

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the Fiscal Year Ended  
December 31, 2003

Commission File  
No. 1-13653

AMERICAN FINANCIAL GROUP, INC.

Incorporated under  
the Laws of Ohio

IRS Employer I.D.  
No. 31-1544320

One East Fourth Street, Cincinnati, Ohio 45202

(513) 579-2121

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

American Financial Group, Inc.:

Common Stock

7-1/8% Senior Debentures due December 15, 2007

7-1/8% Senior Debentures due April 15, 2009

7-1/8% Senior Debentures due February 3, 2034

Name of Each Exchange  
on which Registered

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Other securities for which reports are submitted pursuant to Section 15(d) of the Act:

Senior Convertible Notes due June 2, 2033

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and need not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer. Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$926.7 million (based upon nonaffiliate holdings of 40,644,434 shares and a market price of \$22.80 per share at June 30, 2003). Comparable data at March 1, 2004, is \$1,334.4 million (based on nonaffiliate holdings of 44,185,471 shares and a market price of \$30.20 per share).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 73,227,778 shares (excluding 9,953,392 shares owned by a subsidiary) as of March 1, 2004.

Documents Incorporated by Reference:

Proxy Statement for 2004 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part III hereof).

AMERICAN FINANCIAL GROUP, INC.

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(a) The response to this Item is "none".

**AMERICAN FINANCIAL GROUP, INC.**

**FORWARD-LOOKING STATEMENTS**

*This Form 10-K, chiefly in Items 1, 3, 5, 7 and 8, contains certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as "anticipates", "believes", "expects", "estimates", "intends", "plans", "seeks", "could", "may", "should", "will" or the negative version of those words or other comparable terminology. Examples of such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings and investment activities; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate increases, and improved loss experience.*

*Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including:*

- *changes in economic conditions, including interest rates, performance of securities markets, and the availability of capital;*
- *regulatory actions;*
- *changes in legal environment;*
- *tax law changes;*
- *levels of natural catastrophes, terrorist events, incidents of war and other major losses;*
- *the ultimate amount of liabilities associated with certain asbestos and environmental-related claims;*
- *the unpredictability of possible future litigation if certain settlements do not become effective;*
- *adequacy of insurance reserves;*
- *trends in mortality and morbidity;*
- *availability of reinsurance and ability of reinsurers to pay their obligations;*
- *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.*

**PART I**

**ITEM 1**

**Business**

*Please refer to "Forward-Looking Statements" following the Index in front of this Form 10-K.*

**Introduction**

American Financial Group, Inc. ("AFG") is a holding company which, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of retirement annuities, life, and supplemental health insurance products. AFG was incorporated as an Ohio corporation in 1997; its predecessor holding company originated in 1955. Its insurance subsidiaries have been operating as far back as the 1800's. Its address is

At December 31, 2003, Carl H. Lindner, members of his immediate family and trusts for their benefit (collectively the "Lindner Family") beneficially owned approximately 42% of AFG's outstanding voting Common Stock.

Over the years, AFG and its predecessors have owned, operated, and invested in businesses in a variety of industries and geographic areas, culminating in today's group of insurance companies. Generally, AFG's interests have been in the following areas: insurance, savings and loan, leasing, banking, real estate, communications/ entertainment and food distribution. A small number of opportunistic investments have been made in troubled and other undervalued assets.

#### **Recent Transactions**

Early in 2003, AFG began an analysis of alternatives to simplify its corporate structure and promote easier oversight, analysis and operation of its subsidiaries. As a result, mergers and a recapitalization were consummated. Committees of independent directors conducted the analyses with the counsel of recognized outside experts and approved each of the transactions. In November, AFG merged with two of its subsidiaries, American Financial Corporation ("AFC") and AFC Holding Company with AFC's Series J preferred stock being acquired and retired in exchange for approximately 3.3 million shares of AFG Common Stock (aggregate value of \$75 million). In addition, approximately \$170 million in deferred tax liabilities associated with AFC's holding of AFG stock were eliminated. As of January 31, 2004, American Premier Underwriters, Inc. ("APU", a wholly-owned subsidiary) paid an extraordinary dividend consisting of approximately two-thirds of its assets, including its insurance subsidiaries, to its immediate parent, APU Holding Company, and retained sufficient assets to enable it to meet its estimated liabilities.

In the fourth quarter of 2003, AFG pursued a sale of Transport Insurance Company, an inactive property and casualty subsidiary with only run-off liabilities, including old asbestos and environmental claims. Transport's asbestos and environmental ("A&E") reserves represent approximately 12% of AFG's total net A&E reserves. Although a transaction has not been consummated, AFG recorded a \$55 million impairment charge at December 31, 2003, to reduce its investment in Transport to estimated fair value, based on negotiations with potential buyers.

Infinity Property and Casualty Corporation ("Infinity") was incorporated in September 2002 as a wholly-owned subsidiary of AFG. On December 31, 2002, AFG transferred to Infinity the following subsidiaries: Atlanta Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company. In exchange, AFG received all of the issued and outstanding shares of Infinity common stock and a \$55 million 10-year promissory note (paid off in July 2003). In addition, effective January 1, 2003, Great American Insurance Company ("GAI"), an AFG

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subsidiary, transferred to Infinity its personal insurance business written through independent agents. In 2002 and 2001, these businesses represented 28% and 35%, respectively, of AFG's property and casualty group's net written premiums. In a February 2003 public offering, AFG sold 61% of Infinity for net proceeds of \$186.3 million. In December 2003, AFG sold its remaining shares of Infinity for net proceeds of \$214 million. AFG realized a net pretax gain of \$17.1 million on the two sales of Infinity stock.

In April 2003, AFG sold subsidiaries that market automobile insurance directly to customers for \$32.2 million, realizing a pretax gain of \$3.4 million on the sale. These businesses generated approximately 3% of AFG's net written premiums in 2002.

In connection with the February 2003 sale of Infinity, AFG subsidiaries continue to write certain business for, and fully reinsure it to, Infinity. In 2003, AFG subsidiaries ceded \$96 million in premiums to Infinity (subsequent to the sale). When GAI sold its Japanese division in 2001 and its commercial lines division in 1998, it had similar arrangements, each of which lasted about three years.

*The businesses discussed above are included in the tables and financial statements herein through their respective disposal dates.*

#### **Property and Casualty Insurance Operations**

Prior to the sale of Infinity and the direct-to-consumer auto businesses in 2003, AFG's property and casualty group was engaged primarily in specialty and private passenger automobile insurance businesses, which were managed as two major business groups: Specialty and Personal. The businesses sold represented nearly all of the Personal group. AFG's remaining Personal lines business generated less than 3% of net written premiums in 2003.

The property and casualty group reports to a single senior executive and is comprised of multiple business units which operate autonomously but with certain strong central controls and full accountability. The decentralized approach allows each unit the autonomy necessary to respond to local and specialty market conditions while capitalizing on the efficiencies of centralized investment and administrative support functions. AFG's property and casualty insurance operations employ approximately 4,400 persons.

The property and casualty group operates in a highly competitive industry that is affected by many factors which can cause significant fluctuations in its results of operations. The industry has historically been subject to pricing cycles characterized by periods of intense competition and lower premium rates (a "downcycle") followed by periods of reduced competition, reduced underwriting capacity due to lower policyholders' surplus and higher premium rates (an "upcycle"). After being in an extended downcycle for over a decade, the property and casualty insurance industry has experienced significant market firming and price increases in certain specialty markets.

The primary objective of AFG's property and casualty insurance operations is to achieve solid underwriting profitability while providing excellent service to its policyholders. Underwriting profitability is measured by the combined ratio which is a sum of the ratios of underwriting losses, loss adjustment expenses ("LAE"), underwriting expenses and policyholder dividends to premiums. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, other income or federal income taxes.

While many costs included in underwriting may be readily determined (commissions, administrative expenses, and many of the losses on claims reported), the process of determining overall underwriting results is also highly dependent upon the use of estimates in the case of losses incurred or expected but not yet reported or developed. Actuarial procedures and projections are used to obtain "best estimates" which are then included in the overall results. While the process is imprecise and develops amounts which are subject to change over time, AFG's

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projections, excluding asbestos and environmental ("A&E") claims, have generally been close to the developed ultimate results, as can be seen in the "reserve development triangles" on page 11.

AFG's property and casualty group, like many others in the industry, has A&E claims arising in most cases from general liability policies written in years before 1987. The establishment of reserves for such A&E claims presents unique and difficult challenges and is subject to uncertainties significantly greater than those presented by other types of claims.

In February 2003, GAI entered into an agreement for the settlement of asbestos-related coverage litigation from insurance policies issued in the 1970's and 1980's. Management believes that the \$123.5 million settlement (GAI has the option to pay in cash or over time with 5.25% interest) with parties related to and known as A.P. Green Industries, Inc. will enhance financial certainty and provide resolution to litigation that represents AFG's largest known asbestos-related claim and the only such claim that management believes to be material. For a discussion of uncertainties related to A&E claims, see *Management's Discussion and Analysis - "Asbestos and Environmental-related Reserves."*

Management's focus on underwriting performance has resulted in a statutory combined ratio averaging 105.1% for the period 1999 to 2003 (or 104.0% excluding special charges in 2002 and 2001 related to asbestos and other environmental matters), as compared to 108.2% for the property and casualty industry over the same period (Source: "Best's Review/Preview - Property/Casualty" - January 2004 Edition). AFG believes that its product line diversification and underwriting discipline have contributed to the Company's ability to consistently outperform the industry's underwriting results. Management's philosophy is to refrain from writing business that is not expected to produce an underwriting profit even if it is necessary to limit premium growth to do so.

Generally, while financial data is reported on a statutory basis for insurance regulatory purposes, it is reported in accordance with generally accepted accounting principles ("GAAP") for shareholder and other investment purposes. In general, statutory accounting results in lower capital and surplus and lower net earnings than result from application of GAAP. Major differences include charging policy acquisition costs to expense as incurred rather than spreading the costs over the periods covered by the policies; reporting investment-grade bonds and redeemable preferred stocks at amortized cost; netting of reinsurance recoverables and prepaid reinsurance premiums against the corresponding liability; requiring additional loss reserves; and charging to surplus certain assets, such as furniture and fixtures and agents' balances over 90 days old.

