such gains and losses are influenced significantly by financial markets, interest rates and the timing of sales. In addition, special charges related to coverage that AFG no longer writes, such as asbestos and environmental exposures, are excluded from core earnings.

The following table (in millions, except per share amounts) identifies non-core items and reconciles net earnings to core net operating earnings, a non-GAAP financial measure. AFG believes core net operating earnings is a useful tool for investors and analysts in analyzing ongoing operating trends and for management to evaluate financial performance against historical results because it believes this provides a more comparable measure of its continuing business.

	Three months ended March 31,	
	2023	2022
Components of net earnings:		
Core operating earnings before income taxes	$ 308	$ 378
Pretax non-core items:		
Realized gains (losses) on securities	(46)	(15)
Gain (loss) on retirement of debt	2	(2)
Earnings before income taxes	264	361
Provision for income taxes:		
Core operating earnings	61	75
Non-core items:		
Realized gains (losses) on securities	(9)	(3)
Gain (loss) on retirement of debt	—	(1)
Total provision for income taxes	52	71
Net earnings	$ 212	$ 290
Net earnings:		
Core net operating earnings	$ 247	$ 303
Realized gains (losses) on securities	(37)	(12)
Gain (loss) on retirement of debt	2	(1)
Net earnings	$ 212	$ 290
Diluted per share amounts:		
Core net operating earnings	$ 2.89	$ 3.56
Realized gains (losses) on securities	(0.42)	(0.14)
Gain (loss) on retirement of debt	0.02	(0.02)
Net earnings	$ 2.49	$ 3.40

Net earnings were $212 million in the first three months of 2023 compared to $290 million in the first three months of 2022 reflecting lower core net operating earnings and higher net realized losses on securities in the first three months of 2023 compared to the first three months of 2022. Core net operating earnings for the first three months of 2023 decreased $56 million compared to the first three months of 2022 reflecting lower returns on AFG's alternative investment portfolio when compared to the exceptionally strong performance of this portfolio in the prior year period, lower underwriting profit and higher holding company expenses, partially offset by the impact of higher yields on fixed maturity investments and lower interest charges on borrowed money. Net realized losses on securities in the first three months of 2023 and 2022 include after-tax losses of $18 million and $10 million, respectively, resulting from the change in fair value of equity securities that were still held at the balance sheet date.

RESULTS OF OPERATIONS — THREE MONTHS ENDED MARCH 31, 2023 AND 2022

Segmented Statement of Earnings

AFG reports its operations as two segments: (i) Property and casualty insurance ("P&C") and (ii) Other, which includes holding company costs and income and expenses related to the managed investment entities ("MIEs").

AFG's net earnings, determined in accordance with GAAP, include certain items that may not be indicative of its ongoing core operations. The following tables for the three months ended March 31, 2023 and 2022 identify such items by segment and reconcile net earnings to core net operating earnings, a non-GAAP financial measure that AFG believes is a useful tool for investors and analysts in analyzing ongoing operating trends (in millions):

		Other				
	P&C	Consol. MIEs	Holding Co., other and unallocated	Total	Non-core reclass	GAAP Total
Three months ended March 31, 2023						
Revenues:						
Property and casualty insurance net earned premiums	$ 1,437	$ —	$ —	$ 1,437	$ —	$ 1,437
Net investment income	207	(1)	11	217	—	217
Realized gains (losses) on securities	—	—	—	—	(46)	(46)
Income of MIEs:						
Investment income	—	104	—	104	—	104
Gain (loss) on change in fair value of assets/liabilities	—	(4)	—	(4)	—	(4)
Other income	5	(4)	31	32	—	32
Total revenues	1,649	95	42	1,786	(46)	1,740
Costs and Expenses:						
Property and casualty insurance:						
Losses and loss adjustment expenses	820	—	—	820	—	820
Commissions and other underwriting expenses	463	—	10	473	—	473
Interest charges on borrowed money	—	—	19	19	—	19
Expenses of MIEs	—	95	—	95	—	95
Other expenses	16	—	55	71	(2)	69
Total costs and expenses	1,299	95	84	1,478	(2)	1,476
Earnings before income taxes	350	—	(42)	308	(44)	264
Provision for income taxes	71	—	(10)	61	(9)	52
Core Net Operating Earnings	279	—	(32)	247		
Non-core earnings (loss) (*):						
Realized gains (losses) on securities, net of tax	—	—	(37)	(37)	37	—
Gain on retirement of debt, net of tax	—	—	2	2	(2)	—
Net Earnings	$ 279	$ —	$ (67)	$ 212	$ —	$ 212

