

# 2005 ANNUAL REPORT



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Property & Casualty – Specialty Commercial Insurance  
Annuities and Supplemental Insurance



**American Financial Group, Inc.** (“AFG” or the “Company”) is engaged in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of retirement annuities and supplemental insurance products.

### **Our Vision**

To deliver financial solutions that fulfill today’s needs and tomorrow’s dreams—to be a trusted partner delivering long-term value to our customers, employees and investors.

### **Our Purpose**

Our purpose is to enable individuals and businesses to manage financial risk. We provide insurance products and services tailored to meet the specific and ever-changing financial risk exposures facing our customers. We build value for our investors through the strength of our customers’ satisfaction and by consistently producing superior operating results.

Our **property and casualty** (“P&C”) operations emphasize underwriting profitability, entrepreneurship and specialization based on a common operating philosophy.



Our **annuity and supplemental insurance** businesses focus on profitable, innovative products and services to provide customers with more choices in planning for lifestyle security.



Balance Sheet Data	2005	2004	2003	2002	2001
Cash and investments	\$16,224	\$15,637	\$13,828	\$13,651	\$12,084
Total assets	22,816	22,560	20,312	19,628	17,538
Long-term debt:					
Parent holding companies	594	685	575	637	597
Subsidiaries	349	344	262	308	282
Shareholders' equity	2,458	2,431	2,076	1,726	1,498
Ratio of debt to total capital (a)	27%	31%	35%	43%	43%
Cash dividends per share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 1.00
Book value per share (b)	\$ 31.28	\$ 29.35	\$ 25.97	\$ 21.42	\$ 20.71
Shares outstanding	78.1	76.6	73.1	69.1	68.5

Summary of Operations	2005	2004	2003	2002	2001
Total revenues	\$ 4,038	\$ 3,906	\$ 3,360	\$ 3,745	\$ 3,919
Net earnings (loss) – GAAP	\$ 206.6	\$ 359.9	\$ 293.8	\$ 84.6	\$ (14.8)
Diluted earnings (loss) per share – GAAP	\$ 2.62	\$ 4.81	\$ 4.12	\$ 1.22	\$ (0.22)
Components of net earnings:					
<b>Core net operating earnings</b>	<b>\$ 297.1</b>	<b>\$ 215.4</b>	<b>\$ 163.9</b>	<b>\$ 170.4</b>	<b>\$ 107.4</b>
<i>before significant items below (c)</i>					
Gains on major real estate sales	45.9	—	—	—	—
Unlocking charges & write-off of deferred acquisition costs	(15.6)	—	(8.1)	(4.6)	(1.6)
A&E reserve increases and litigation settlements	(121.6)	(33.8)	(23.1)	(19.5)	(44.8)
Special tax benefits (d)	—	—	141.5	31.0	—
Net losses from non-financial investee corporations	(5.1)	(3.2)	(3.1)	(9.0)	(16.5)
Realized investment gains (losses)	11.3	192.2	50.8	(44.7)	(13.1)
World Trade Center loss	—	—	—	—	(16.3)
Accounting changes and extraordinary items	—	(5.6)	6.3	(40.4)	(10.0)
Discontinued operations and other (e)	(5.4)	(5.1)	(34.4)	1.4	(19.9)
Net earnings (loss) – GAAP	\$ 206.6	\$ 359.9	\$ 293.8	\$ 84.6	\$ (14.8)
Components of diluted earnings (loss) per share:					
<b>Core net operating earnings</b>	<b>\$ 3.78</b>	<b>\$ 2.88</b>	<b>\$ 2.34</b>	<b>\$ 2.47</b>	<b>\$ 1.57</b>
<i>before significant items below (c)</i>					
Gains on major real estate sales	.58	—	—	—	—
Unlocking charges & write-off of deferred acquisition costs	(.20)	—	(.12)	(.07)	(.02)
A&E reserve increases and litigation settlements	(1.55)	(.45)	(.33)	(.28)	(.66)
Special tax benefits (d)	—	—	2.01	.44	—
Net losses from non-financial investee corporations	(.06)	(.04)	(.04)	(.13)	(.24)
Realized investment gains (losses)	.14	2.57	.73	(.64)	(.19)
World Trade Center loss	—	—	—	—	(.24)
Accounting changes and extraordinary items	—	(.08)	.09	(.59)	(.15)
Discontinued operations and other (e)	(.07)	(.07)	(.56)	.02	(.29)
Diluted earnings (loss) per share – GAAP	\$ 2.62	\$ 4.81	\$ 4.12	\$ 1.22	\$ (0.22)

(a) For this calculation, debt and capital both include payable to subsidiary trusts and subsidiary preferred stock; capital also includes minority interest and shareholders' equity (excluding unrealized gains on fixed maturity investments).

(b) Excludes unrealized gains on fixed maturity investments.

(c) Certain significant items that may not be indicative of ongoing core operations are excluded in deriving our core net operating earnings, a non-GAAP measure used for discussion and analytical

purposes. Though it is not a generally accepted accounting principles ("GAAP") measure, it is a key performance measure used by analysts and rating agencies.

(d) Reflects tax benefits in 2003 related to AFG's merger with AFC and its basis in Infinity stock. Tax benefits in 2002 relate to the resolution of certain tax matters.

(e) Includes the results related to Transport Insurance Company which was sold in the fourth quarter of 2004.



**S. CRAIG LINDNER**  
Co-Chief Executive Officer

**CARL H. LINDNER III**  
Co-Chief Executive Officer

S. Craig Lindner and Carl H. Lindner III became Co-Chief Executive Officers of AFG in January 2005, following almost ten years as Co-Presidents and a combined 50 years of service to AFG. While the two work together to manage the Company's affairs and business strategy, they have clearly defined leadership roles within the organization. Carl is the head of the Company's property and casualty insurance operations and is principally responsible for investor relations, while Craig leads the annuity and supplemental insurance operations, and manages the Company's capital transactions and investment portfolio.

## To Our Shareholders:

2005 was another very successful year for American Financial Group in a time of some unique challenges for the insurance industry. We want to review some aspects of the industry in which we operate, our business strategy and highlights of the year.