*Unless indicated otherwise, the financial information presented for the property and casualty insurance operations herein is presented based on GAAP.*

The following table shows (in millions) certain information of AFG's property and casualty insurance operations.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Statutory Basis</u>			
Premiums Earned	\$1,873	\$ 2,372	\$ 2,566
Admitted Assets	6,499	7,233	6,736
Unearned Premiums	981	1,168	1,158
Loss and LAE Reserves (net)	3,035	3,607	3,539
Capital and Surplus	1,814	1,742	1,669

<u>GAAP Basis</u>			
Premiums Earned	\$1,909	\$ 2,403	\$ 2,594
Total Assets	9,979	10,927	10,007
Unearned Premiums	1,595	1,848	1,641
Loss and LAE Reserves (gross)(*)	4,909	5,204	4,778
Shareholder's Equity	2,884	3,241	3,288

(\*) GAAP loss and LAE reserves net of reinsurance recoverable were \$2.9 billion at December 31, 2003, \$3.4 billion at December 31, 2002, and \$3.3 billion at December 31, 2001.

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The following table shows the independent ratings and 2003 net written premiums (in millions) of AFG's major property and casualty insurance subsidiaries. AFG continues to focus on growth opportunities in what it believes to be more profitable specialty businesses.

<u>Company</u>	<u>(Ratings - AM Best/S&amp;P)</u>		<u>Net Written Premiums</u>
Ongoing Businesses			
Great American Pool(*)	A	A	\$1,059
Republic Indemnity	A-	A	273
Mid-Continent	A	A	248
American Empire Surplus Lines	A	A	161
National Interstate	A-	n/a	149
Other			16
Businesses sold in 2003 through sale date			
Infinity (through mid-February)	n/a	n/a	84
GAI direct-to-consumer (through April)	n/a	n/a	22
			<u>\$2,012</u>

(\*) The Great American Pool represents approximately 10 subsidiaries.  
(n/a) Not available/not applicable.

*Performance measures such as underwriting profit or loss and related combined ratios are often used by property and casualty insurers to help users of their financial statements better understand the Company's performance. See Note C - "Segment of Operations" to the financial statements for the reconciliation of AFG's operating profit by significant business segment to the consolidated Statement of Operations.*

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The following table shows the performance of AFG's property and casualty insurance operations (dollars in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Gross written premiums (a)	\$3,508	\$3,935	\$3,520
Ceded reinsurance (a)	(1,496)	(1,521)	(938)
Net written premiums	<u>\$2,012</u>	<u>\$2,414</u>	<u>\$2,582</u> (b)
Net earned premiums	\$1,909	\$2,403	\$2,594
Loss and LAE	1,353	1,783	1,978
Asbestos litigation settlement	-	30	-

Special A&E charge	-	-	69(c)
Underwriting expenses	532	606	736
Policyholder dividends	<u>2</u>	<u>8</u>	<u>5</u>
Underwriting gain (loss)	<u>\$ 22</u>	<u>(\$ 24)</u>	<u>(\$ 194)</u>

GAAP ratios:

Loss and LAE ratio	70.9%	75.4%	78.9%
Underwriting expense ratio	27.9	25.3	28.4
Policyholder dividend ratio	<u>.1</u>	<u>.3</u>	<u>.2</u>
Combined ratio (d)	<u>98.9%</u>	<u>101.0%</u>	<u>107.5%</u>

Statutory ratios:

Loss and LAE ratio	72.1%	76.3%	80.2%
Underwriting expense ratio	28.0	25.0	28.3
Policyholder dividend ratio	<u>.2</u>	<u>.2</u>	<u>.3</u>
Combined ratio (d)	<u>100.3%</u>	<u>101.5%</u>	<u>108.8%</u>

Industry statutory combined ratio (e)

All lines	101.1%	107.4%	115.9%
Commercial lines	103.6%	107.7%	117.1%

- (a) Excludes the following premiums that were written under special arrangements on behalf of, and fully reinsured to, Infinity (following its sale in February) and the purchasers of the commercial lines and Japanese divisions: 2003 - \$122 million; 2002 - \$173 million; and 2001 - \$143 million.
- (b) Before a reduction of \$29.7 million for unearned premium transfer related to the sale of the Japanese division.
- (c) Excludes a \$31 million charge recorded by Transport, which has been reclassified to Discontinued Operations in AFG's Statement of Operations.
- (d) The 2003 combined ratios include 2.3 percentage points related to an arbitration decision for GAI's share of a 1995 property fire and business interruption claim. The 2002 combined ratios include 1.2 percentage points (GAAP) and 1.3 points (statutory) related to the A.P. Green asbestos litigation settlement. The 2001 combined ratios include 2.7 percentage points for the third quarter strengthening of insurance reserves relating to A&E matters and 1 percentage point attributable to the attack on the World Trade Center.
- (e) Ratios are derived from "Best's Review/Preview - Property/Casualty" (January 2004 Edition).

As with other property and casualty insurers, AFG's operating results can be adversely affected by unpredictable catastrophe losses. Certain natural disasters (hurricanes, earthquakes, tornadoes, floods, forest fires, etc.) and other incidents of major loss (explosions, civil disorder, fires, etc.) are classified as catastrophes by industry associations. Losses from these incidents are usually tracked separately from other business of insurers because of their sizable effects on overall operations. AFG generally seeks to reduce its exposure to such events through individual risk selection and the purchase of reinsurance. Total net losses to AFG's insurance operations from catastrophes were \$17 million in 2003; \$7 million in 2002 and \$42 million in 2001. These amounts are included in the tables herein. AFG's catastrophe losses in 2001 included \$25 million related to the terrorist attack on the World Trade Center.

The Terrorism Risk Insurance Act of 2002 ("TRIA") is to be in effect until the end of 2005 and establishes a temporary Terrorism Risk Insurance Program which requires commercial insurers to offer virtually all policyholders coverage for certain "acts of terrorism" as defined by TRIA. This federal legislation provides

that coverage may not materially differ from the terms, amounts, and other coverage limitations applicable to losses arising from occurrences other than terrorism. The federal government provides some stop loss insurance to insurers after an act has been certified by the government as an act of terrorism and after an insurer has paid losses in excess of a deductible. The deductible progresses from 7% to 15% of direct earned premium in each of the three program years. TRIA supersedes state insurance law to the extent that such law is inconsistent with its terms.

AFG incurred no losses due to "acts of terrorism" in 2003. For 2004, AFG would have to sustain losses in excess of \$244 million to be eligible for the reinsurance under TRIA. AFG believes that it is unlikely that its losses in the event of a terrorist act would be so significant as to exceed the deductible necessary to participate in the federal reinsurance. AFG generally seeks to limit its exposure to catastrophe losses including those arising from terrorist acts. AFG is complying with the obligations of TRIA to offer coverage but continues to review its business with consideration of the price it charges for such coverage, as well as through management of individual risk selection.

**Specialty**

**General** The Specialty group emphasizes the writing of specialized insurance coverage where AFG personnel are experts in particular lines of business or customer groups. The following are examples of such specialty businesses:

**Property and Transportation**

- Inland and Ocean Marine* Provides coverage primarily for marine cargo, boat dealers, marina operators/dealers, excursion vessels, builder's risk, contractor's equipment, excess property and motor truck cargo.
- Agricultural-related* Provides federally reinsured multi-peril crop (allied lines) insurance covering most perils as well as crop hail, equine mortality and other coverages for full-time operating farms/ranches and agribusiness operations on a nationwide basis.
- Commercial Automobile*

Markets customized insurance programs for various transportation operations (such as busses and trucks), and a specialized physical damage product for the trucking industry.

**Specialty Casualty**

*Executive and Professional Liability* Markets coverage for attorneys, architects and engineers, and for directors and officers of businesses and not-for-profit organizations.

*Umbrella and Excess Liability* Provides higher layer liability coverage in excess of primary layers.

*Excess and Surplus* Specially designed insurance products offered to those that can't find coverage in standard markets.

**Specialty Financial**

*Fidelity and Surety Bonds* Provides surety coverage for various types of contractors and public and private corporations and fidelity and crime coverage for government, mercantile and financial institutions.

*Collateral Protection* Provides coverage for insurance risk management programs for lending and leasing institutions.

**California Workers' Compensation**

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

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Specialization is the key element to the underwriting success of these business units. Each unit has independent management with significant operating autonomy to oversee the important operational functions of its business such as underwriting, pricing, marketing, policy processing and claims service. These specialty businesses are opportunistic and their premium volume will vary based on prevailing market conditions. AFG continually evaluates expansion in existing markets and opportunities in new specialty markets that meet its profitability objectives.

The U.S. geographic distribution of the Specialty group's statutory direct written premiums in 2003 compared to 1999 is shown below. Amounts exclude business written under special arrangements on behalf of, and fully reinsured to, the purchasers of the divisions sold in 2003 and 1999.

	<u>2003</u>	<u>1999</u>		<u>2003</u>	<u>1999</u>
California	20.7%	26.3%	Oklahoma	2.6	3.3
Texas	8.7	7.8	New Jersey	2.6	2.5
Florida	5.8	4.4	Missouri	2.1	*
New York	5.0	5.7	Michigan	2.1	*
Illinois	4.4	4.0	Indiana	2.0	*
Ohio	3.0	2.2	Massachusetts	*	3.7
Georgia	2.9	2.0	North Dakota	*	2.1
Pennsylvania	2.8%	2.3%	Other	<u>35.3</u>	<u>33.7</u>
				<u>100.0%</u>	<u>100.0%</u>

(\*) less than 2%

The following table sets forth a distribution of statutory net written premiums for AFG's Specialty group by NAIC annual statement line for 2003 compared to 1999.