	P&C	Other: Consol. MIEs	Other: Holding Co., other and unallocated	Total	Non-core reclass	GAAP Total
Three months ended March 31, 2022						
Revenues:						
Property and casualty insurance net earned premiums	$ 1,302	$ —	$ —	$ 1,302	$ —	$ 1,302
Net investment income	223	2	5	230	—	230
Realized gains (losses) on securities	—	—	—	—	(15)	(15)
Income of MIEs:						
Investment income	—	46	—	46	—	46
Gain (loss) on change in fair value of assets/liabilities	—	(5)	—	(5)	—	(5)
Other income	4	(4)	30	30	—	30
Total revenues	1,529	39	35	1,603	(15)	1,588
Costs and Expenses:						
Property and casualty insurance:						
Losses and loss adjustment expenses	693	—	—	693	—	693
Commissions and other underwriting expenses	402	—	12	414	—	414
Interest charges on borrowed money	—	—	23	23	—	23
Expenses of MIEs	—	39	—	39	—	39
Other expenses	12	—	44	56	2	58
Total costs and expenses	1,107	39	79	1,225	2	1,227
Earnings before income taxes	422	—	(44)	378	(17)	361
Provision for income taxes	86	—	(11)	75	(4)	71
Core Net Operating Earnings	336	—	(33)	303		
Non-core earnings (loss) (*):						
Realized gains (losses) on securities, net of tax	—	—	(12)	(12)	12	—
Loss on retirement of debt, net of tax	—	—	(1)	(1)	1	—
Net Earnings	$ 336	$ —	$ (46)	$ 290	$ —	$ 290

(*) See the reconciliation of core earnings to GAAP net earnings under "*Results of Operations — General*" for details on the tax impacts of these reconciling items.

Property and Casualty Insurance Segment — Results of Operations

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

AFG's property and casualty insurance operations contributed $350 million in pretax earnings in the first three months of 2023 compared to $422 million in the first three months of 2022, a decrease of $72 million (17%). The decrease in pretax earnings reflects lower underwriting profit and lower net investment income in the first three months of 2023 compared to the first three months of 2022.

The following table details AFG's earnings before income taxes from its property and casualty insurance operations for the three months ended March 31, 2023 and 2022 (dollars in millions):

	Three months ended March 31, 2023	Three months ended March 31, 2022	% Change
Gross written premiums	$ 2,155	$ 1,936	11 %
Reinsurance premiums ceded	(636)	(568)	12 %
Net written premiums	1,519	1,368	11 %
Change in unearned premiums	(82)	(66)	24 %
Net earned premiums	1,437	1,302	10 %
Loss and loss adjustment expenses	820	693	18 %
Commissions and other underwriting expenses	463	402	15 %
Underwriting gain	154	207	(26 %)
Net investment income	207	223	(7 %)
Other income and expenses, net	(11)	(8)	38 %
Earnings before income taxes	$ 350	$ 422	(17 %)

	Three months ended March 31, 2023	Three months ended March 31, 2022	Change
Combined Ratios:			
Specialty lines			
Loss and LAE ratio	57.0 %	53.1 %	3.9 %
Underwriting expense ratio	32.2 %	30.9 %	1.3 %
Combined ratio	89.2 %	84.0 %	5.2 %
Aggregate — including exited lines			
Loss and LAE ratio	57.1 %	53.2 %	3.9 %
Underwriting expense ratio	32.2 %	30.9 %	1.3 %
Combined ratio	89.3 %	84.1 %	5.2 %

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

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

Gross Written Premiums

Gross written premiums ("GWP") for AFG's property and casualty insurance segment were $2.16 billion for the first three months of 2023 compared to $1.94 billion for the first three months of 2022, an increase of $219 million (11%). Detail of AFG's property and casualty gross written premiums is shown below (dollars in millions):

	Three months ended March 31, 2023 GWP	2023 %	2022 GWP	2022 %	% Change
Property and transportation	$ 872	41 %	$ 760	39 %	15 %
Specialty casualty	1,061	49 %	976	51 %	9 %
Specialty financial	222	10 %	200	10 %	11 %
	$ 2,155	100 %	$ 1,936	100 %	11 %

Reinsurance Premiums Ceded

Reinsurance premiums ceded (“Ceded”) for AFG’s property and casualty insurance segment were 30% of gross written premiums for the first three months of 2023 compared to 29% of gross written premiums for the first three months of 2022, an increase of 1 percentage point. Detail of AFG’s property and casualty reinsurance premiums ceded is shown below (dollars in millions):

	Three months ended March 31,				
	2023		2022		Change in
	Ceded	% of GWP	Ceded	% of GWP	% of GWP
Property and transportation	$ (320)	37 %	$ (259)	34 %	3 %
Specialty casualty	(339)	32 %	(326)	33 %	(1 %)
Specialty financial	(38)	17 %	(41)	21 %	(4 %)
Other specialty	61		58		
	$ (636)	30 %	$ (568)	29 %	1 %

Net Written Premiums

Net written premiums (“NWP”) for AFG’s property and casualty insurance segment were $1.52 billion for the first three months of 2023 compared to $1.37 billion for the first three months of 2022, an increase of $151 million (11%). Detail of AFG’s property and casualty net written premiums is shown below (dollars in millions):

	Three months ended March 31,				
	2023		2022		
	NWP	%	NWP	%	% Change
Property and transportation	$ 552	36 %	$ 501	37 %	10 %
Specialty casualty	722	48 %	650	47 %	11 %
Specialty financial	184	12 %	159	12 %	16 %
Other specialty	61	4 %	58	4 %	5 %
	$ 1,519	100 %	$ 1,368	100 %	11 %