### Insurance Industry

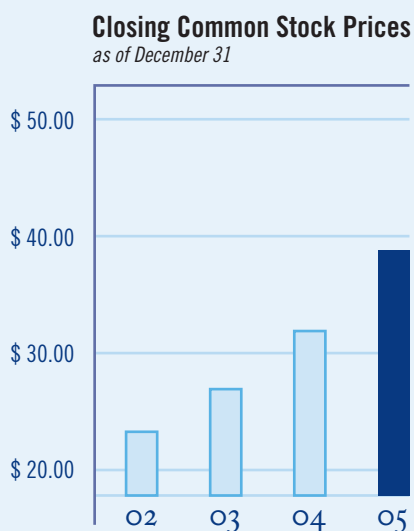
The insurance industry provides a wide range of products and services to help individuals and businesses manage financial risk. By providing protection against financial losses resulting from a variety of perils, the industry plays a vital role in the stability and growth of the economy. Many forces affect the price, availability and security of insurance products, such as changes in interest rates, inflationary pressures, the number and severity of natural disasters, changes in the regulatory and judicial environment, rising medical costs and the level of competition.

The property and casualty insurance (“P&C”) business tends to run in cycles. After a prolonged period of lower pricing conditions in the 1990s, the market began to improve in 2000 and experienced higher rates for the next three years. Although pricing conditions began to moderate in 2004, the industry as a whole experienced one of its most profitable years, carrying over into the first half of 2005. Even though significant losses from hurricanes in 2004 and 2005 dampened the industry’s overall operating

results, its capital and capacity remain strong. Also, property insurance rates, particularly for coastal exposures, and reinsurance rates have increased as a result of these storms, leading many to believe that the lower pricing cycle of the past two years will be shortened considerably going forward.

The annuity industry has been challenged with a low interest rate environment, leading to lower interest spreads (the difference between interest earned on investments and interest credited to policyholder funds) and lower returns. Over the past few years, many in the industry focused on core operations and reexamined cost structures and strategic markets. The flatter yield curve is allowing certain financial instruments to become more competitive with fixed annuity products. However, with the improvements in economic activity and the moderate rebound in interest rates, overall industry fundamentals have improved.

Increased regulatory investigations into certain insurance industry practices continued to challenge many insurers during 2005, reinforcing the importance of strong corporate governance and ethical standards. It has also increased the transparency of insurer, reinsurer, agent and broker relationships, which should be viewed positively by customers and investors.



*We are pleased with our momentum as demonstrated by an annual compounded growth rate in AFG's stock price plus dividends of about 20% over the past three years.*

## Strategic Focus

In this challenging environment, we continue to focus on our core values and integrity and service to our policyholders while never losing our focus on the importance of increasing long-term shareholder value. We are pleased with our momentum as demonstrated by an annual compounded growth rate in AFG's stock price plus dividends of about 20% over the past three years. We would like to review some key aspects of our strategic focus that we believe will contribute to our ongoing success.

- Our long-term objective is to achieve returns on equity between 12% and 15% with consistent growth in book value.
- We will maintain a strong balance sheet with a debt to capital ratio target of below 25% and parent company liquidity that would support improved credit ratings.
- We will continue to focus on diversified, specialty products that allow us to target niches and to cushion the cyclicity of varying insurance lines, allowing for more consistent operating results.
- We will maintain our strong underwriting culture, pricing discipline and risk management philosophy that contribute to our ability to continually outperform the industry and to maintain strong underwriting results throughout the cycle.
- We continue to seek acquisition and start-up opportunities that meet our specialty strategy and financial objectives.
- We focus on a relationship-based distribution network and believe that strong and long lasting partnerships contribute to business retention and continuity.
- Investment management will continue to be one of our core competencies as our investment group has generated investment returns that have consistently outperformed various market indices.

*We saw excellent execution in our core insurance operations.*

## 2005 ANNUAL REPORT

American Financial Group

### 2005 Highlights

Last year we saw excellent execution in our core insurance operations and continued to build shareholders' equity through strong core insurance operating results as well as income from ongoing asset sales.

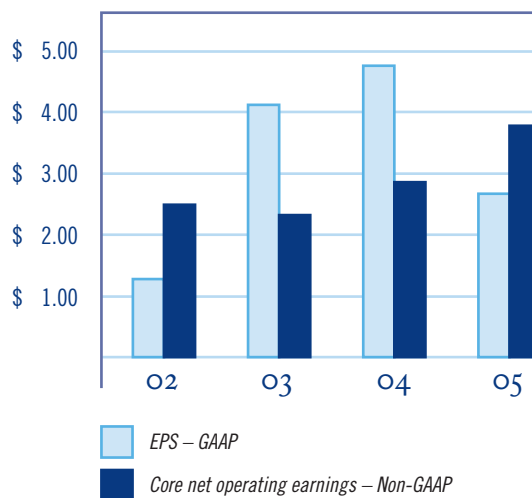
Underwriting margins for the specialty P&C businesses reached all time highs, despite another heavy hurricane season. The 2005 underwriting profit for the specialty operations was 69% higher than in 2004, with favorable loss reserve development contributing to this improvement. As was the case in 2004, the efforts of our businesses to manage risk for coastal exposures kept our 2005 hurricane losses of about \$53 million, relatively modest compared to the industry. Pricing held steady in most of our businesses last year. The exception was our California workers' compensation business where rates declined, reflecting the effects of an improved claims environment resulting from major legislative reform in that state. The moderating rate environment affected our overall 2005 gross written premium levels; however, solid growth in net written premiums reflected the effect of our decision not to reinsure as much of our business. These 2005 results clearly demonstrate the importance of underwriting and pricing discipline within our specialty operations and reflect our philosophy that premium growth is only attractive when it leads to underwriting profit.