	<u>2003</u>	<u>1999</u>
Other liability	29.0%	19.3%
Workers' compensation	16.5	18.7
Auto liability	8.8	9.3
Commercial multi-peril	7.7	9.8
Inland marine	6.9	13.3
Fidelity and surety	5.6	4.9
Collateral protection	5.3	2.7
Auto physical damage	4.8	4.5
Allied lines	3.8	5.9
Product liability	3.5	*
Ocean marine	3.4	3.7
General aviation	*	2.8
Other	<u>4.7</u>	<u>5.1</u>
	<u>100.0%</u>	<u>100.0%</u>

(\*) less than 2%

The following table shows the performance of AFG's Specialty group insurance operations (dollars in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Gross written premiums (a):			
Property and Transportation	\$1,142	\$ 886	\$ 742
Specialty Casualty	1,413	1,235	859
Specialty Financial	396	332	356
California Workers' Compensation	290	229	243
Other	<u>2</u>	<u>31</u>	<u>36</u>
	<u>\$3,243</u>	<u>\$2,713</u>	<u>\$2,236</u>
Net written premiums:			
Property and Transportation	\$ 515	\$ 413	\$ 506
Specialty Casualty	679	609	512
Specialty Financial	302	255	247
California Workers' Compensation	271	219	236
Other	<u>87</u>	<u>81</u>	<u>41</u>
	<u>\$1,854</u>	<u>\$1,577</u>	<u>\$1,542(b)</u>
GAAP combined ratio:			
Property and Transportation	87.8%	90.1%	96.7%
Specialty Casualty	98.2	106.6	111.5
Specialty Financial	108.3	101.4	80.1
California Workers' Compensation	92.0	96.4	104.8
Total Specialty GAAP combined ratio	96.0%	98.4%	101.7%
Total Specialty statutory combined ratio	97.7%	100.1%	104.6%
Industry statutory combined ratio (c)	103.6%	107.7%	117.1%

- (a) Excludes the following premiums that were written under special arrangements on behalf of, and fully reinsured to, the purchasers of the Commercial lines and Japanese divisions: 2003 - \$26 million; 2002 - \$173 million; and 2001 - \$143 million.
- (b) Before a reduction of \$29.7 million for the unearned premium transfer related to the sale of the Japanese division.
- (c) Represents the commercial industry statutory combined ratio derived from "Best's Review/Preview - Property/Casualty" (January 2004 Edition).

**Marketing** The Specialty group operations direct their sales efforts primarily through independent property and casualty insurance agents and brokers, although portions are written through employee agents. These businesses write insurance through several thousand agents and brokers and have approximately 450,000 policies in force.

**Competition** These businesses compete with other individual insurers, state funds and insurance groups of varying sizes, some of which are mutual insurance companies possessing competitive advantages in that all their profits inure to their policyholders. They also compete with self-insurance plans, captive programs and risk retention groups. Due to the specialty nature of these coverages, competition is based primarily on service to policyholders and agents, specific characteristics of products offered and reputation for claims handling. Price, commissions and profit sharing terms are also important factors. Management believes that sophisticated data analysis for refinement of risk profiles, extensive specialized knowledge and loss prevention service have helped AFG's Specialty group compete successfully.

## Personal

The Personal group wrote primarily nonstandard private passenger automobile liability and physical damage insurance, and to a lesser extent, homeowners' insurance. AFG sold 61% of Infinity Property and Casualty Corporation in a February 2003 public offering and its remaining stake in Infinity in December 2003. In April 2003, AFG sold two of its subsidiaries that market automobile insurance directly to customers. The businesses sold in these transactions represented 92% of the Personal group's 2002 net written premiums.

## Reinsurance

Consistent with standard practice of most insurance companies, AFG reinsures a portion of its business with other insurance companies and assumes a relatively small amount of business from other insurers. Ceding reinsurance permits diversification of risks and limits the maximum loss arising from large or unusually hazardous risks or catastrophic events. The availability and cost of reinsurance are subject to prevailing market conditions which may affect the volume and profitability of business that is written. AFG is subject to credit risk with respect to its reinsurers, as the ceding of risk to reinsurers generally does not relieve AFG of its liability to its insureds until claims are fully settled.

AFG regularly monitors the financial strength of its reinsurers. This process periodically results in the transfer of risks to more financially secure reinsurers. Substantially all reinsurance is ceded to reinsurers having more than \$100 million in capital and A.M. Best ratings of "A-" or better. AFG further minimizes the credit risk of certain ceding arrangements by entering into the contracts on a "funds withheld" basis. Under "funds withheld" arrangements, AFG retains ceded premiums to fund ceded losses as they become due from the reinsurer. As an alternative method to reduce credit risk, AFG has, on occasion, required reinsurers to secure recoverables due under reinsurance agreements by establishing letters of credit. Excluding Infinity, Mitsui and Ohio Casualty (discussed below), approximately half of AFG's total reinsurance recoverable (net, of funds withheld) at December 31, 2003, was with the following companies: American Re-Insurance Company, Swiss Reinsurance America Corporation, General Reinsurance Corporation, X.L. Reinsurance America, Inc., Employers Reinsurance Corporation, Converium Reinsurance North America, Inc., Berkley Insurance Company, Everest Reinsurance Company, Folksamerica Reinsurance Company, Transatlantic Reinsurance Company, and Hanover Reinsurance Company, Ltd.

Reinsurance is provided on one of two bases, facultative or treaty. Facultative reinsurance is generally provided on a risk by risk basis. Individual risks are ceded and assumed based on an offer and acceptance of risk by each party to the transaction. Treaty reinsurance provides for risks meeting prescribed criteria to be automatically ceded and assumed

according to contract provisions. The following table presents (by type of coverage) the amount of each loss above the specified retention maximum generally covered by treaty reinsurance programs (in millions):

<u>Coverage</u>	<u>Retention Maximum</u>	<u>Reinsurance Coverage(a)</u>
California Workers' Compensation	\$ 1.0	\$149.0
Other Workers' Compensation	2.0	48.0
Commercial Umbrella	1.8	48.2
Property - General	2.0	28.0
Property - Catastrophe	10.0	110.0

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

AFG also purchases facultative reinsurance providing coverage on a risk by risk basis, both pro rata and excess of loss, depending on the risk and available reinsurance markets.

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Included in the balance sheet caption "recoverables from reinsurers and prepaid reinsurance premiums" were approximately \$246 million on paid losses and LAE and \$2.1 billion on unpaid losses and LAE at December 31, 2003. These amounts are net of allowances of approximately \$42 million for doubtful collection of reinsurance recoverables. The collectibility of a reinsurance balance is based upon the financial condition of a reinsurer as well as individual claim considerations.

Premiums written for reinsurance ceded and assumed are presented in the following table (in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reinsurance ceded	\$1,618	\$1,693	\$1,114
Reinsurance assumed - including involuntary pools and associations	100	80	94

In connection with the transfer of a portion of GAI's personal lines business to Infinity in 2003 and the sales of the Japanese division to Mitsui in 2001 and the Commercial lines division to Ohio Casualty in 1998, Great American agreed to issue and renew policies related to the businesses transferred until each purchaser received the required approvals and licensing to begin writing business on their own behalf. The Infinity agreement is effective until January 1, 2006. The Mitsui and Ohio Casualty agreements ended at the end of 2003 and in early 2001, respectively. Under these agreements, Great American cedes 100% of these premiums to the respective purchaser. In 2003, 2002 and 2001, premiums of \$122 million, \$173 million and \$143 million, respectively, were ceded under these agreements.

#### Loss and Loss Adjustment Expense Reserves

The consolidated financial statements include the estimated liability for unpaid losses and LAE of AFG's insurance subsidiaries. This liability represents estimates of the ultimate net cost of all unpaid losses and LAE and is determined by using case-basis evaluations and actuarial projections. These estimates are subject to the effects of changes in claim amounts and frequency and are periodically reviewed and adjusted as additional information becomes known. In accordance with industry practices, such adjustments are reflected in current year operations.

Generally, reserves for reinsurance and involuntary pools and associations are reflected in AFG's results at the amounts reported by those entities.

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The following discussion of insurance reserves includes the reserves of American Premier's subsidiaries for only those periods following its acquisition in 1995. See Note P to the Financial Statements for an analysis of changes in AFG's estimated liability for losses and LAE, net and gross of reinsurance, over the past three years on a GAAP basis.

The following table presents the development of AFG's liability for losses and LAE, net of reinsurance, on a GAAP basis for the last ten years, excluding reserves of American Premier subsidiaries prior to 1995. The top line of the table shows the estimated liability (in millions) for unpaid losses and LAE recorded at the balance sheet date for the indicated years. The second line shows the re-estimated liability as of December 31, 2003. The remainder of the table presents intervening development as percentages of the initially estimated liability. The development results from additional information and experience in subsequent years. The middle line shows a cumulative deficiency (redundancy) which represents the aggregate percentage increase (decrease) in the liability initially estimated. The lower portion of the table indicates the cumulative amounts paid as of successive periods as a percentage of the original loss reserve liability. For purposes of this table, reserves of businesses sold are re-considered paid at the date of sale. For example, the percentage of the December 31, 2002 reserve liability paid in 2003 includes approximately 20 percentage points for reserves of Infinity at its sale date in February 2003.

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Liability for unpaid losses											
<u>and loss adjustment expenses:</u>											
As originally estimated	\$2,113	\$2,187	\$3,393	\$3,404	\$3,489	\$3,305	\$3,224	\$3,192	\$3,253	\$3,400	\$2,850
As re-estimated at December 31, 2003	2,467	2,553	3,719	3,739	3,771	3,278	3,308	3,506	3,621	3,567	N/A
<u>Liability re-estimated:</u>											
One year later	98.1%	95.9%	98.7%	100.9%	104.5%	97.8%	98.1%	105.1%	105.2%	104.9%	
Two years later	94.1%	99.3%	98.5%	105.9%	104.6%	96.3%	100.1%	105.1%	111.3%		
Three years later	97.4%	99.9%	103.9%	105.2%	102.9%	97.4%	99.0%	109.9%			
Four years later	98.9%	109.4%	103.1%	103.6%	105.4%	96.0%	102.6%				
Five years later	109.7%	109.0%	102.9%	106.9%	105.7%	99.2%					
Six years later	108.8%	108.5%	106.8%	107.7%	108.1%						
Seven years later	108.5%	115.3%	107.7%	109.8%							

Eight years later	115.5%	116.4%	109.6%
Nine years later	116.6%	116.8%	
Ten years later	116.8%		

Cumulative deficiency

(redundancy):

Aggregate	<u>16.8%</u>	<u>16.8%</u>	<u>9.6%</u>	<u>9.8%</u>	<u>8.1%</u>	<u>(0.8%)</u>	<u>2.6%</u>	<u>9.9%</u>	<u>11.3%</u>	<u>4.9%</u>	<u>N/A</u>
Excluding the 2002 A.P. Green settlement charge and special A&E charges and reallocations in 1994, 1996, 1998 and 2001	<u>(7.2%)</u>	<u>(4.1%)</u>	<u>(2.8%)</u>	<u>(0.2%)</u>	<u>(1.8%)</u>	<u>(4.8%)</u>	<u>(1.4%)</u>	<u>5.8%</u>	<u>10.4%</u>	<u>4.9%</u>	<u>N/A</u>

Cumulative paid as of:

One year later	25.2%	26.8%	33.1%	33.8%	41.7%	28.3%	34.8%	38.3%	33.6%	43.1%
Two years later	40.6%	42.5%	51.6%	58.0%	56.6%	51.7%	52.7%	52.2%	62.9%	
Three years later	50.9%	54.4%	67.2%	66.7%	70.8%	62.4%	60.0%	71.4%		
Four years later	59.1%	66.3%	72.0%	77.3%	78.6%	65.6%	72.5%			
Five years later	68.0%	69.8%	80.4%	82.8%	81.1%	73.9%				
Six years later	70.8%	80.0%	84.7%	84.6%	86.9%					
Seven years later	80.6%	84.9%	86.0%	89.6%						
Eight years later	85.1%	86.1%	90.3%							
Nine years later	86.3%	89.2%								
Ten years later	89.2%									

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

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
As originally estimated:											
Net liability shown above	\$2,113	\$2,187	\$3,393	\$3,404	\$3,489	\$3,305	\$3,224	\$3,192	\$3,253	\$3,400	\$2,850
Add reinsurance recoverables	<u>611</u>	<u>730</u>	<u>704</u>	<u>720</u>	<u>736</u>	<u>1,468</u>	<u>1,571</u>	<u>1,324</u>	<u>1,525</u>	<u>1,804</u>	<u>2,059</u>
Gross liability	<u>\$2,724</u>	<u>\$2,917</u>	<u>\$4,097</u>	<u>\$4,124</u>	<u>\$4,225</u>	<u>\$4,773</u>	<u>\$4,795</u>	<u>\$4,516</u>	<u>\$4,778</u>	<u>\$5,204</u>	<u>\$4,909</u>
As re-estimated at December 31, 2003:											
Net liability shown above	\$2,467	\$2,553	\$3,719	\$3,739	\$3,771	\$3,278	\$3,308	\$3,506	\$3,621	\$3,567	
Add reinsurance recoverables	<u>958</u>	<u>1,024</u>	<u>1,122</u>	<u>1,137</u>	<u>1,217</u>	<u>1,785</u>	<u>1,933</u>	<u>1,758</u>	<u>1,913</u>	<u>1,949</u>	
Gross liability	<u>\$3,425</u>	<u>\$3,577</u>	<u>\$4,841</u>	<u>\$4,876</u>	<u>\$4,988</u>	<u>\$5,063</u>	<u>\$5,241</u>	<u>\$5,264</u>	<u>\$5,534</u>	<u>\$5,516</u>	<u>N/A</u>
Gross cumulative deficiency (redundancy)	<u>25.6%</u>	<u>22.7%</u>	<u>18.2%</u>	<u>18.2%</u>	<u>18.1%</u>	<u>6.1%</u>	<u>9.3%</u>	<u>16.6%</u>	<u>15.8%</u>	<u>6.0%</u>	<u>N/A</u>

These tables do not present accident or policy year development data. Furthermore, in evaluating the re-estimated liability and cumulative deficiency (redundancy), it should be noted that each percentage includes the effects of changes in amounts for prior periods. For example, AFG's \$100 million special charge for A&E claims related to losses recorded in 2001, but incurred before 1993, is included in the re-estimated liability and cumulative deficiency (redundancy) percentage for each of the previous years shown. Conditions and trends that have affected development of the liability in the past may not necessarily exist in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

Much of the adverse development in the tables is due to A&E exposures for which AFG has been held liable under general liability policies written years ago, even though such coverage was not intended. Other factors affecting development included higher than projected inflation on medical, hospitalization, material, repair and replacement costs. Additionally, changes in the legal environment, including changes in state insurance laws and regulations have influenced the development patterns over the past ten years.

The differences between the liability for losses and LAE reported in the annual statements filed with the state insurance departments in accordance with statutory accounting principles ("SAP") and that reported in the accompanying consolidated financial statements in accordance with GAAP at December 31, 2003 are as follows (in millions):

Liability reported on a SAP basis, net of \$195 million	
of retroactive reinsurance	\$2,840
Additional discounting of GAAP reserves in excess of the statutory limitation for SAP reserves	(13)
Reserves for foreign operations	15
Reinsurance recoverables, net of allowance	2,059
Reclassification of allowance for uncollectible Reinsurance	<u>8</u>
Liability reported on a GAAP basis	<u>\$4,909</u>

**Asbestos and Environmental Reserves ("A&E")** In addressing asbestos and environmental reserves, the insurance industry typically includes claims relating to polluted waste sites and asbestos as well as other mass tort claims such as those relating to breast implants, repetitive stress on keyboards, lead, DES (a drug used in pregnancies years ago alleged to cause cancer and birth defects) and other latent injuries.

Establishing reserves for A&E claims is subject to uncertainties that are significantly greater than those presented by other types of claims. For a discussion of these uncertainties, see *Management's Discussion and Analysis - "Uncertainties - Asbestos and Environmental-related Reserves"*, and *"Special A&E Charge" and Note N - "Commitments and Contingencies" to the Financial Statements*.

The survival ratio, which is an industry measure of A&E claim reserves, is derived by dividing reserves for A&E exposures by annual paid losses. At December 31, 2003, AFG's three year survival ratio (excluding Transport, which is expected to be sold in 2004 and amounts associated with the A.P. Green settlement) is approximately 11.9 times paid losses for the remaining asbestos reserves and 9.6 times paid losses for total A&E reserves. In October 2003, A.M. Best reported its estimate that the property and casualty insurance industry's three year survival ratio for A&E reserves was approximately 8.7 times paid losses at December 31, 2002.

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The following table (in millions) is a progression of A&E reserves.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reserves at beginning of year	\$466.7	\$446.8	\$357.7
Incurred losses and LAE (a)	0.1	48.6	108.0
Paid losses and LAE	(43.5)	(28.7)	(28.1)
Reserves not classified as A&E prior to 2001:			
Reserves	-	-	1.4
Allowance for uncollectible reinsurance applicable to ceded A&E reserves	-	-	7.8
Reserves at end of year, net of reinsurance recoverable (b)	423.3	466.7	446.8
Reinsurance recoverable, net of allowance	<u>92.0</u>	<u>105.1</u>	<u>101.4</u>
Gross reserves at end of year (b)	<u>\$515.3</u>	<u>\$571.8</u>	<u>\$548.2</u>

(a) Includes \$30 million in 2002 related to the settlement of the A.P. Green asbestos litigation and a special charge of \$100 million in 2001.

(b) Includes \$51.9 million in 2003 in net reserves (\$70.4 million gross) of Transport Insurance Company, which is expected to be sold in 2004.

## Annuity and Life Operations

### General

AFG's annuity and life operations are conducted through Great American Financial Resources, Inc. ("GAFRI"), a holding company which markets retirement products, primarily fixed and variable annuities, and various forms of life and supplemental health insurance through the following subsidiaries which were acquired in the years shown. GAFRI and its subsidiaries employ approximately 1,500 persons.

Great American Life Insurance Company ("GALIC") - 1992(\*)  
 Annuity Investors Life Insurance Company ("AILIC") - 1994  
 Loyal American Life Insurance Company ("Loyal") - 1995  
 Great American Life Assurance Company of Puerto Rico ("GAPR") - 1997  
 United Teacher Associates Insurance Company ("UTA") - 1999  
 Manhattan National Life Insurance Company ("MNL") - 2002

(\*) Acquired from Great American Insurance.

Acquisitions in recent years have supplemented GAFRI's internal growth as the assets of the holding company and its operating subsidiaries have increased from \$4.5 billion at the end of 1992 to \$10.2 billion at the end of 2003. Premiums over the last three years were as follows (in millions):

<u>Insurance Product</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annuities	\$ 869	\$1,001	\$ 751
Life and supplemental health	<u>335</u>	<u>313</u>	<u>310</u>
	<u>\$1,204</u>	<u>\$1,314</u>	<u>\$1,061</u>

### Annuities

GAFRI's principal retirement products are Flexible Premium Deferred Annuities ("FPDAs") and Single Premium Deferred Annuities ("SPDAs"). Annuities are long-term retirement saving instruments that benefit from income accruing on a tax-deferred basis. The issuer of the annuity collects premiums, credits interest or earnings on the policy and pays out a benefit upon death, surrender or annuitization. FPDAs are characterized by premium payments that are flexible in both amount and timing as determined by the policyholder and are generally made through payroll deductions. SPDAs are generally issued in exchange for a one-time lump-sum premium payment.

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The following table (in millions) presents combined financial information of GAFRI's principal annuity operations.

2003      2002      2001

GAAP Basis

Total assets	\$8,663	\$8,014	\$7,456
Fixed annuity benefits accumulated	6,492	6,111	5,632
Variable annuity liabilities	568	455	530
Stockholder's equity	1,220	1,139	1,023

Statutory Basis

Total assets	\$7,889	\$7,319	\$6,896
Fixed annuity reserves	6,578	6,192	5,729
Variable annuity liabilities	568	455	530
Capital and surplus	515	419	388
Asset valuation reserve (a)	53	63	79
Interest maintenance reserve (a)	22	27	11

## Fixed annuity receipts:

## Flexible premium:

First year	\$ 34	\$ 29	\$ 24
Renewal	<u>114</u>	<u>106</u>	<u>105</u>
	148	135	129

Single premium	<u>556</u>	<u>639</u>	<u>392</u>
Total fixed annuity receipts	<u>\$ 704</u>	<u>\$ 774</u>	<u>\$ 521</u>

## Variable annuity receipts:

## Flexible premium:

First year	\$ 9	\$ 16	\$ 30
Renewal	<u>65</u>	<u>71</u>	<u>62</u>
	74	87	92

Single premium	<u>48</u>	<u>95</u>	<u>107</u>
Total variable annuity receipts	<u>\$ 122</u>	<u>\$ 182</u>	<u>\$ 199</u>

(a) Allocation of surplus.

Sales of annuities, including renewal premiums, are affected by many factors, including: (i) competitive annuity products and rates; (ii) the general level of interest rates; (iii) the favorable tax treatment of annuities; (iv) commissions paid to agents; (v) services offered; (vi) ratings from independent insurance rating agencies; (vii) other alternative investments; (viii) performance of the equity markets and (ix) general economic conditions. At December 31, 2003, GAFRI had over 335,000 annuity policies in force.

Annuity contracts are generally classified as either fixed rate (including equity-indexed) or variable. The following table presents premiums by classification:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Premiums</u>			
Traditional fixed	85%	77%	68%
Variable	14	18	27
Equity-indexed	<u>1</u>	<u>5</u>	<u>5</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

With a traditional fixed rate annuity, the interest crediting rate is initially set by the issuer and thereafter may be changed from time to time by the issuer subject to any guaranteed minimum interest crediting rates or any guaranteed term in the policy.