Net Earned Premiums

Net earned premiums (“NEP”) for AFG’s property and casualty insurance segment were $1.44 billion for the first three months of 2023 compared to $1.30 billion for the first three months of 2022, an increase of $135 million (10%). Detail of AFG’s property and casualty net earned premiums is shown below (dollars in millions):

	Three months ended March 31,				
	2023		2022		
	NEP	%	NEP	%	% Change
Property and transportation	$ 475	33 %	$ 443	34 %	7 %
Specialty casualty	704	49 %	639	49 %	10 %
Specialty financial	196	14 %	163	13 %	20 %
Other specialty	62	4 %	57	4 %	9 %
	$ 1,437	100 %	$ 1,302	100 %	10 %

Gross written premiums for the first three months of 2023 increased $219 million (11%) compared to the first three months of 2022. Year-over-year growth was reported within each of the Specialty property and casualty sub-segments as a result of a combination of new business opportunities, increased exposures and a good renewal rate environment. Overall average renewal rates increased approximately 4% in the first three months of 2023. Excluding overall rate decreases in the workers’ compensation businesses, renewal rates increased approximately 5%.

Property and transportation Gross written premiums increased $112 million (15%) in the first three months of 2023 compared to the first three months of 2022. New business opportunities in crop insurance products, coupled with increased rates and exposures in the commercial transportation businesses were the primary drivers of the increase in premiums. Average renewal rates increased approximately 6% for this group in the first three months of 2023. Reinsurance premiums ceded as a percentage of gross written premiums increased 3 percentage points in the first three months of 2023 compared to the first three months of 2022 reflecting growth in crop insurance products with higher cessions and higher cessions in the transportation and property and inland marine businesses.

Specialty casualty Gross written premiums increased $85 million (9%) in the first three months of 2023 compared to the first three months of 2022 due primarily to new accounts and strong account retention in the social services business, increased exposures from payroll growth and new business in the workers’ compensation businesses and additional business opportunities in the excess and surplus and public sector operations. This growth was partially offset by lower premiums in the mergers and acquisitions liability and executive liability businesses. Average renewal rates increased approximately 3% for this group in the first three months of 2023. Excluding overall rate decreases in the workers’ compensation businesses, renewal rates for this group increased approximately 5%. Reinsurance premiums ceded as a percentage of gross written premiums decreased 1 percentage point in the first three months of 2023 compared to the first three months of 2022 reflecting growth in the workers’ compensation businesses (which cede a lower percentage of premiums than the other businesses in the Specialty casualty sub-segment) and lower cessions in the environmental business and at ABA Insurance Services.

Specialty financial Gross written premiums increased $22 million (11%) in the first three months of 2023 compared to the first three months of 2022 due primarily to growth in the financial institutions, surety and commercial equipment leasing businesses, partially offset by lower premiums in the innovative markets business. Average renewal rates increased approximately 1% for this group in the first three months of 2023. Reinsurance premiums ceded as a percentage of gross written premiums decreased 4 percentage points in the first three months of 2023 compared to the first three months of 2022 reflecting lower cessions in the innovative markets business.

Other specialty The amounts shown as reinsurance premiums ceded represent business assumed by AFG’s internal reinsurance program from the operations that make up AFG’s other Specialty property and casualty insurance sub-segments. Reinsurance premiums assumed increased $3 million in the first three months of 2023 compared to the first three months of 2022 reflecting an increase in premiums retained, primarily from businesses in the Specialty casualty sub-segment.

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Combined Ratio

The table below (dollars in millions) details the components of the combined ratio for AFG’s property and casualty insurance segment:

	Three months ended March 31,			Three months ended March 31,	
	2023	2022	Change	2023	2022
Property and transportation					
Loss and LAE ratio	60.9 %	57.7 %	3.2 %		
Underwriting expense ratio	30.1 %	28.1 %	2.0 %		
Combined ratio	91.0 %	85.8 %	5.2 %		
Underwriting profit				$ 43	$ 62
Specialty casualty					
Loss and LAE ratio	59.2 %	53.8 %	5.4 %		
Underwriting expense ratio	28.3 %	26.8 %	1.5 %		
Combined ratio	87.5 %	80.6 %	6.9 %		
Underwriting profit				$ 88	$ 124
Specialty financial					
Loss and LAE ratio	36.0 %	29.4 %	6.6 %		
Underwriting expense ratio	50.5 %	52.6 %	(2.1 %)		
Combined ratio	86.5 %	82.0 %	4.5 %		
Underwriting profit				$ 26	$ 29
Total Specialty					
Loss and LAE ratio	57.0 %	53.1 %	3.9 %		
Underwriting expense ratio	32.2 %	30.9 %	1.3 %		
Combined ratio	89.2 %	84.0 %	5.2 %		
Underwriting profit				$ 155	$ 208
Aggregate — including exited lines					
Loss and LAE ratio	57.1 %	53.2 %	3.9 %		
Underwriting expense ratio	32.2 %	30.9 %	1.3 %		
Combined ratio	89.3 %	84.1 %	5.2 %		
Underwriting profit				$ 154	$ 207

The Specialty property and casualty insurance operations generated an underwriting profit of $155 million in the first three months of 2023 compared to $208 million in the first three months of 2022, a decrease of $53 million (25%). This decrease reflects lower underwriting profit in each of the Specialty property and casualty sub-segments. Overall catastrophe losses were $31 million (2.2 points on the combined ratio) in the first three months of 2023 compared to $9 million (0.7 points) in the first three months of 2022.