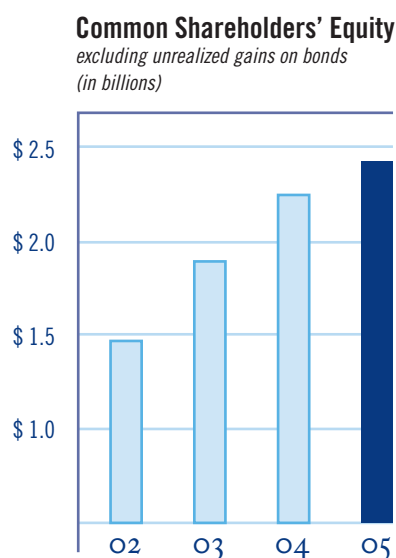
We completed a very successful initial public offering of National Interstate Corporation (NASDAQ: NATL), a 54%-owned insurance subsidiary that specializes in the transportation insurance business. The IPO raised \$40 million in new capital for that company's operations. Starting with a \$400,000 investment in 1989, AFG's investment in National Interstate was valued at \$195 million at the end of 2005, a 44% annual compound growth rate.

We added to our profitable crop insurance business through the acquisition of Farmers Crop Insurance Alliance. With the expected additional multi-peril crop premium, we believe we will be the third largest insurer in that U.S. niche market.

The Annuity and Supplemental Insurance Group's 2005 operating performance continued to demonstrate the strength of its business lines and the benefits from operational improvements and cost efficiencies put into place over the last few years. This group's core net operating earnings were more than 15% higher than in 2004, reflecting improved results in each of the group's continuing lines of business. This group is maintaining its pricing targets and commission and interest crediting discipline within a challenging interest rate environment and has continued to achieve solid returns on new business. In January 2006, we completed the sale of the Puerto Rico insurance operations. This sale further increased the group's financial strength and liquidity and brought its excess capital to nearly \$200 million, providing the opportunity to expand its domestic insurance operations.

Net Earnings Per Share





*Shareholders' equity reached another all time high.*

We completed a comprehensive review of the asbestos and other environmental (“A&E”) exposures relating to AFG’s runoff operations, resulting in an after-tax charge of nearly \$122 million to strengthen those reserves. This strengthening places AFG at an A&E reserve level that is among the industry’s strongest when measured by the three-year survival ratio. We sold some valuable coal properties and a hotel, recognizing after-tax gains totaling \$46 million and confirming our belief that there is significant unrecognized appreciation in a number of our real estate investments. In conjunction with the sale of the controlling interest in the Cincinnati Reds, we sold the Company’s long-standing interest in the ball club in January of this year, resulting in an after-tax gain of \$15 million to be recorded in the 2006 first quarter.

Overall net earnings for 2005 were dampened by the effect of the A&E reserve strengthening, unlocking charges and DAC write-offs, partly offset by the benefit of significant gains from real estate sales. However, our 2005 core net operating earnings were \$297 million, or \$3.78 per share, 38% above 2004.

We ended 2005 in an even stronger capital position than in 2004. Shareholders’ equity reached another all time high and we improved our debt-to-capital ratio, moving us closer to our target of under 25%. The parent company held around \$160 million in cash and marketable securities and had no borrowings under its bank line, providing excellent liquidity and flexibility going into 2006. The new annual dividend rate of \$.55 per share represents a 10% increase over the dividend paid in 2005 and reflects our continued strong financial performance, both in profitability and balance sheet strength, as well as our confidence in the Company’s long-term business and financial outlook.

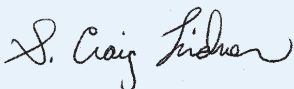


## Looking Ahead

The impact of strong underwriting and pricing discipline provides a base for continuing improvement in our financial performance. For 2006, we expect solid net written premium growth and a continuation of the strong underwriting profits experienced in 2005 in our specialty P&C operations. We also expect improved operating results in our core Annuity and Supplemental Insurance lines, even though the group's overall earnings will be negatively impacted in the near term due to the sale of the Puerto Rico operation. We are targeting AFG's 2006 core earnings to be between \$3.90 and \$4.20 per share.

We have a significant personal investment in AFG and its future which means our interests are aligned with yours, our shareholders. AFG is well positioned to achieve healthy increases in book value per share from strong core operating results as well as gains from investments.

We have an exceptional team of employees and business partners and we want to thank them and our customers for contributing to the Company's successful year. We also thank you for your investment and support.



S. CRAIG LINDNER  
Co-Chief Executive Officer



CARL H. LINDNER III  
Co-Chief Executive Officer

## American Financial Group *at a Glance*

### Specialty Property & Casualty Insurance Group (A. M. Best Rating)

Great American Insurance Company (A)  
American Empire Surplus Lines Insurance Company (A)  
Mid-Continent Casualty Company (A)  
National Interstate Insurance Company (A)  
Republic Indemnity Company of America (A-)

#### Specialty Group Components:

##### Property and Transportation

- ***Inland and Ocean Marine.*** Coverage primarily for builders' risk, contractors' equipment, excess property, motor truck cargo, marine cargo, boat dealers, marina operators/dealers and excursion vessels.
- ***Agricultural-related.*** Federally reinsured multi-peril crop insurance covering most perils as well as crop-hail, equine mortality and other coverages for full-time operating farms/ranches and agribusiness operations on a nationwide basis.
- ***Commercial Automobile.*** Customized insurance programs for various transportation operations and a specialized physical damage product for the trucking industry.

##### California Workers' Compensation

- ***Workers' Compensation.*** Coverage for prescribed benefits payable to employees (principally in California) who are injured on the job.

##### Specialty Casualty

- ***Executive and Professional Liability.*** Liability coverage for attorneys, and for directors and officers of businesses and not-for-profit organizations.
- ***Umbrella and Excess Liability.*** Higher layer liability coverage in excess of primary layers.
- ***Excess and Surplus.*** Specially designed insurance products offered to those unable to find coverage in standard markets.

##### Specialty Financial

- ***Fidelity and Surety.*** Fidelity and crime coverage for government, mercantile and financial institutions. Surety coverage for various types of contractors and public and private corporations.
- ***Collateral Protection.*** Coverage for insurance risk management programs for lending and leasing institutions.