GAFRI seeks to maintain a desired spread between the yield on its investment portfolio and the rate it credits to its fixed rate annuities. GAFRI accomplishes this by: (i) offering crediting rates which it has the option to change after any initial guarantee period; (ii) designing annuity products that encourage persistency and (iii) maintaining an appropriate matching of assets and liabilities. GAFRI designs its products with certain provisions to encourage policyholders to maintain their funds with GAFRI for at least five to ten years.

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The majority of GAFRI's fixed annuity products permit GAFRI to change the crediting rate at any time, subject to minimum guarantee rates (as determined by applicable law). In the fourth quarter of 2003, GAFRI began issuing products with guaranteed minimum crediting rates of less than 3% in states where required approvals have been received. At December 31, 2003, less than 1% of annuity benefits accumulated related to these new policies. Approximately half of the annuity benefits accumulated relate to policies that have a minimum guarantee of 3%; the majority of the balance have a guarantee of 4%. Historically, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. The recent interest rate environment has resulted in a spread compression, which could continue through at least 2004.

In addition to traditional fixed rate annuities, GAFRI offers variable annuities. Industry sales of such annuities increased substantially in the 1990's as investors sought to obtain the returns available in the equity markets while enjoying the tax-deferred status of annuities. With a variable annuity, the earnings credited to the policy vary based on the investment results of the underlying investment options chosen by the policyholder, generally without any guarantee of principal except in the case of death of the insured annuitant. Premiums directed to the variable options in policies issued by GAFRI are invested in funds maintained in separate accounts managed by various independent investment managers. GAFRI earns a fee on amounts deposited into variable accounts. Subject to contractual provisions, policyholders may also choose to direct all or a portion of their premiums to various fixed rate options, in which case GAFRI earns a spread on amounts deposited. With the downturn in the stock market during 2000 through 2002, industry-wide sales of variable annuities, including GAFRI's sales, have decreased substantially.

An equity-indexed fixed annuity provides policyholders with a crediting rate tied, in part, to the performance of an existing stock market index while protecting them against the related downside risk through a guarantee of principal. In 2002, GAFRI chose to suspend new sales of equity-indexed annuities due primarily to a lack of volume.

In 2003, 2002 and 2001, 19%, 15% and 17%, respectively, of GAFRI's annuity premiums came from California. In 2001, 13% of the annuity premiums came from Ohio. No other state accounted for more than 10% of premiums in those years.

GAFRI's FPDAs are sold primarily to employees of not-for-profit and commercial organizations who are eligible to save for retirement through contributions made on a before-tax or after-tax basis. Contributions are made at the discretion of the participants through payroll deductions or through tax-free "rollovers" of funds from other qualified investments. Federal income taxes are not payable on pretax contributions or earnings until amounts are withdrawn.

GAFRI distributes its fixed rate products primarily through a network of 130 managing general agents ("MGAs") who, in turn, direct approximately 1,600 actively producing independent agents. The top 15 MGAs accounted for more than two-thirds of GAFRI's fixed rate annuity premiums in 2003. No one MGA represented more than 10% of total fixed annuity premiums in 2003. In addition, GAFRI offers all of its annuity product lines through financial institutions. Sales of annuities through financial institutions were approximately 3% of total annuity premiums in 2003.

In 2002, GAFRI exited the highly competitive single premium, non-qualified segment of the variable annuity market due primarily to insufficient returns and a lack of critical mass. GAFRI offers its variable annuity as an ancillary product solely through its fixed annuity sales channels. Nearly one-half of GAFRI's variable annuity sales in 2003 were made through a wholly-owned subsidiary, Great American Advisors, Inc. ("GAA"). GAA is a broker/dealer licensed in all 50 states to sell stocks, bonds, options, mutual funds and variable insurance contracts through independent representatives and financial institutions. GAA also acts as the principal underwriter and distributor for GAFRI's variable annuity products.

#### Life and Supplemental Insurance

GAFRI offers a variety of life and supplemental health products through GALIC's life operations, MNL, Loyal, GAPR and UTA. This group produced \$335 million of statutory premiums in 2003.

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GALIC has offered traditional term, universal and whole life insurance products through national marketing organizations. Beginning in May 2004, GALIC will suspend new sales in this business due to inadequate volume and returns. GALIC will continue to service its in-force block of over 140,000 policies and \$27 billion gross (\$11 billion net) of life insurance in force.

GAFRI has reinsured 90% of MNL's business in force. While MNL is no longer writing new policies, as of December 31, 2003, it had approximately 75,000 life policies and \$10 billion gross (\$700 million net) of life insurance in force (primarily term life).

UTA offers a variety of supplemental health products and annuities through independent agents. UTA's principal health products include coverage for Medicare supplement, cancer and long-term care.

Loyal offers a variety of supplemental health and life products. The principal products sold by Loyal include cancer, accidental injury, short-term disability, hospital indemnity, universal life and traditional whole life. In 2001, Loyal reinsured a substantial portion of its life insurance business and reduced its marketing efforts in that line of business. In 2002, Loyal's remaining operations were combined with UTA's operations.

At year-end 2003, GAFRI's operating units writing supplemental insurance products had assets of more than \$850 million and approximately 370,000 policies with annualized health premiums in force of more than \$225 million and gross life insurance in force of \$1.4 billion.

GAPR sells in-home service life and supplemental health products through a network of company-employed agents. Ordinary life, cancer, credit and group life products are sold through independent agents.

#### Independent Ratings

GAFRI's principal insurance subsidiaries are rated by A.M. Best and Standard & Poor's. In addition, GALIC is rated A+ (strong) by Fitch and A3 (good financial security) by Moody's. Such ratings are generally based on concerns of policyholders and agents and are not directed toward the protection of investors. Following are the ratings as of March 1, 2004:

	<u>A.M. Best</u>	<u>Standard &amp; Poor's</u>
GALIC	A (Excellent)	A-(Strong)
AILIC	A (Excellent)	A-(Strong)
Loyal	A (Excellent)	Not rated
UTA	A-(Excellent)	Not rated
GAPR	A (Excellent)	Not rated

GAFRI believes that the ratings assigned by independent insurance rating agencies are important because potential policyholders often use a company's rating as an initial screening device in considering annuity products. GAFRI believes that (i) a rating in the "A" category by A.M. Best is necessary to successfully market tax-deferred annuities to public education employees and other not-for-profit groups and (ii) a rating in the "A" category by at least one rating agency is necessary to successfully compete in other annuity markets.

GAFRI's operations could be materially and adversely affected by ratings downgrades. In connection with recent reviews by independent rating agencies, management indicated that it intends to maintain lower ratios of debt to capital than it has in recent years and intends to maintain the capital of its significant insurance subsidiaries at levels currently indicated by the rating agencies as appropriate for the current ratings. Items which could adversely affect capital levels include (i) a sustained decrease in the stock market; (ii) a significant period of low interest rates and a resulting significant narrowing of annuity "spread" (the difference between earnings received by GAFRI on its investments less amount credited to policyholders' annuity accounts); (iii) investment impairments; (iv) adverse mortality, and; (v) higher than planned dividends paid due to liquidity needs of GAFRI's holding companies.

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#### Competition

GAFRI's insurance companies operate in highly competitive markets. They compete with other insurers and financial institutions based on many factors, including: (i) ratings; (ii) financial strength; (iii) reputation; (iv) service to policyholders and agents; (v) product design (including interest rates credited and premium rates charged); (vi) commissions; and (vii) number of school districts a company has approval to sell in. Since policies are marketed and distributed primarily through independent agents (except at GAPR), the insurance companies must also compete for agents.

No single insurer dominates the markets in which GAFRI's insurance companies compete. Competitors include (i) individual insurers and insurance groups, (ii) mutual funds and (iii) other financial institutions. In a broader sense, GAFRI's insurance companies compete for retirement savings with a variety of financial institutions offering a full range of financial services. Financial institutions have demonstrated a growing interest in marketing investment and savings products other than traditional deposit accounts.

## Other Companies

Through subsidiaries, AFG is engaged in a variety of other operations, including The Golf Center at Kings Island in the Greater Cincinnati area; commercial real estate operations in Cincinnati (office buildings and The Cincinnati Hotel), New Orleans (Le Pavillon Hotel), Cape Cod (Chatham Bars Inn), Austin (Driskill Hotel), Chesapeake Bay (Skipjack Cove Yachting Resort), Charleston (Charleston Harbor Resort and Marina) and apartments in Louisville, Pittsburgh, St. Paul and Tampa Bay. These operations employ approximately 700 full-time employees.

## Investment Portfolio

**General** The following tables present the percentage distribution and yields of AFG's investment portfolio (excluding investment in equity securities of investee corporations) as reflected in its financial statements.

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Cash and Short-term Investments	4.3%	6.4%	4.5%	3.8%	3.5%
Fixed Maturities - Available-for-sale:					
U.S. Government and Agencies	10.2	10.3	8.4	4.8	4.9
State and Municipal	7.0	4.5	3.4	3.7	2.6
Public Utilities	7.7	7.7	6.5	5.6	5.0
Mortgage-Backed Securities	24.5	23.7	22.4	23.2	21.7
Corporate and Other	37.6	41.2	47.9	50.7	53.7
Redeemable Preferred Stocks	<u>.5</u>	<u>.5</u>	<u>.4</u>	<u>.5</u>	<u>.6</u>
	87.5	87.9	89.0	88.5	88.5
Fixed Maturities - Trading	1.4	-	-	-	-
Other Stocks, Options and Warrants	3.3	2.2	2.6	3.4	3.7
Policy Loans	1.6	1.6	1.7	1.9	1.9
Real Estate and Other Investments	<u>1.9</u>	<u>1.9</u>	<u>2.2</u>	<u>2.4</u>	<u>2.4</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### Yield on Fixed Income Securities (a):

Excluding realized gains and losses	6.2%	7.2%	7.6%	7.7%	7.7%
Including realized gains and losses	6.6%	6.6%	7.5%	7.4%	7.6%

### Yield on Stocks (a):

Excluding realized gains and losses	6.5%	5.4%	4.5%	5.0%	5.9%
Including realized gains and losses	10.1%	(4.6%)	(.3%)	3.9%	20.7%

### Yield on Investments (a)(b):

Excluding realized gains and losses	6.2%	7.1%	7.6%	7.6%	7.7%
Including realized gains and losses	6.6%	6.5%	7.4%	7.4%	7.9%

(a) Based on amortized cost; excludes effects of changes in unrealized gains.

(b) Excludes "Real Estate and Other Investments".

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The table below compares total returns on AFG's fixed income and equity securities to comparable public indices. While there are no directly comparable indices to AFG's portfolio, the two shown below are widely used benchmarks in the industry. Both AFG's performance and the indices include changes in unrealized gains and losses.

