

American Financial Group, Inc. (AFG) is a holding company engaged in property and casualty insurance, as well as the sale of annuities and supplemental insurance, operating through subsidiaries established since the 1800s. As of December 31, 2005, AFG employed around 4,800 people and reported gross written premiums of \$3.64 billion, with net written premiums of \$2.45 billion. The company emphasizes underwriting discipline, aiming for profitability reflected in a combined ratio averaging 100.0% from 2003 to 2005, with a statutory combined ratio of 102.6% in 2005, slightly above the industry average. AFG's financial performance is reported under GAAP for shareholders and statutory accounting for regulatory purposes, leading to differences in reported capital and earnings. The company is exposed to unpredictable catastrophe losses, particularly from natural disasters, and has a history of navigating pricing cycles in the insurance industry.

AFG mitigates its exposure to catastrophic events through individual risk selection and reinsurance purchases, reporting net catastrophe losses of \$60 million in 2005. The company has divested personal lines business and focuses on specialty insurance areas, including property, transportation, and workers' compensation, with significant operations in California. AFG's specialty insurance businesses reported net written premiums across various categories, with California and Texas representing substantial portions of its business. The company maintains strong ratings from AM Best and S&P, aiming to retain an S&P rating of at least "A-."

Reinsurance is employed to diversify risks, with AFG regularly assessing the financial strength of its reinsurers. The company has specific retention limits for various coverages and notable exclusions for terrorism-related losses. AFG's balance sheet reflects significant recoverables from reinsurers, with liabilities for unpaid losses estimated using case evaluations and actuarial projections. The document outlines cumulative deficiencies and reserves related to asbestos and environmental claims, with a pre-tax charge of \$169 million recorded in 2005 for A&E reserves, reflecting the complexities in estimating these liabilities.

The annuity and supplemental insurance operations are conducted through Great American Financial Resources, Inc. (GAFRI), which markets retirement products and supplemental insurance. GAFRI's statutory premiums have shown growth, with a total of \$1,147 million in 2005. The document details various annuity products, including fixed, indexed, and variable annuities, emphasizing their design for long-term retirement savings. GAFRI faces competition from other insurers and financial institutions, with sales influenced by interest rates and economic conditions.

AFG's investment portfolio primarily consists of fixed maturity investments, focusing on earning interest income. The company is subject to state regulations governing premium rates and solvency, with limitations on dividend payments to shareholders. AFG's financial position reflects a strong emphasis on maintaining liquidity and managing investment risks, with total revenues of \$4,038 million in 2005 and net earnings of \$207 million. The document highlights the importance of accurate financial reporting and compliance with regulations, including the Sarbanes-Oxley Act.

The document also discusses various financial metrics, including total liabilities, deferred income tax assets, and the impact of discontinued operations. AFG's insurance subsidiaries continue to face claims related to environmental exposures and mass torts, with reserves for asbestos and environmental claims amounting to \$540 million. The company believes it has recorded adequate reserves, but acknowledges the uncertainty surrounding these liabilities. Overall, the document provides a comprehensive overview of AFG's financial health, operational practices, and regulatory compliance, emphasizing the complexities and uncertainties inherent in the insurance industry.