### Annuities & Supplemental Insurance Group (A. M. Best Rating)

Great American Financial Resources, Inc. (GAFRI)  
Great American Life Insurance Company (A)  
Annuity Investors Life Insurance Company (A)  
United Teacher Associates Insurance Company (A-)  
Loyal American Life Insurance Company (A)

#### Annuities & Supplemental Components:

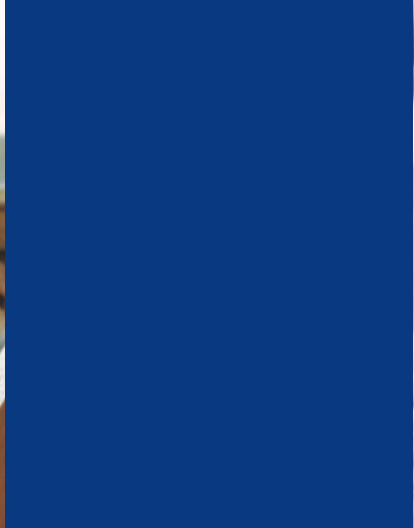
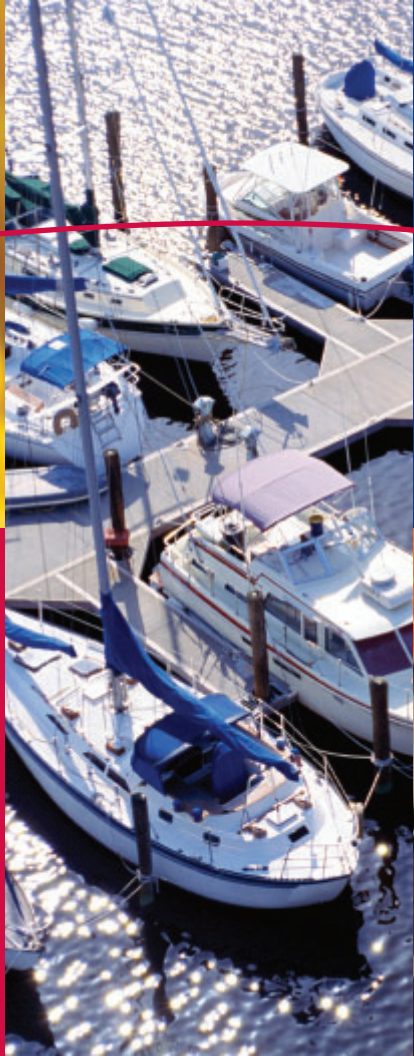
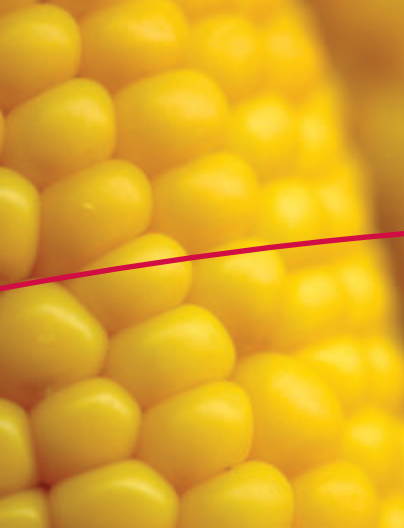
- ***Fixed, Indexed and Variable Annuities*** sold primarily to teachers and other employees of schools and non-profit organizations.
- ***Fixed and Indexed Annuities*** sold primarily to the senior market.
- ***Medicare Supplement, Long-term Care, Cancer and Other Supplemental Health Products*** sold primarily to the senior and worksite markets.

<b>Specialty Property &amp; Casualty Insurance Group</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Gross Written Premiums	\$ 3,637	\$ 3,639	\$ 3,243	\$ 2,713	\$ 2,236
Net Written Premiums	2,445	2,224	1,854	1,577	1,542
Net Earned Premiums	2,363	2,097	1,746	1,497	1,410
GAAP Ratios:					
Loss & LAE	63.7%	66.7%	67.4%	67.5%	70.7%
Underwriting Expense	27.5%	27.4%	28.6%	30.9%	31.0%
Combined Ratio	<b>91.2%</b>	<b>94.1%</b>	<b>96.0%</b>	<b>98.4%</b>	<b>101.7%</b>

<b>Specialty Group Components</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Gross Written Premiums					
Property and Transportation	\$ 1,357	\$ 1,337	\$ 1,142	\$ 886	\$ 742
California Workers' Compensation	382	380	290	229	243
Specialty Casualty	1,406	1,453	1,413	1,235	859
Specialty Financial	493	468	396	332	356
Other	(1)	1	2	31	36
	<b>\$ 3,637</b>	<b>\$ 3,639</b>	<b>\$ 3,243</b>	<b>\$ 2,713</b>	<b>\$ 2,236</b>
Net Written Premiums					
Property and Transportation	\$ 909	\$ 683	\$ 515	\$ 413	\$ 506
California Workers' Compensation	344	339	271	219	236
Specialty Casualty	743	740	679	609	512
Specialty Financial	384	395	302	255	247
Other	65	67	87	81	41
	<b>\$ 2,445</b>	<b>\$ 2,224</b>	<b>\$ 1,854</b>	<b>\$ 1,577</b>	<b>\$ 1,542</b>
GAAP Combined Ratio					
Property and Transportation	83.0%	80.7%	87.8%	90.1%	96.7%
California Workers' Compensation	70.0%	89.5%	92.0%	96.4%	104.8%
Specialty Casualty	91.3%	99.8%	98.2%	106.6%	111.5%
Specialty Financial	121.3%	108.9%	108.4%	101.4%	80.1%

<b>Annuities &amp; Supplemental Insurance Group*</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Statutory Premiums					
Annuities					
Fixed	\$ 757	\$ 662	\$ 746	\$ 818	\$ 551
Variable	92	105	122	182	199
Total Annuities	849	767	868	1,000	750
Supplemental Health & Life Premiums	298	276	268	251	256
Total Premiums	<b>\$ 1,147</b>	<b>\$ 1,043</b>	<b>\$ 1,136</b>	<b>\$ 1,251</b>	<b>\$ 1,006</b>
Gross Investment Income	\$ 563	\$ 527	\$ 506	\$ 522	\$ 498

\* Excludes results of Puerto Rico subsidiary sold in January 2006.



## Business Summary

For decades, we have been working with business owners, employers, individuals and families to provide high quality, affordable insurance products and retirement annuities. In fact, our roots go back to the founding of Great American Insurance Company in 1872.

Our purpose is to enable individuals and businesses to manage financial risk using insurance products and services tailored to meet their specific and evolving needs. The ability to deliver on our purpose depends upon solid underwriting profitability and continued financial strength. At the same time, we must provide long-term value for our investors and a rewarding work environment for our people.