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Yield on AFG's fixed income securities	6.3%	9.2%	8.8%	9.8%	1.6%
Lehman Universal Bond Index	5.8%	9.8%	8.1%	10.8%	0.2%
Yield on AFG's equity securities	45.7%	(4.6%)	(46.3%)	18.1%	1.8%
Standard & Poors 500 Index	28.7%	(22.1%)	(11.9%)	(9.1%)	21.0%

## Fixed Maturity Investments

AFG's bond portfolio is invested primarily in taxable bonds. The NAIC assigns quality ratings which range from Class 1 (highest quality) to Class 6 (lowest quality). The following table shows AFG's bonds and redeemable preferred stocks, by NAIC designation (and comparable Standard & Poor's Corporation rating) as of December 31, 2003 (dollars in millions).

NAIC Rating	Comparable S&P Rating	Amortized Cost	Market Value	
			Amount	%
1	AAA, AA, A	\$ 8,927	\$ 9,135	75%
2	BBB	<u>2,039</u>	<u>2,147</u>	<u>18</u>
	Total investment grade	<u>10,966</u>	<u>11,282</u>	<u>93</u>
3	BB	321	340	3
4	B	310	326	3
5	CCC, CC, C	93	113	1
6	D	<u>34</u>	<u>41</u>	<u>*</u>
	Total noninvestment grade	<u>758</u>	<u>820</u>	<u>7</u>
	Total	<u>\$11,724</u>	<u>\$12,102</u>	<u>100%</u>

(\*) Less than 1%

Risks inherent in connection with fixed income securities include loss upon default and market price volatility. Factors which can affect the market price of securities include: creditworthiness, changes in interest rates, the number of market makers and investors and defaults by major issuers of securities.

AFG's primary investment objective for fixed maturities is to earn interest and dividend income rather than to realize capital gains. AFG invests in bonds and redeemable preferred stocks that have primarily intermediate-term maturities. This practice allows flexibility in reacting to fluctuations of interest rates.

## **Equity Investments**

At December 31, 2003, AFG held \$455 million in stocks; approximately 50% represents an investment in Provident Financial Group, Inc., a Cincinnati-based commercial banking and financial services company. Such an equity investment, because of its size, may not be as readily marketable as the typical small investment position. Alternatively, a large equity position may be attractive to persons seeking to control or influence the policies of a company. In February 2004, Provident announced that it was being acquired by National City Corporation. If this transaction is completed, AFG will receive 8.1 million shares (\$290 million market value at March 1, 2004) of National City in exchange for its investment in Provident.

## **Foreign Operations**

AFG sells life and supplemental health products in Puerto Rico and property and casualty products in Mexico, Canada and Europe. Less than 4% of AFG's revenues and costs and expenses are derived from sources outside of the United States.

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## **Regulation**

AFG's insurance company subsidiaries are subject to regulation in the jurisdictions where they do business. In general, the insurance laws of the various states establish regulatory agencies with broad administrative powers governing, among other things, premium rates, solvency standards, licensing of insurers, agents and brokers, trade practices, forms of policies, maintenance of specified reserves and capital for the protection of policyholders, deposits of securities for the benefit of policyholders, investment activities and relationships between insurance subsidiaries and their parents and affiliates. Material transactions between insurance subsidiaries and their parents and affiliates generally must be disclosed and prior approval of the applicable insurance regulatory authorities generally is required for any such transaction which may be deemed to be material or extraordinary. In addition, while differing from state to state, these regulations typically restrict the maximum amount of dividends that may be paid by an insurer to its shareholders in any twelve-month period without advance regulatory approval. Such limitations are generally based on net earnings or statutory surplus. Under applicable restrictions, the maximum amount of dividends available to AFG in 2004 from its insurance subsidiaries without seeking regulatory clearance is approximately \$181 million.

Changes in state insurance laws and regulations have the potential to materially affect the revenues and expenses of the insurance operations. For example, in the mid-1990s, workers' compensation insurance premium rates were adversely affected by the introduction of an open rating law. The effects of this law as well as a deterioration in loss experience led to significant rate increases which prompted the California Legislature to enact workers' compensation legislation in 2003 that focused primarily on limiting certain medical provider fees in order to reduce but not eliminate increasing costs to employers and insurers. Projected savings from this legislation, however, are to be taken into account in setting new rates in 2004. The California Insurance Commissioner has recommended a decrease in workers' compensation rates of 14.9%, which was higher than was anticipated at the time the legislation was enacted. The impact to the company is uncertain because the Insurance Department has not yet finalized the regulations and procedures implementing the legislation. The Company is unable to predict whether or when other state insurance laws or regulations may be adopted or enacted or what the impact of such developments would be on the future operations and revenues of its insurance businesses.

Most states have created insurance guaranty associations to provide for the payment of claims of insurance companies that become insolvent. Annual assessments for AFG's insurance companies have not been material.

The NAIC is an organization which is comprised of the chief insurance regulator for each of the 50 states and the District of Columbia. The NAIC model law for Risk Based Capital applies to both life and property and casualty companies. The risk-based capital formulas determine the amount of capital that an insurance company needs to ensure that it has an acceptably low expectation of becoming financially impaired. The model law provides for increasing levels of regulatory intervention as the ratio of an insurer's total adjusted capital and surplus decreases relative to its risk-based capital, culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called "mandatory control level". At December 31, 2003, the capital ratios of all operating AFG insurance companies substantially exceeded the risk-based capital requirements.

The federal fiscal year budget for 2005 contains several proposals designed to increase private savings by simplifying and consolidating current retirement savings vehicles. Included is one proposal to consolidate 401(k), 403(b) and governmental 457 plans, as well as certain other retirement accounts, into one plan. It is too early to predict the specific proposals which might be included in any legislation to be introduced, whether such legislation would become law, or their impact if adopted.

Various competitors, schools and other entities have proposed measures that would restrict product designs and the number of companies qualified to sell annuities to teachers. In addition, certain school districts have proposed charging policy fees to annuity providers. While efforts in these areas have been largely unsuccessful to date, widespread acceptance of such measures could negatively impact

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GAFRI's annuity operations to the extent GAFRI's access to school districts is limited or reduced, and to the extent policy fees are not recovered by GAFRI.

## **ITEM 2**

### **Properties**

Subsidiaries of AFG own several buildings in downtown Cincinnati. AFG and its affiliates occupy about three-fourths of the aggregate 675,000 square feet of commercial and office space.

AFG's insurance subsidiaries lease the majority of their office and storage facilities in numerous cities throughout the United States, including Great American's and GAFRI's home offices in Cincinnati. A GAFRI subsidiary owns a 40,000 square foot office building in Austin, Texas, most of which is used by the company for its operations.

AFG subsidiaries own transferable rights to develop approximately 1.3 million square feet of floor space in the Grand Central Terminal area in New York City. The development rights were derived from ownership of the land upon which the terminal is constructed. Since the beginning of 1999, AFG has sold approximately 420,000 square feet of such air rights for total consideration of \$22.2 million.

## **ITEM 3**

### **Legal Proceedings**

Please refer to "Forward-Looking Statements" following the Index in front of this Form 10-K.

AFG and its subsidiaries are involved in various litigation, most of which arose in the ordinary course of business, including litigation alleging bad faith in dealing with policyholders and challenging certain business practices of insurance subsidiaries. Except for the following, management believes that none of the litigation meets the threshold for disclosure under this Item.

AFG's insurance company subsidiaries and American Premier are parties to litigation and receive claims asserting alleged injuries and damages from asbestos, environmental and other substances and workplace hazards and have established loss accruals for such potential liabilities. The ultimate loss for these claims may vary materially from amounts currently recorded as the conditions surrounding resolution of these claims continue to change.

American Premier is a party or named as a potentially responsible party in a number of proceedings and claims by regulatory agencies and private parties under various environmental protection laws, including the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), seeking to impose responsibility on American Premier for hazardous waste or discharge remediation costs at certain railroad sites formerly owned by its predecessor, Penn Central Transportation Company ("PCTC"), and at certain other sites where hazardous waste or discharge allegedly generated by PCTC's railroad operations and APU's former manufacturing operations is present. It is difficult to estimate American Premier's liability for remediation costs at these sites for a number of reasons, including the number and financial resources of other potentially responsible parties involved at a given site, the varying availability of evidence by which to allocate responsibility among such parties, the wide range of costs for possible remediation alternatives, changing technology and the period of time over which these matters develop. Nevertheless, American Premier believes that its accruals for potential environmental liabilities are adequate to cover the probable amount of such liabilities, based on American Premier's estimates of remediation costs and related expenses and its estimates of the portions of such costs that will be borne by other parties. Such estimates are based on information currently available to American Premier and are subject to future change as additional information becomes available. American Premier seeks reimbursement from certain insurers for portions of whatever remediation costs it incurs.

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As previously reported, Great American Insurance Company and certain other insurers were parties to asbestos-related coverage litigation under insurance policies issued during the 1970's and 1980's to Bigelow-Liptak Corporation and related companies, subsequently known as A.P. Green Industries, Inc. ("A.P. Green"). These claims alleged that the refractory materials manufactured, sold or installed by A.P. Green contained asbestos and resulted in bodily injury from exposure to asbestos. A.P. Green sought to recover defense and indemnity expenses related to those claims from a number of insurers, including Great American, and in an effort to maximize coverage asserted that Great American's policies were not subject to aggregate limits on liability, and that each insurer was liable for all sums that A.P. Green became legally obliged to pay.

In February 2002, A.P. Green filed petitions for bankruptcy under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Western District of Pennsylvania (In Re Global Industrial Technologies, Inc., et al, filed February 14, 2002).

In February 2003, Great American Insurance Company entered into an agreement for the settlement of coverage litigation related to A.P. Green asbestos claims. The settlement is for \$123.5 million (Great American has the option to pay in cash or over time with 5.25% interest), all but \$30 million of which will be covered by reserves established prior to September 30, 2002, and anticipated reinsurance recoverables. The remaining \$30 million was recorded as of December 31, 2002. The agreement allows up to 10% of the settlement to be paid in AFG Common Stock. During the third quarter of 2003, a revised settlement agreement was executed and shortly thereafter approved by the Bankruptcy Court supervising the A.P. Green reorganization. The revised settlement agreement is conditioned upon confirmation of a plan of reorganization that includes an injunction prohibiting the assertion against Great American of any present or future asbestos personal injury claims under policies issued to A.P. Green and related companies. No assurance can be made that all conditions will be met; no payments are required until completion of the process. If the conditions are not met, the outcome of this litigation will again be subject to the complexities and uncertainties associated with a Chapter 11 proceeding and asbestos coverage litigation. Fireman's Fund Insurance Company and Royal Insurance Company of America have filed Third Party Complaints in the United States Bankruptcy Court for the Western District of Pennsylvania for declaratory relief against Great American arising out of their ongoing coverage dispute with A.P. Green. The Parties seek a declaration of whether Great American and the other settling insurers owe any obligations to the non-settling insurers under doctrines of equitable subrogation, equitable contribution or equitable indemnity. This was not unexpected and provisions were included in Great American's settlement agreement with A.P. Green to address this contingency.