Property and transportation Underwriting profit for this group was $43 million for the first three months of 2023 compared to $62 million for the first three months of 2022, a decrease of $19 million (31%). Higher year-over-year underwriting profit in the transportation businesses was more than offset by lower profitability in the property and inland marine and agricultural businesses, which was primarily the result of elevated catastrophe losses attributable to February and March storms across much of the United States. Crop insurance profitability was also lower compared to the very strong results in the first three months of 2022. Catastrophe losses were $19 million (4.0 points on the combined ratio) in the first three months of 2023 compared to $6 million (1.4 points) in the first three months of 2022.

Specialty casualty Underwriting profit for this group was $88 million for the first three months of 2023 compared to $124 million for the first three months of 2022, a decrease of $36 million (29%). The lower year-over-year underwriting profit was due primarily to lower favorable prior year reserve development in the workers’ compensation businesses and isolated large loss activity in certain social inflation-exposed businesses. This was partially offset by higher levels of favorable prior year reserve development in the social services, environmental and executive liability businesses. Catastrophe losses were $3 million (0.4 points on the combined ratio) in the first three months of 2023 compared to $1 million (0.1 points) in the first three months of 2022.

Specialty financial Underwriting profit for this group was $26 million for the first three months of 2023 compared to $29 million in the first three months of 2022, a decrease of $3 million (10%). This decrease was primarily the result of lower year-over-year underwriting profitability in the surety and fidelity businesses. Catastrophe losses were $4 million (2.2 points on the combined ratio) compared to $2 million (1.2 points) in the first three months of 2022.

Other specialty This group reported an underwriting loss of $2 million in the first three months of 2023 compared to $7 million in the first three months of 2022, a decrease of $5 million (71%). This decrease reflects lower losses in the business assumed by AFG’s internal reinsurance program from the operations that make up AFG’s other Specialty sub-segments in the first three months of 2023 compared to the first three months of 2022.

Aggregate Aggregate underwriting results for AFG’s property and casualty insurance segment includes adverse prior year reserve development of $1 million in both the first three months of 2023 and 2022 related to business outside of the Specialty group that AFG no longer writes.

Losses and Loss Adjustment Expenses

AFG’s overall loss and LAE ratio was 57.1% for the first three months of 2023 compared to 53.2% for the first three months of 2022, an increase of 3.9 percentage points. The components of AFG’s property and casualty losses and LAE amounts and ratio are detailed below (dollars in millions):

	Three months ended March 31,				
	Amount		Ratio		Change in
	2023	2022	2023	2022	Ratio
Property and transportation					
Current year, excluding catastrophe losses	$ 307	$ 284	64.7 %	64.0 %	0.7 %
Prior accident years development	(37)	(34)	(7.8 %)	(7.7 %)	(0.1 %)
Current year catastrophe losses including the impact of net reinstatement premiums	19	6	4.0 %	1.4 %	2.6 %
Property and transportation losses and LAE and ratio	$ 289	$ 256	60.9 %	57.7 %	3.2 %
Specialty casualty					
Current year, excluding catastrophe losses	$ 441	$ 392	62.6 %	61.3 %	1.3 %
Prior accident years development	(27)	(49)	(3.8 %)	(7.6 %)	3.8 %
Current year catastrophe losses including the impact of net reinstatement premiums	3	1	0.4 %	0.1 %	0.3 %
Specialty casualty losses and LAE and ratio	$ 417	$ 344	59.2 %	53.8 %	5.4 %
Specialty financial					
Current year, excluding catastrophe losses	$ 70	$ 59	35.2 %	36.3 %	(1.1 %)
Prior accident years development	(3)	(13)	(1.4 %)	(8.1 %)	6.7 %
Current year catastrophe losses including the impact of net reinstatement premiums	4	2	2.2 %	1.2 %	1.0 %
Specialty financial losses and LAE and ratio	$ 71	$ 48	36.0 %	29.4 %	6.6 %
Total Specialty					
Current year, excluding catastrophe losses	$ 852	$ 772	59.3 %	59.2 %	0.1 %
Prior accident years development	(64)	(89)	(4.5 %)	(6.8 %)	2.3 %
Current year catastrophe losses including the impact of net reinstatement premiums	31	9	2.2 %	0.7 %	1.5 %
Total Specialty losses and LAE and ratio	$ 819	$ 692	57.0 %	53.1 %	3.9 %
Aggregate — including exited lines					
Current year, excluding catastrophe losses	$ 852	$ 772	59.3 %	59.2 %	0.1 %
Prior accident years development	(63)	(88)	(4.4 %)	(6.7 %)	2.3 %
Current year catastrophe losses including the impact of net reinstatement premiums	31	9	2.2 %	0.7 %	1.5 %
Aggregate losses and LAE and ratio	$ 820	$ 693	57.1 %	53.2 %	3.9 %

Current accident year losses and LAE, excluding catastrophe losses

The current accident year loss and LAE ratio, excluding catastrophe losses for AFG’s Specialty property and casualty insurance operations was 59.3% for the first three months of 2023 compared to 59.2% for the first three months of 2022, an increase of 0.1 percentage points.