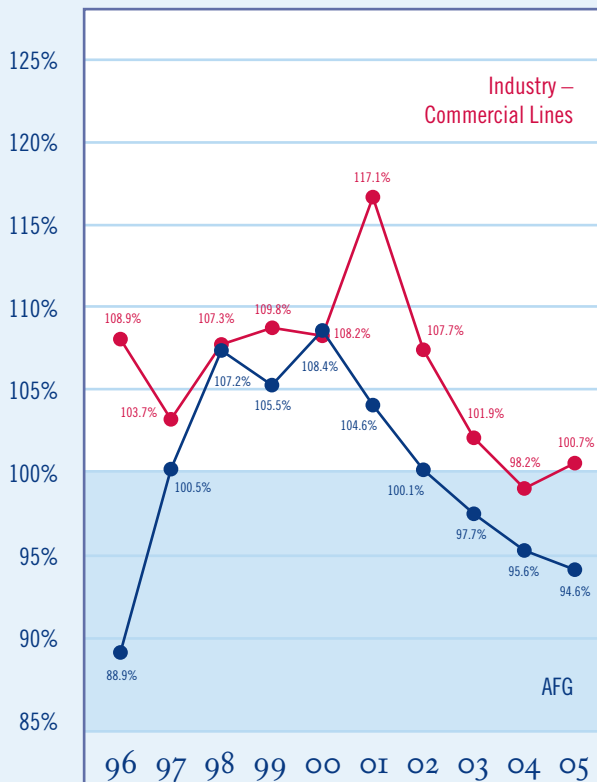
Our operations focus on specialty niche markets where we can have an advantage based on our expertise, unique products or distribution, and include property and casualty insurance, fixed and variable annuities and supplemental insurance products. Our P&C underwriting results have consistently outperformed the industry and our investment returns have exceeded a number of market indices.

Through recent acquisitions, we have taken steps to enhance our earning power and premium growth. Asset sales have helped to improve our capital position, even as we experienced recent catastrophe losses and reserve strengthening charges. We finished 2005 in the strongest financial position in our history.

Execution is essential to success and the key is *talent*—talented people with a focus on achieving objectives based on a clear strategy. Our management team strives not only to make good operating decisions, but to attract and develop future leaders of our organization.

TALENT + EXECUTION = SUCCESS

**Specialty Group  
Statutory Combined Ratio**  
*Profitability vs. Industry (Calendar Year)*



### Specialty Property & Casualty Insurance Operations

Our Specialty P&C operations consist of a highly diversified group of businesses offering a wide range of specialty commercial coverages, managed by experts in particular lines of business or customer groups. Each business unit has significant operating autonomy to oversee important operational functions, such as underwriting, pricing, marketing, policy processing and claims service. However, each is subject to controls over capital allocation decisions, financial reporting, actuarial assessments and strategic direction. This entrepreneurial approach has proven to be successful as the individual units can be opportunistic and react quickly to changing market conditions. These specialty business units provide insurance coverages and special programs in all 50 states. Focus, specialization and accountability are key characteristics of the underwriting success of our specialty operations.



## Specialty P&C Business Units

ALTERNATIVE MARKETS  
AGRI<sup>BUSINESS</sup><sup>®</sup>  
BONDS  
CROP INSURANCE  
EQUINE MORTALITY  
EXCESS LIABILITY  
EXCESS PROPERTY  
EXECUTIVE LIABILITY  
FIDELITY & CRIME  
FOREIGN CREDIT (FCIA)  
GREAT AMERICAN CUSTOM  
OCEAN MARINE  
PREMIER LEASE & LOAN SERVICES  
PROFESSIONAL LIABILITY  
PROPERTY & INLAND MARINE  
SPECIALTY HUMAN SERVICES  
TRUCKING

## Specialty P&C Subsidiaries

AMERICAN EMPIRE  
MID-CONTINENT  
NATIONAL INTERSTATE  
REPUBLIC INDEMNITY

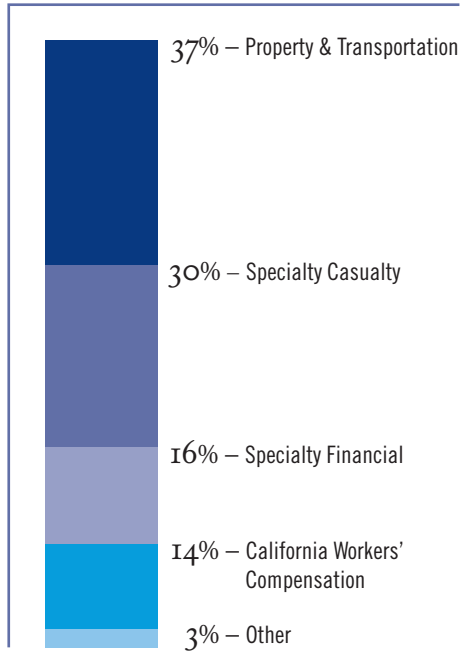


AMERICAN EMPIRE GROUP<sup>®</sup>



**Specialty Group**

*2005 Net Written Premium Distribution*



Our overall 2005 gross written premiums were about the same as in 2004, reflecting the effect of a moderating rate environment. However, net written premiums totaled \$2,445 million, a 10% increase over 2004, resulting from continued reductions in premiums ceded under reinsurance agreements, mainly in the crop insurance and inland marine businesses. The specialty insurance operations reported a combined ratio of 91.2% for 2005, an improvement of 3 points compared to 2004. The effect of hurricane losses was about 2 points in both years.

The Property and Transportation group continued to be a stellar performer. Net written premiums for this group increased 33% in 2005 over 2004, reflecting our desire to retain more premiums within the crop insurance and inland marine operations. This group reported a combined ratio of 83.0% for 2005, including 3.8 points for hurricane losses. The transportation and inland marine businesses continued to generate strong underwriting profits. While we achieved strong profitability in our crop insurance operations, the results were lower than 2004's all-time record year. We expect this group to maintain solid underwriting margins going forward. This group's crop premiums are also expected to grow substantially as a result of our recent acquisition of Farmers Crop Insurance Alliance. With this acquisition, we believe we are the third largest writer of multi-peril crop insurance in the United States.