In October 2003, Republic Insurance Company of America, a wholly-owned subsidiary of AFG, entered into an agreement for the settlement of litigation brought in late 1994 by several medical groups. The lawsuit (NPI Medical Group, a California professional corporation, et al., v. State Compensation Insurance Fund, et al., Superior Court of California, County of Los Angeles) alleged antitrust violations by a number of California workers' compensation insurers, including Republic. While Republic believed it had significant defenses to these antitrust claims, in light of the risks resulting from certain adverse pretrial rulings, it concluded a settlement was in its best interest. The settlement was for \$37.5 million, a portion of which was covered by reserves previously established. In September 2003, Republic recorded a \$35.5 million charge to cover the balance of the settlement and remaining legal costs.

UTA was a defendant in the class action lawsuit (Peggy Berry, et al. v. United Teacher Associates Insurance Company, Travis County District Court, Case No. GN100461, filed February 11, 2001). The complaint sought unspecified damages based on the alleged misleading disclosure of UTA's interest crediting practices on its fixed rate annuities and various other allegations with respect to the marketing and administration of those annuities. This case was settled based on the agreement of UTA to make certain changes in its business practices with respect to fixed annuities and to pay the attorneys' fees of counsel for the plaintiffs. Settlement of this matter did not have a material impact on UTA or its financial results.

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**PART II**

**ITEM 5**

**Market for Registrant's Common Equity and Related Stockholder Matters**

Please refer to "Forward-Looking Statements" following the Index in front of this Form 10-K.

AFG Common Stock has been listed and traded on the New York Stock Exchange under the symbol AFG. The information presented in the table below represents the high and low sales prices per share reported on the NYSE Composite Tape.

	2003		2002	
	High	Low	High	Low
First Quarter	\$24.21	\$18.00	\$28.81	\$22.85
Second Quarter	23.90	19.27	30.30	22.51
Third Quarter	23.77	21.27	26.30	17.90
Fourth Quarter	26.70	21.68	24.80	20.82

There were approximately 13,300 shareholders of record of AFG Common Stock at March 1, 2004. In 2003 and 2002, AFG declared and paid quarterly dividends of \$.125 per share. The ability of AFG to pay dividends will be dependent upon, among other things, the availability of dividends and payments under intercompany tax allocation agreements from its insurance company subsidiaries.

#### Equity Compensation Plan Information

The following reflects certain information about shares of AFG Common Stock authorized for issuance (at December 31, 2003) under compensation plans.

	Number of securities to be issued upon exercise of	Weighted-average exercise price of	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)).
<u>Equity Compensation Plans</u>	<u>outstanding options</u> (a)	<u>outstanding options</u> (b)	<u>reflected in column (a).</u> (c)
Approved by shareholders	7,715,656	\$26.56	4,193,536 (1)
Not approved by shareholders	none	n/a	494,560 (2)

(1) Includes options exercisable into 1.9 million shares available for issuance under AFG's Stock Option Plan, 2.2 million shares issuable under AFG's Employee Stock Purchase Plan and 73,537 shares issuable under AFG's Nonemployee Directors' Compensation Plan.

(2) Represents shares issuable under AFG's Deferred Compensation Plan. Under this Plan, certain highly compensated employees of AFG and its subsidiaries may defer up to 80% of their annual salary and/or bonus. Participants may elect to have the value of deferrals (i) earn a fixed rate of interest, set annually by the Board of Directors, or (ii) fluctuate based on the market value of AFG Common Stock, as adjusted to reflect stock splits, distributions, dividends, and a 7-1/2% match to participant deferrals.

#### ITEM 6

##### Selected Financial Data

The following table sets forth certain data for the periods indicated (dollars in millions, except per share data).

	2003	2002	2001	2000	1999
<u>Earnings Statement Data:</u>					
Total Revenues	\$3,360	\$3,745	\$3,919	\$3,816	\$3,360
Operating Earnings Before Income Taxes	301	176	86	110	302
Earnings (Loss) from Continuing Operations	321	124	15	(47)	147
Discontinued Operations (b)	(33)	1	(20)	-	-
Extraordinary Items	-	-	-	-	(2)
Cumulative Effect of Accounting Changes (a)	6	(40)	(10)	(9)	(4)
Net Earnings (Loss)	294	85	(15)	(56)	141
Basic Earnings (Loss) Per Common Share:					
Earnings (Loss) from Continuing Operations	\$4.53	\$1.80	\$.22	(\$.79)	\$2.45
Net Earnings (Loss) Available to Common Shares	4.14	1.23	(.22)	(.95)	2.37
Diluted Earnings (Loss) Per Common Share:					
Earnings (Loss) from Continuing Operations	\$4.51	\$1.79	\$.22	(\$.79)	\$2.43
Net Earnings (Loss) Available to Common Shares	4.12	1.22	(.22)	(.95)	2.35
Cash Dividends Paid Per Share of					
Common Stock	\$ .50	\$ .50	\$1.00	\$1.00	\$1.00
Ratio of Earnings to Fixed Charges (c):					
Including Annuity Benefits	1.69	1.36	1.13	1.18	1.71
Excluding Annuity Benefits	3.71	2.40	1.49	1.63	3.36
<u>Balance Sheet Data:</u>					
Total Assets	\$20,197	\$19,505	\$17,402	\$16,416	\$16,054
Long-term Debt:					
Holding Companies	586	648	609	585	493
Subsidiaries	251	297	271	195	240
Minority Interest	188	471	455	508	489
Shareholders' Equity	2,076	1,726	1,498	1,549	1,340

(a) Reflects the implementation in the following years of accounting changes mandated by recently enacted accounting standards:

- 2003 - FIN 46 (Consolidation of Variable Interest Entities)
- 2002 - SFAS #142 (Goodwill and Other Intangibles)
- 2001 - EITF 99-20 (Asset-backed Securities)
- 2000 - SFAS #133 (Derivatives)
- 1999 - SOP 98-5 (Start-up Costs)

(b) Reflects the results of Transport Insurance Company which is expected to be sold in 2004.

(c) Fixed charges are computed on a "total enterprise" basis. For purposes of calculating the ratios, "earnings" have been computed by adding to pretax earnings the fixed charges and the minority interest in earnings of subsidiaries having fixed charges and the undistributed equity in losses of investees. Fixed charges include interest (including or excluding interest credited to annuity policyholders' accounts as indicated), amortization of debt premium/discount and expense, preferred dividend and

distribution requirements of subsidiaries and a portion of rental expense deemed to be representative of the interest factor.

Although the ratio of earnings to fixed charges *excluding* interest on annuities is not required or encouraged to be disclosed under Securities and Exchange Commission rules, some investors and lenders may not consider interest credited to annuity policyholders' accounts a borrowing cost for an insurance company, and accordingly, believe this ratio is meaningful.

ITEM 7

Management's Discussion and Analysis  
of Financial Condition and Results of Operations

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INDEX TO MD&A

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Please refer to "Forward-Looking Statements" following the Index in front of this Form 10-K.

**GENERAL**

Following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of AFG's financial condition and results of operations. This discussion should be read in conjunction with the financial statements beginning on page F-1.

**OVERVIEW**

**Financial Condition**

AFG strengthened its capital and liquidity during 2003 with shareholders' equity growing by more than \$350 million (20%) to \$2.1 billion. Nearly half of this increase resulted from the elimination of a deferred tax liability following the merger of AFG and two subsidiary holding companies in November. In the merger, AFG issued 3.3 million common shares to retire all \$72 million of voting preferred stock of the subsidiary holding company, American Financial Corporation, thereby reducing annual dividends by over \$4 million.

AFG and its subsidiaries completed several major cash transactions in 2003, including the following:

- AFG received \$186 million on the February initial public offering of 61% of Infinity Property and Casualty, a former subsidiary engaged primarily in nonstandard automobile insurance.
- AFG received \$55 million in July 2003 from Infinity's repayment of a Note.
- AFG sold its remaining interest in Infinity for \$214 million in December.
- AFG issued over \$300 million in public debt in 2003 and repaid nearly \$400 million in bank debt during the year.

In addition, AFG and its subsidiaries issued just over \$200 million in debt during the first quarter of 2004 and used the proceeds primarily to retire higher coupon trust preferred securities.

**Results of Operations**

Through the operations of its subsidiaries, AFG is engaged primarily in property and casualty insurance and in the sale of retirement annuities, life and supplemental health insurance products. With the sale of Infinity, AFG narrowed the focus of its property and casualty business to its specialized commercial products for businesses.

The property and casualty business is cyclical in nature with periods of high competition resulting in low premium rates, sometimes referred to as a "soft market" or "downcycle" followed by periods of reduced competition and higher premium rates,

referred to as a "hard market" or "upcycle." The 1990's were a soft market period; prices started to harden in 2000 and accelerated significantly following the terrorist attacks in 2001. Rates have continued to rise into 2004, although the increases have moderated somewhat during the latter part of 2003.

As discussed in the following pages under "Results of Operations," the profitability of AFG's property and casualty business improved during the hard market despite the negative impact of adverse development on prior year claims and lower yields on newly invested funds.

The operating results of AFG's annuity, life and health business were negatively impacted in 2003 by the continued narrowing of spreads in its fixed annuity operations. This spread narrowing was partially offset by improved results in the other annuity, life and health operations.

AFG's net earnings for 2003 were \$294 million (\$4.12 per share). Included in net earnings were the following items, net of tax and minority interest:

- Tax benefits of \$141.5 million related primarily to the elimination of deferred tax reserves in connection with the merger of parent company subsidiaries.
- Net realized gains of \$50.8 million on the sale of securities, subsidiaries and investees.
- Charge of \$28.5 million for an arbitration decision relating to a 1995 property insurance claim.
- Litigation charge of \$23.1 million for a settlement within the California workers' compensation insurance business.