Property and transportation The 0.7 percentage point increase in the loss and LAE ratio for the current year, excluding catastrophe losses is due primarily to lower profitability in the crop business.

Specialty casualty The 1.3 percentage point increase in the loss and LAE ratio for the current year, excluding catastrophe losses reflects lower profitability in the workers’ compensation and executive liability businesses and an increase in the loss and LAE ratios of the social services, environmental, general liability and public sector businesses.

Specialty financial The 1.1 percentage point decrease in the loss and LAE ratio for the current year, excluding catastrophe losses reflects a decrease in the loss and LAE ratio of the fidelity business.

Net prior year reserve development
AFG’s Specialty property and casualty insurance operations recorded net favorable reserve development related to prior accident years of $64 million in the first three months of 2023 compared to $89 million in the first three months of 2022, a decrease of $25 million (28%).

Property and transportation Net favorable reserve development of $37 million in the first three months of 2023 reflects lower than anticipated losses in the crop business, lower than expected claim frequency and severity in the trucking business and lower than anticipated claim frequency in the property and inland marine business. Net favorable reserve development of $34 million in the first three months of 2022 reflects lower than anticipated losses in the crop business, lower than expected claim frequency in the trucking and ocean marine businesses and at the Singapore branch and lower than anticipated claim severity in the property and inland marine business.

Specialty casualty Net favorable reserve development of $27 million in the first three months of 2023 reflects lower than anticipated claim severity in the workers’ compensation businesses and lower than expected claim frequency in the executive liability, excess and surplus and environmental businesses, partially offset by higher than anticipated claim severity in the public sector and excess liability businesses. Net favorable reserve development of $49 million in the first three months of 2022 reflects lower than anticipated claim severity in the workers’ compensation businesses, lower than expected claim frequency in the executive liability business and lower than anticipated claim frequency and severity in the excess and surplus business, partially offset by higher than anticipated claim severity in the targeted markets businesses.

Specialty financial Net favorable reserve development of $3 million in the first three months of 2023 reflects lower than anticipated claim frequency in the surety and trade credit businesses. Net favorable reserve development of $13 million in the first three months of 2022 reflects lower than anticipated claim frequency in the surety, trade credit and financial institutions businesses.

Other specialty In addition to the development discussed above, total Specialty prior year reserve development includes net adverse reserve development of $3 million in the first three months of 2023 and $7 million in the first three months of 2022, reflecting net adverse reserve development associated with AFG’s internal reinsurance program, partially offset by the amortization of the deferred gain on a retroactive reinsurance transaction entered into in connection with the sale of a business in 1998.

Aggregate Aggregate net prior accident years reserve development for AFG’s property and casualty insurance segment includes net adverse reserve development of $1 million in both the first three months of 2023 and the first three months of 2022 related to business outside of the Specialty group that AFG no longer writes.

COVID-19 related losses
In the first three months of 2023, AFG’s Specialty property and casualty insurance operations released $1 million of prior accident year COVID-19 reserves based on improved loss experience in the trade credit business. Given the uncertainties surrounding the ultimate number and scope of claims relating to the pandemic, approximately 48% of the $73 million in cumulative COVID-19 related losses are held as incurred but not reported reserves at March 31, 2023.

Catastrophe losses
AFG generally seeks to reduce its exposure to catastrophes (whether resulting from climate change or otherwise) through individual risk selection, including minimizing coastal and known fault-line exposures, and the purchase of reinsurance. Based on data available at December 31, 2022, AFG’s exposure to a catastrophic earthquake or windstorm that industry

models indicate should statistically occur once in every 100, 250 or 500 years as a percentage of AFG's Shareholders' Equity is shown below:

Industry Model	Approximate impact of modeled loss on AFG's Shareholders' Equity
100-year event	2%
250-year event	2%
500-year event	2%

AFG maintains comprehensive property catastrophe reinsurance coverage for its property and casualty insurance operations, including a $50 million per occurrence net retention, for losses up to $125 million in the vast majority of circumstances. In certain unlikely events, AFG's ultimate loss under this coverage could be as high as $82 million for a single occurrence. AFG further maintains supplemental fully collateralized reinsurance coverage up to 94% of $325 million for catastrophe losses in excess of $125 million of traditional catastrophe reinsurance through a catastrophe bond.

Catastrophe losses of $31 million in the first three months of 2023 resulted primarily from February and March storms across much of the United States. Catastrophe losses of $9 million in the first three months of 2022 resulted primarily from winter storms in multiple regions of the United States.