The Specialty Casualty group reported excellent results for 2005 with a combined ratio of 91.3%, 8.5 points better than 2004. This significant improvement resulted primarily from a substantial decrease in unfavorable prior year development within the executive liability operations.



We had even stronger underwriting profits within our excess and surplus and targeted markets lines than in the prior year. Gross written premiums were lower in 2005, resulting primarily from volume reductions in the excess and surplus lines, reflecting stronger competition in those commercial casualty markets. Overall, this group's underwriting margins should remain stable, with premiums flat to slightly up in 2006.

The Specialty Financial group's combined ratio for 2005 was 121.3%. This group continued to be affected by underwriting losses in the residual value business. During the fourth quarter, we took a \$45 million charge related to the residual value business of one customer. We decided to discontinue writing this business as our last two contracts expire this year. The fidelity and crime and financial institutions operations are experiencing strong profitability, and we expect the Specialty Financial group to return to profitability in 2006.

The California Workers' Compensation business reported exceptional profitability in 2005, reflecting the benefit of the improving claims environment resulting from legislative reform enacted in California. This group generated a combined ratio of 70.0%, even with rate decreases averaging about 16% for the year. Premiums are likely to decline as a result of rate reductions recently implemented and while the combined ratio will increase, we still expect solid underwriting performance. We believe that the current rates are adequate to continue to generate favorable returns in this business.



*With the recent acquisition of Farmers Crop Insurance Alliance, we believe we are the third largest writer of multi-peril crop insurance in the U.S.*



*Great American Financial Resources, Inc. continues to grow and prosper. Fixed annuities, with a niche in the school segment, remain its core line of business.*

## Annuities and Supplemental Insurance Operations

Our annuity and supplemental insurance operations are conducted through Great American Financial Resources (NYSE: GFR) and its subsidiaries ("GAFRI"). This segment was built on the fixed annuity business, developing a niche in selling to kindergarten through high school (K-12) schoolteachers. It has continued to grow and prosper with fixed and variable annuities at the core of its business. GAFRI's 2005 premiums totaled \$1.1 billion with nearly 75% from annuity sales. Over the years, we have diversified our offerings with variable annuities, indexed annuities and supplemental insurance products designed to meet other market needs while achieving our premium and profitability targets.

Annuities make up GAFRI's largest product group, accounting for more than 80% of its assets. We continue to update our traditional fixed annuity offerings to meet the needs of our target markets and attract quality agents. As a result, GAFRI's first year sales of flexible premium fixed annuities in the school segment climbed for the fourth straight year. In the non-school segment, GAFRI's sales of fixed annuities increased by more than 25% in 2005, even as we maintained our commission and interest crediting discipline during a period of historically low interest rates.

Through our operations in Austin, Texas, United Teacher Associates Insurance Company (“UTA”) and Loyal American Life Insurance Company, we sell insurance policies to supplement primary health and other insurance coverage, as well as long-term care insurance. These limited benefit products provide coverage for medicare supplement, short-term disability, cancer, intensive care, accidental injury, hospital indemnity and long-term care for individuals and groups. Net supplemental insurance premiums increased approximately 11% in 2005 from 2004.

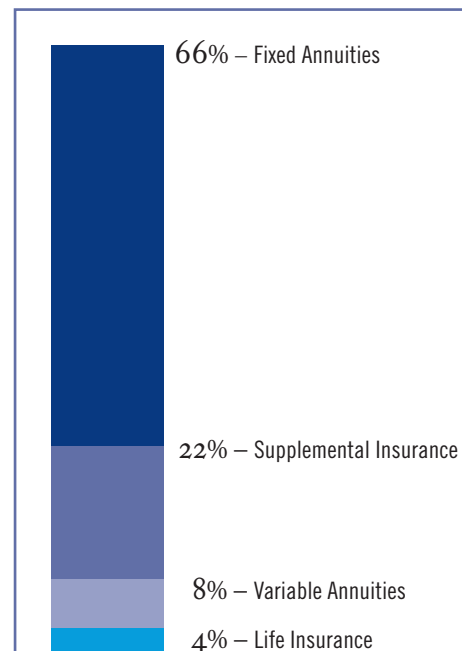
Although our Cincinnati operations no longer issue new life insurance policies, they continue to accept and service renewal premiums on our in-force block of more than 185,000 policies.

In January of this year, we completed the sale of Great American Life Assurance Company of Puerto Rico (GA-PR), the largest in-home service life insurance provider in Puerto Rico. Our investment in GA-PR was very profitable and represents another example of our ability to create shareholder value through acquisitions. The sale provided GAFRI with significant capital and liquidity to invest in its core U.S. operations.

GAFRI is licensed to sell products in all 50 states.

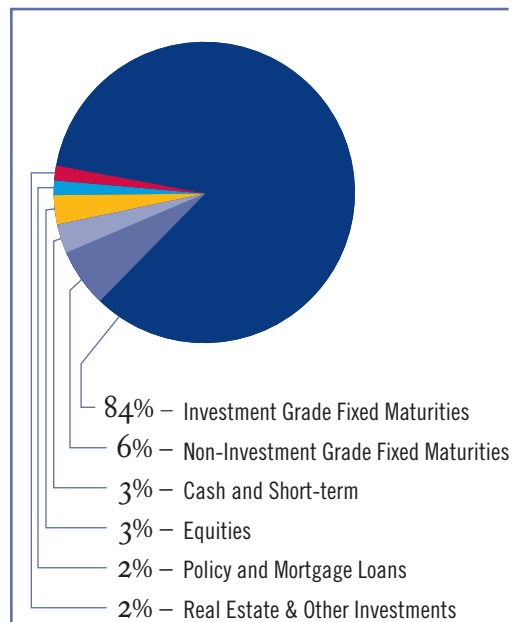
## Annuity and Supplemental Insurance Group

2005 Statutory Premium Distribution



**Investment Portfolio**

*Composition at December 31, 2005*



**Investments**

Our primary investment objective is to maximize return on an ongoing basis rather than on short-term performance. We have a high quality investment portfolio that produces a relatively predictable, steady stream of income. Over the years, our conservatively invested, low-risk portfolio has generated solid returns and provided asset growth. Our investment returns have consistently outperformed various market indices and over the last 10 years, we have generated around \$800 million of realized gains.

Our investment strategies are predicated on our strengths in credit analysis, comprehensive asset-liability management techniques, and maintaining a highly liquid portfolio that allows us to respond to the opportunities that exist with changing market conditions. In structuring our portfolio, the foremost consideration is the liabilities that our assets support. The average life of our fixed maturity investments is approximately four and a half years for our property and casualty companies and about eight years for our annuity and supplemental insurance group, reflecting the relative longevity of each group’s insurance liabilities.

At December 31, 2005, our stock and bond portfolio had pretax unrealized gains of about \$100 million. Our fixed maturity investments, primarily consisting of corporate bonds, mortgage-backed securities, U.S. Government obligations and municipal bonds, had a market value of \$14.6 billion, comprising about 90% of our invested assets. According to nationally recognized rating agencies, the credit quality of our fixed maturities is excellent, with 94% rated “investment grade” (credit rating of AAA to BBB) by such agencies. Our corporate bond portfolio is

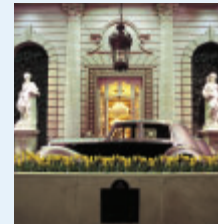
well diversified, with limited exposure to the more cyclical companies and troubled industries. In addition, the vast majority of our bonds are non-callable prior to maturity. At December 31, 2005, our stock portfolio had a market value of more than \$550 million.

Our real estate investment strategy has also been very successful. It is based upon a history of buying underperforming or out-of-favor assets, developing and managing them “in-house,” and selling them at the appropriate time. Over the past ten years, we have realized pre-tax gains in excess of \$240 million from the sales of various real estate assets.

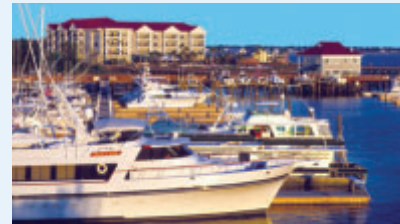
We believe our diverse real estate portfolio has unrecognized appreciation in excess of \$225 million (assuming a market value of generally 11 times cash flow). Our holdings include classic European style hotels in Cincinnati (The Cincinnati) and New Orleans (Le Pavillon); the Chatham Bars Inn on Cape Cod; the Mountain View Grand Resort in New Hampshire; the Skipjack Cove Yachting Resort and the Bay Bridge Marina on Chesapeake Bay; the Charleston Harbor Resort and Marina; the Sailfish Marina and Resort in Palm Beach Shores; apartment developments in Louisville, Pittsburgh and Tampa Bay; and potentially valuable air rights in New York City. We plan to market one or more of these properties as opportunities present themselves. We have purchased a number of these distinctive assets during the past few years and are continually looking for opportunities to add to our real estate portfolio.



*Crescent Centre Apartments, Louisville*



*Le Pavillon,  
New Orleans*



*Charleston Harbor Resort  
and Marina, South Carolina*



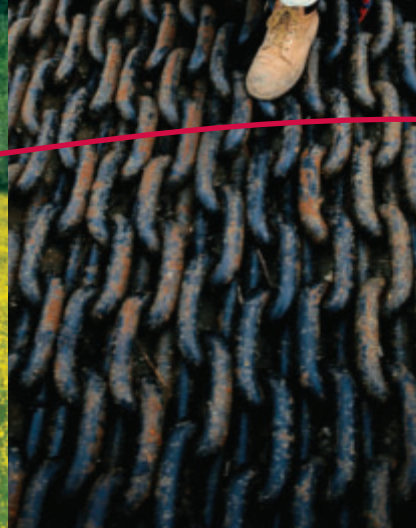
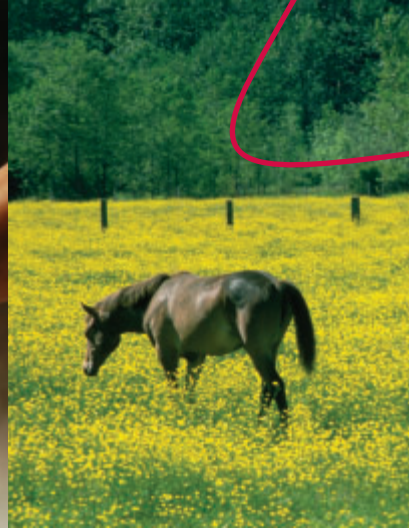
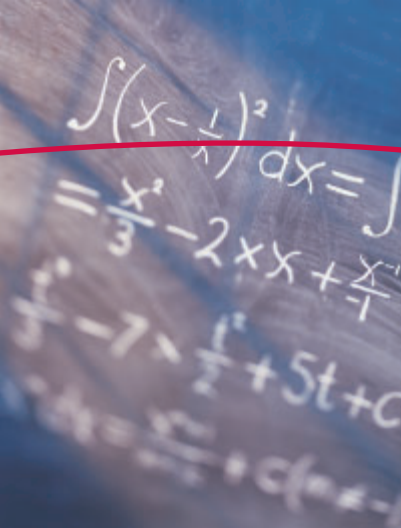
*Mountain View Grand Resort, New Hampshire*



*We are proud to have our name prominently displayed on the home of the oldest franchise in professional baseball as the Great American Ball Park hosts Cincinnati Reds fans for its fourth season. The complex now includes the Cincinnati Reds Hall of Fame which opened in Autumn 2003.*

## Conclusion

Specialization is a key element of our strategy and contributes to our strong operating results. We will maintain our diversified portfolio of specialized businesses and continue to look for opportunities to add to it through organic growth, new start-ups or the acquisition of books of business. Key to our ongoing success is our commitment to consistent execution on our strict fundamentals in underwriting, risk selection, pricing, terms and conditions, claims handling, people development, investing and asset preservation. We capitalize on our strong internal investment capabilities that we believe give us a competitive advantage. Our investment returns will continue to be a major contributor to higher earnings and book value. Combined with our disciplined approach to underwriting, we have an excellent foundation for profitable growth.