Commissions and Other Underwriting Expenses

AFG's property and casualty commissions and other underwriting expenses ("U/W Exp") were $463 million in the first three months of 2023 compared to $402 million for the first three months of 2022, an increase of $61 million (15%). AFG's underwriting expense ratio, calculated as commissions and other underwriting expenses divided by net premiums earned, was 32.2% for the first three months of 2023 compared to 30.9% for the first three months of 2022, an increase of 1.3 percentage points. Detail of AFG's property and casualty commissions and other underwriting expenses and underwriting expense ratios is shown below (dollars in millions):

	Three months ended March 31,				
	2023		2022		Change in
	U/W Exp	% of NEP	U/W Exp	% of NEP	% of NEP
Property and transportation	$ 143	30.1 %	$ 125	28.1 %	2.0 %
Specialty casualty	199	28.3 %	171	26.8 %	1.5 %
Specialty financial	99	50.5 %	86	52.6 %	(2.1 %)
Other specialty	22	34.5 %	20	35.8 %	(1.3 %)
	$ 463	32.2 %	$ 402	30.9 %	1.3 %

Property and transportation Commissions and other underwriting expenses as a percentage of net earned premiums increased 2.0 percentage points in the first three months of 2023 compared to the first three months of 2022 reflecting lower profitability-based ceding commissions received from reinsurers in the crop business in the first three months of 2023 compared to the first three months of 2022.

Specialty casualty Commissions and other underwriting expenses as a percentage of net earned premiums increased 1.5 percentage points in the first three months of 2023 compared to the first three months of 2022 reflecting lower ceding commissions received from reinsurers in the executive liability and mergers and acquisitions businesses and higher commissions paid to agents in the social services business in the first three months of 2023 compared to the first three months of 2022.

Specialty financial Commissions and other underwriting expenses as a percentage of net earned premiums decreased 2.1 percentage points in the first three months of 2023 compared to the first three months of 2022 reflecting the impact of higher premiums on the ratio in the first three months of 2023 compared to the first three months of 2022.

Property and Casualty Net Investment Income

Net investment income in AFG's property and casualty insurance operations was $207 million in the first three months of 2023 compared to $223 million in the first three months of 2022, a decrease of $16 million (7%). The average invested assets and overall yield earned on investments held by AFG's property and casualty insurance operations are provided below (dollars in millions):

	Three months ended March 31, 2023	Three months ended March 31, 2022	Change	% Change
Net investment income:				
Net investment income, excluding alternative investments	$ 129	$ 84	$ 45	54 %
Alternative investments	78	139	(61)	(44 %)
Total net investment income	$ 207	$ 223	$ (16)	(7 %)
Average invested assets (at amortized cost)	$ 14,350	$ 13,858	$ 492	4 %
Yield (net investment income as a % of average invested assets)	5.77 %	6.44 %	(0.67 %)	
Tax equivalent yield (*)	5.83 %	6.54 %	(0.71 %)	

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

The decrease in the property and casualty insurance segment's net investment income for the first three months of 2023 compared to the first three months of 2022 reflects lower returns on AFG's alternative investments portfolio (partnerships and similar investments and AFG-managed CLOs) as compared to the very strong performance of this portfolio in the prior year period, partially offset by the impact of higher yields on fixed maturity investments. The property and casualty insurance segment's overall yield on investments (net investment income as a percentage of average invested assets) was 5.77% for the first three months of 2023 compared to 6.44% for the first three months of 2022, a decrease of 0.67 percentage points as higher returns on fixed maturity investments were more than offset by lower yields on alternative investments. The annualized return earned on alternative investments was 14.2% in the first three months of 2023 compared to 29.1% in the comparable prior year period.

Property and Casualty Other Income and Expenses, Net

Other income and expenses, net for AFG's property and casualty insurance operations was a net expense of $11 million for the first three months of 2023 compared to $8 million for the first three months of 2022, an increase of $3 million (38%). The table below details the items included in other income and expenses, net for AFG's property and casualty insurance operations (in millions):

	Three months ended March 31, 2023	Three months ended March 31, 2022
Other income	$ 5	$ 4
Other expenses:		
Amortization of intangibles	3	2
Interest expense on funds withheld	10	6
Other	3	4
Total other expenses	16	12
Other income and expenses, net	$ (11)	$ (8)

The $4 million (67%) increase in interest expense on funds withheld in the first three months of 2023 compared to the first three months of 2022 reflects the impact of higher interest rates on funds withheld.

Holding Company, Other and Unallocated — Results of Operations

AFG's net GAAP pretax loss outside of its property and casualty insurance segment (excluding realized gains and losses) totaled $40 million in the first three months of 2023 compared to $46 million in the first three months of 2022, a decrease of $6 million (13%). AFG's net core pretax loss outside of its property and casualty insurance segment (excluding realized gains and losses) totaled $42 million in the first three months of 2023 compared to $44 million in the first three months of 2022, a decrease of $2 million (5%).