## Corporate & Investor Information

### Board of Directors

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**Carl H. Lindner**

*Chairman of the Board*

**Carl H. Lindner III**

*Co-Chief Executive Officer and Co-President,  
American Financial Group, Inc.  
President, Great American Insurance Company*

**S. Craig Lindner**

*Co-Chief Executive Officer and Co-President,  
American Financial Group, Inc.  
President and Chief Executive Officer,  
Great American Financial Resources, Inc.*

**Kenneth C. Ambrecht**<sup>2,3</sup>

*Principal, KCA Associates, LLC  
an investment banking firm*

**Theodore H. Emmerich**<sup>1\*</sup>

*Retired Managing Partner, Ernst & Young LLP,  
certified public accountants, Cincinnati, Ohio*

**James E. Evans**

*Senior Vice President and General Counsel,  
American Financial Group, Inc.*

**Terry S. Jacobs**<sup>1,3</sup>

*Vice Chairman,  
Regent Communications, Inc.,  
a broadcasting company*

**William R. Martin**<sup>1,2\*</sup>

*retired Chairman of the Board, MB Computing, Inc.,  
a computer software and services company*

**William W. Verity**<sup>2,3\*</sup>

*President, Veritas Asset Management, LLC,  
an investment management company*

**Board of Directors Committees:**

<sup>1</sup> *Audit Committee*

<sup>2</sup> *Compensation Committee*

<sup>3</sup> *Governance Committee*

\* *Chairman of Committee*



## Corporate Management

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**S. Craig Lindner**

*Co-Chief Executive Officer  
and Co-President*

**Carl H. Lindner III**

*Co-Chief Executive Officer  
and Co-President*

**James E. Evans**

*Senior Vice President and General Counsel*

**Keith A. Jensen**

*Senior Vice President*

**Thomas E. Mischell**

*Senior Vice President – Taxation*

**Kathleen J. Brown**

*Vice President – Taxation*

**Robert E. Dobbs**

*Vice President – Internal Audit*

**Karl J. Grafe**

*Vice President and Assistant Secretary*

**Sandra W. Heimann**

*Vice President*

**James C. Kennedy**

*Vice President, Deputy General Counsel and Secretary*

**Piyush K. Singh**

*Vice President*

**Robert H. Ruffing**

*Vice President and Controller*

**Anne N. Watson**

*Vice President – Investor Relations*

**David J. Witzgall**

*Vice President and Treasurer*

## Corporate Offices

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**American Financial Group, Inc.**

One East Fourth Street  
Cincinnati, OH 45202  
(513) 579-2121

## Annual Shareholders' Meeting

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The Annual Shareholders' Meeting is expected to be held at The Cincinnati Hotel in Cincinnati on May 18, 2006. Notices will be mailed to all registered holders of the Company's voting stock.

## Common Stock Market Information

American Financial Group's Common Stock is traded on both the New York Stock Exchange ("NYSE") and the NASDAQ National Market ("NASDAQ") under the symbol AFG. On March 1, 2006, approximately 9,200 holders of record own our shares. The following table sets forth the high and low sales prices of AFG's Common Stock as reported on the NYSE Composite Tape.

2004	High	Low	Dividends Paid
1st Quarter	30.93	26.28	0.125
2nd Quarter	31.00	28.94	0.125
3rd Quarter	30.95	28.75	0.125
4th Quarter	32.58	27.60	0.125

2005	High	Low	Dividends Paid
1st Quarter	31.88	29.90	0.125
2nd Quarter	33.96	27.96	0.125
3rd Quarter	35.13	32.25	0.125
4th Quarter	39.49	32.07	0.125

## Dividend Reinvestment Plan

This plan allows registered shareholders of 25 or more shares of AFG Common Stock to automatically reinvest their dividends towards the purchase (at a 4% discount) of additional AFG common shares. Dividend Reinvestment Plan information and enrollment forms may be obtained from the Company's Transfer Agent.

## Duplicate Mailings

Please call or write the Company if you wish to eliminate any duplicate mailing of this report or other Company materials.

## Transfer Agent for:

American Financial Group, Inc. and Great American Financial Resources, Inc.

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038  
Toll-Free: (866) 668-6550  
[www.amstock.com](http://www.amstock.com)

## Additional Information

Investors or analysts requesting additional information, including copies of the American Financial Group, Inc. Form 10-K (without cost) as filed with the Securities and Exchange Commission, may contact:

Investor Relations  
American Financial Group, Inc.  
580 Walnut Street, 9th Floor  
Cincinnati, Ohio 45202  
(513) 579-6652

SEC filings, news releases, and other information may also be accessed free of charge on American Financial Group's internet site at: [www.AFGinc.com](http://www.AFGinc.com)

## Certifications

AFG has included as Exhibit 31 to its 2005 Annual Report on Form 10-K, certifications from its Co-Chief Executive Officers and Chief Financial Officer as to the integrity and quality of AFG's public disclosures. AFG's Co-Chief Executive Officers have also submitted to the NYSE certification indicating that they are not aware of any violations by AFG of the NYSE corporate governance listing standards.

## Forward-Looking Statements

This document contains certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements in this document not dealing with historical results are forward-looking and are based on estimates, assumptions and projections. Examples of such forward-looking statements include statements relating to: the Company's expectations concerning market and other conditions and their effect on future premiums, revenues, earnings and investment activities; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate increases and improved loss experience. Actual results could differ materially from those expected by AFG depending on certain factors including but not limited to:

- the unpredictability of possible future litigation;
- changes in economic conditions including interest rates, performance of securities markets, the availability of capital, regulatory actions and changes in the legal environment affecting AFG or its customers;
- tax law changes;
- levels of natural catastrophes, terrorist events, including any nuclear, biological, chemical or radiological events, incidents of war and other major losses;
- development of insurance loss reserves and other reserves, particularly with respect to amounts associated with asbestos and environmental claims;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- trends in persistency, mortality and morbidity;
- competitive pressures, including the ability to obtain rate increases; and
- changes in debt and claims paying ratings.

The forward-looking statements herein are made only as of the date of this report. The Company assumes no obligation to publicly update any forward-looking statements.



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ONE EAST FOURTH STREET  
CINCINNATI, OH 45202  
(513) 579-2121

[www.AFGinc.com](http://www.AFGinc.com)