The following table details AFG's GAAP and core loss before income taxes from operations outside of its property and casualty insurance segment for the three months ended March 31, 2023 and 2022 (dollars in millions):

	Three months ended March 31, 2023	Three months ended March 31, 2022	% Change
Revenues:			
Net investment income	$ 11	$ 5	120 %
Other income — P&C fees	24	24	— %
Other income	7	6	17 %
Total revenues	42	35	20 %
Costs and Expenses:			
Property and casualty insurance — loss adjustment and underwriting expenses	10	12	(17 %)
Other expense — expenses associated with P&C fees	14	12	17 %
Other expenses (*)	41	32	28 %
Costs and expenses, excluding interest charges on borrowed money	65	56	16 %
Loss before income taxes, excluding realized gains and losses and interest charges on borrowed money	(23)	(21)	10 %
Interest charges on borrowed money	19	23	(17 %)
Core loss before income taxes, excluding realized gains and losses	(42)	(44)	(5 %)
Pretax non-core gain (loss) on retirement of debt	2	(2)	(200 %)
GAAP loss before income taxes, excluding realized gains and losses	$ (40)	$ (46)	(13 %)

(*) Excludes a pretax non-core gain on retirement of debt of $2 million in the first three months of 2023 and a pretax non-core loss on retirement of debt of $2 million in the first three months of 2022.

Holding Company and Other — Net Investment Income

AFG recorded net investment income on investments held outside of its property and casualty insurance segment of $11 million in the first three months of 2023 compared to $5 million in the first three months of 2022, an increase of $6 million (120%), reflecting the impact of higher interest rates on cash and fixed maturity investments.

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

Summit, a workers' compensation insurance subsidiary, collects fees from a small group of unaffiliated insurers for providing underwriting, policy administration and claims services. In addition, certain of AFG's property and casualty insurance businesses collect fees from customers for ancillary services such as workplace safety programs and premium financing. In the first three months of 2023, AFG collected $24 million in fees for these services compared to $22 million in the first three months of 2022. Management views this fee income, net of the $14 million in the first three months of 2023 and $12 million in the first three months of 2022 in expenses incurred to generate such fees, as a reduction in the cost of underwriting its property and casualty insurance policies. In addition, AFG's property and casualty insurance businesses collected $2 million in fees from AFG's disposed annuity operations during the first three months of 2022 as compensation for certain services provided under a transition services agreement. The expenses related to providing such services are embedded in property and casualty underwriting expenses. Consistent with internal management reporting, these fees and the related expenses are netted and recorded as a reduction of commissions and other underwriting expenses in AFG's segmented results.

Holding Company and Other — Other Income

Other income in the table above includes $4 million in both the first three months of 2023 and the first three months of 2022, in management fees paid to AFG by the AFG-managed CLOs (AFG's consolidated managed investment entities). The management fees are eliminated in consolidation — see the other income line in the Consolidate MIEs column under *"Results of Operations — Segmented Statement of Earnings."* Excluding amounts eliminated in consolidation, AFG recorded other income outside of its property and casualty insurance segment of $3 million in the first three months of 2023 and $2 million the first three months of 2022, an increase of $1 million (50%).

Holding Company and Other — Other Expenses
Excluding the non-core gain (loss) on retirement of debt discussed below, AFG's holding companies and other operations outside of its property and casualty insurance segment recorded other expenses of $41 million in the first three months of 2023 compared to $32 million in the first three months of 2022, an increase of $9 million (28%), reflecting the favorable impact of poor stock market performance in the first three months of 2022 on expenses related to deferred compensation obligations to employees that are tied to stock market performance. To mitigate the impact of fair value changes related to the equity components of these obligations, AFG entered into a total return swap in 2022.

Holding Company and Other — Interest Charges on Borrowed Money
AFG's holding companies and other operations outside of its property and casualty insurance segment recorded interest expense of $19 million in the first three months of 2023 compared to $23 million in the first three months of 2022, a decrease of $4 million (17%) reflecting the retirement of AFG's $425 million principal amount of 3.50% Senior Notes during the first six months of 2022.

Holding Company and Other — Gain (Loss) on Retirement of Debt
During the first quarter of 2023, AFG repurchased $18 million principal amount of its senior notes, which resulted in a $2 million pretax non-core gain. During the first quarter of 2022, AFG repurchased $48 million principal amount of its 3.50% Senior Notes, which resulted in a $2 million pretax non-core loss.

Realized Gains (Losses) on Securities
AFG's realized gains (losses) on securities were net losses of $46 million in the first three months of 2023 compared to $15 million in the first three months of 2022, an increase of $31 million (207%). Realized gains (losses) on securities consisted of the following (in millions):

	Three months ended March 31,	
	2023	2022
Realized gains (losses) before impairment allowances:		
Disposals	$ (24)	$ 1
Change in the fair value of equity securities	(18)	(13)
Change in the fair value of derivatives	1	(5)
	(41)	(17)
Change in allowance for impairments on securities	(5)	2
Realized gains (losses) on securities	$ (46)	$ (15)

The $24 million net realized loss from disposals in the first three months of 2023 includes losses of $14 million from the sale of investments in banks and $4 million from the sale of municipal housing bonds.

The $18 million net realized loss from the change in the fair value of equity securities in the first three months of 2023 includes losses of $10 million on investments in healthcare companies, $6 million on investments in banks and $6 million on investments in energy companies, partially offset by gains of $4 million on investments in retail companies and $2 million on investments in media companies. The $13 million net realized loss from the change in the fair value of equity securities in the first three months of 2022 includes losses of $23 million on investments in banks and financing companies and $5 million on investments in healthcare companies, partially offset by gains of $11 million on investments in energy and natural gas companies and $11 million on investments in media companies.

Consolidated Income Taxes
AFG's consolidated provision for income taxes was $52 million for the first three months of 2023 compared to $71 million for the first three months of 2022, a decrease of $19 million (27%). See *Note J — "Income Taxes"* to the financial statements for an analysis of items affecting AFG's effective tax rate.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

As of March 31, 2023, there were no material changes to the information provided in *Item 7A — Quantitative and Qualitative Disclosures about Market Risk* of AFG's 2022 Form 10-K.

Consistent with the discussion in *Item 2 — Management's Discussion and Analysis — "Investments,"* the following table demonstrates the sensitivity of the fair value of AFG's fixed maturity portfolio to reasonably likely changes in interest rates by illustrating the estimated effect on AFG's fixed maturity portfolio that an immediate increase of 100 basis points in the interest rate yield curve would have at March 31, 2023 (based on the duration of the portfolio, dollars in millions). Effects of increases or decreases from the 100 basis points illustrated would be approximately proportional.

Fair value of fixed maturity portfolio	$ 10,080
Percentage impact on fair value of 100 bps increase in interest rates	(3.0 %)
Pretax impact on fair value of fixed maturity portfolio	$ (302)

ITEM 4. Controls and Procedures

AFG's management, with participation of its Co-Chief Executive Officers and its Chief Financial Officer, has evaluated AFG's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of the end of the period covered by this report. Based on that evaluation, AFG's Co-CEOs and CFO concluded that the controls and procedures are effective. There have been no changes in AFG's internal control over financial reporting during the first fiscal quarter of 2023 that materially affected, or are reasonably likely to materially affect, AFG's internal control over financial reporting.

In the ordinary course of business, AFG and its subsidiaries routinely enhance their information systems by either upgrading current systems or implementing new systems. There have been no changes in AFG's business processes and procedures during the first fiscal quarter of 2023 that have materially affected, or are reasonably likely to materially affect, AFG's internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities AFG repurchased shares of its Common Stock during 2023 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 (*)
First quarter:				
January	—	$ —	—	7,601,554
February	—	—	—	7,601,554
March	199,762	119.01	199,762	7,401,792
Total	199,762	$ 119.01	199,762	

(*) Represents the remaining shares that may be repurchased until December 31, 2025 under the Plans authorized by AFG's Board of Directors in October 2020 and May 2021.

In addition, AFG acquired 7,951 shares of its Common Stock (at an average of $137.44 per share) in January 2023, 46,519 shares (at an average of $131.36 per share) in February 2023 and 912 shares (at an average of $133.35 per share) in March 2023 in connection with its stock incentive plans.

ITEM 6. Exhibits

Number	Exhibit Description
31(a)	Certification of Co-Chief Executive Officer pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
31(b)	Certification of Co-Chief Executive Officer pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
31(c)	Certification of Chief Financial Officer pursuant to section 302(a) of the Sarbanes-Oxley Act of 2002.
32	Certification of Co-Chief Executive Officers and Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Financial Group, Inc.

May 5, 2023

By: /s/ Brian S. Hertzman
Brian S. Hertzman
Senior Vice President and Chief Financial Officer

Exhibit 31(a)

AMERICAN FINANCIAL GROUP, INC. 10-Q
SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, Carl H. Lindner III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2023

By: /s/ Carl H. Lindner III
Carl H. Lindner III
Co-Chief Executive Officer

Exhibit 31(b)

AMERICAN FINANCIAL GROUP, INC. 10-Q
SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, S. Craig Lindner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2023

By: /s/ S. Craig Lindner
S. Craig Lindner
Co-Chief Executive Officer

Exhibit 31(c)

AMERICAN FINANCIAL GROUP, INC. 10-Q
SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, Brian S. Hertzman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 5, 2023

By: /s/ Brian S. Hertzman
Brian S. Hertzman
Senior Vice President and Chief Financial Officer

Exhibit 32

AMERICAN FINANCIAL GROUP, INC. 10-Q
CERTIFICATION OF CHIEF EXECUTIVE OFFICERS AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of American Financial Group, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023 (the “Report”), the undersigned officers of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 5, 2023	By: /s/ S. Craig Lindner
Date	S. Craig Lindner Co-Chief Executive Officer
May 5, 2023	By: /s/ Carl H. Lindner III
Date	Carl H. Lindner III Co-Chief Executive Officer
May 5, 2023	By: /s/ Brian S. Hertzman
Date	Brian S. Hertzman Senior Vice President and Chief Financial Officer

A signed original of this written statement will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.