- Impairment provision of \$35.8 million (included in discontinued operations) related to the planned disposal of an inactive property and casualty subsidiary with approximately one-eighth of AFG's total asbestos and environmental liabilities.

## CRITICAL ACCOUNTING POLICIES

Significant accounting policies are summarized in Note A to the financial statements. The preparation of financial statements in conformity with generally accepted accounting principles 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 could change and thus impact amounts reported in the future. Management believes that the establishment of insurance reserves, especially asbestos and environmental-related reserves, and the determination of "other than temporary" impairment on investments are the two areas where the degree of judgment required to determine amounts recorded in the financial statements make the accounting policies critical. For further discussion of these policies, see "*Liquidity and Capital Resources - Investments*" and "*Liquidity and Capital Resources - Uncertainties*."

## LIQUIDITY AND CAPITAL RESOURCES

**Ratios** AFG's debt to total capital ratio (at the parent holding company level) was approximately 21% at December 31, 2003, compared to 25% at December 31, 2002.

AFG's ratio of earnings to fixed charges, including annuity benefits as a fixed charge, was 1.69 for the year ended December 31, 2003. Excluding annuity benefits, this ratio was 3.71 for 2003. Although the ratio excluding interest on annuities is not required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholder accounts is not always considered a borrowing cost for an insurance company.

The NAIC's model law for risk based capital ("RBC") applies to both life and property and casualty companies. RBC formulas determine the amount of capital that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. At December 31, 2003, the capital ratios of all AFG insurance companies substantially exceeded the RBC requirements (the lowest capital ratio of any operating AFG subsidiary was 3.7 times its authorized control level RBC; weighted average of all AFG subsidiaries was 5.1 times).

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**Sources of Funds** 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. Funds to meet these obligations come primarily from dividend and tax payments from its subsidiaries.

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

AFG's bank credit line consists of two facilities: a 364-day revolving facility, extendable annually, for one-third of the total line and a three-year revolving facility for the remaining two-thirds. Amounts borrowed bear interest at rates ranging from 1.25% to 2.25% over LIBOR based on AFG's credit rating. This credit agreement provides ample liquidity and can be used to obtain funds for operating subsidiaries or, if necessary, for the parent companies. About half of the net proceeds from the issuance of Senior Convertible Notes in June 2003 were used to repay borrowings under AFC's bank line. While the credit line provides up to \$280 million of availability, there were no borrowings outstanding at December 31, 2003.

All debentures issued by AFG and GAFRI are rated investment grade by three nationally recognized rating agencies. In February 2004, AFG issued \$115 million in 7-1/8% Debentures due 2034 under a shelf registration statement and called for redemption \$95.5 million in 9-1/8% trust preferred securities. Under a currently effective shelf registration statement, AFG can issue up to an aggregate of \$485 million in additional equity or debt securities. The shelf registration provides AFG with greater flexibility to access the capital markets from time to time as market and other conditions permit.

For statutory accounting purposes, equity securities of non-affiliates are generally carried at market value. At December 31, 2003, AFG's insurance companies owned publicly traded equity securities with a market value of \$451 million. In addition, Great American Insurance Company owns GAFRI common stock with a market value of \$626 million and a statutory carrying value of \$438 million. Decreases in market prices could adversely affect the insurance group's capital, potentially impacting the amount of dividends available or necessitating a capital contribution. Conversely, increases in market prices could have a favorable impact on the group's dividend-paying capability.

Under tax allocation agreements with AFG, its 80%-owned U.S. subsidiaries generally compute tax provisions as if filing separate returns based on book taxable income computed in accordance with generally accepted accounting principles. The resulting provision (or credit) is currently payable to (or receivable from) AFG.

**Contractual Obligations** At December 31, 2003, AFG's material contractual obligations in the next five years and for all years thereafter detailed by type of obligation were as follows (in millions):

<u>Contractual Obligations</u>	<u>Total</u>	<u>Within</u>			<u>More than</u>
		<u>One Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>5 Years</u>
Long-Term Debt	\$ 837.5	\$ 2.0	\$30.7	\$370.3	\$434.5
Payable to Subsidiary Trusts	265.5	-	-	-	265.5
Operating Leases	<u>117.5</u>	<u>36.1</u>	<u>47.0</u>	<u>21.1</u>	<u>13.3</u>
Total	<u>\$1,220.5</u>	<u>\$38.1</u>	<u>\$77.7</u>	<u>\$391.4</u>	<u>\$713.3</u>

The AFG Convertible Debentures issued in 2003 are included in the above table at the first put date (2008). AFG's Balance Sheet at December 31, 2003, includes estimated liabilities for claims and benefits payable related to its insurance operations. AFG expects operating cash flows to be sufficient to meet these obligations and also have marketable investments available for sale should the operating cash flows prove to be inadequate.

AFG has no material contractual purchase obligations or other long-term liabilities at December 31, 2003.

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**Investments** Approximately two-thirds of AFG's consolidated assets are invested in marketable securities. AFG's investment portfolio at December 31, 2003, contained \$12 billion in "Fixed maturities" classified as available-for-sale and \$455 million in "Other stocks", all carried at market value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis. At December 31, 2003, AFG had pretax net unrealized gains of \$377.8 million on fixed maturities and \$196.4 million on other stocks. AFG attempts to optimize investment income while building the value of its portfolio, placing emphasis upon long-term performance.

AFG's goal is to maximize return on an ongoing basis rather than focusing on short-term performance.

Fixed income investment funds are generally invested in securities with intermediate-term maturities with an objective of optimizing total return while allowing flexibility to react to changes in market conditions. At December 31, 2003, the average life of AFG's fixed maturities was about 6-1/2 years.

Approximately 93% of the fixed maturities held by AFG were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies at December 31, 2003. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated or noninvestment grade. Management believes that the high quality investment portfolio should generate a stable and predictable investment return.

Investments in mortgage backed securities ("MBSs") represented approximately one-fourth of AFG's fixed maturities at December 31, 2003. MBSs are subject to significant prepayment risk due to the fact that, in periods of declining interest rates, mortgages may be repaid more rapidly than scheduled as borrowers refinance higher rate mortgages to take advantage of lower rates. Due to the significant decline in the general level of interest rates in 2002 and 2003, AFG has experienced an increase in the level of prepayments on its MBSs; these prepayments have not been reinvested at interest rates comparable to the rates earned on the prepaid MBSs. Substantially all of AFG's MBSs are investment grade quality, with over 95% rated "AAA" at December 31, 2003.

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Summarized information for the unrealized gains and losses recorded in AFG's balance sheet at December 31, 2003, is shown in the following table (dollars in millions). Approximately \$95 million of available-for-sale "Fixed maturities" and \$21 million of "Other stocks" had no unrealized gains or losses at December 31, 2003.

	Securities With Unrealized Gains	Securities With Unrealized Losses
<u>Available-for-sale Fixed Maturities</u>		
Market value of securities	\$8,845	\$3,162
Amortized cost of securities	\$8,395	\$3,234
Gross unrealized gain (loss)	\$ 450	(\$ 72)
Market value as % of amortized cost	105%	98%
Number of security positions	1,575	286
Number individually exceeding \$2 million gain or loss	11	1
Concentration of gains (losses) by type or industry (exceeding 5% of unrealized):		
Gas and electric services	\$ 59.7	(\$ 4.3)
Banks, savings and credit institutions	55.5	(1.6)
Mortgage-backed securities	45.7	(45.1)
State and municipal	28.5	(2.2)
Telephone communications	25.1	(0.1)
U.S. government and government agencies	24.4	(5.2)
Air transportation (generally collateralized)	6.9	(5.2)
Percentage rated investment grade	92%	96%
<u>Other Stocks</u>		
Market value of securities	\$ 393	\$ 41
Cost of securities	\$ 196	\$ 42
Gross unrealized gain (loss)	\$ 197	(\$ 1)
Market value as % of cost	201%	98%
Number individually exceeding \$2 million gain or loss	5	-

AFG's investment in equity securities of Provident Financial Group, a Cincinnati-based commercial banking and financial services company, represents \$159 million of the \$197 million in unrealized gains on other stocks at December 31, 2003.

The table below sets forth the scheduled maturities of AFG's available-for-sale fixed maturity securities at December 31, 2003, based on their market values. Asset backed securities and other 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.

<u>Maturity</u>	Securities with Unrealized Gains	Securities With Unrealized Losses
	3%	-
One year or less	3%	-
After one year through five years	29	10
After five years through ten years	40	16
After ten years	<u>13</u>	<u>9</u>
	85	35
Mortgage-backed securities	<u>15</u>	<u>65</u>
	<u>100%</u>	<u>100%</u>

AFG realized aggregate losses of \$5.3 million during 2003 on \$52.4 million in sales of fixed maturity securities (9 issues; 8 issuers) that had individual unrealized losses greater than \$500,000 at December 31, 2002. Market values of seven of the issues increased an aggregate of \$8.9 million from year-end 2002 to date of sale. The market value of the remaining two securities decreased \$316,000 from year-end 2002 to the sale date.

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AFG realized aggregate losses of \$11.1 million during 2002 on \$72.9 million in sales of fixed maturity securities (14 issues; 12 issuers) that had individual unrealized losses greater than \$500,000 at December 31, 2001. Market values of eleven of the securities increased an aggregate of \$8 million from year-end 2001 to date of sale. The market value of one of the securities did not change from year-end 2001 to the date of sale. One of the securities was a Conesco bond that

decreased in value by \$5 million from year-end 2001 to the date of sale due to the continued decline in Conesco's financial condition. The market value of the remaining security decreased \$920,000 from year-end 2001 to the sale date.

Although AFG had the ability to continue holding these investments, its intent to hold them changed due primarily to deterioration in the issuers' creditworthiness, decisions to lessen exposure to a particular credit or industry, or to modify asset allocation within the portfolio.

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

	Aggregate Market <u>Value</u>	Aggregate Unrealized <u>Gain (Loss).</u>	Market Value as % of Cost <u>Basis</u>
<b>Fixed Maturities</b>			
<b>Securities with unrealized gains:</b>			
Exceeding \$500,000 (290 issues)	\$3,134	\$281	110%
Less than \$500,000 (1,285 issues)	<u>5,711</u>	<u>169</u>	103
	<u>\$8,845</u>	<u>\$450</u>	105%
<b>Securities with unrealized losses:</b>			
Exceeding \$500,000 (43 issues)	\$1,164	(\$ 43)	96%
Less than \$500,000 (243 issues)	<u>1,998</u>	<u>(29)</u>	99
	<u>\$3,162</u>	<u>(\$ 72)</u>	98%

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

	Aggregate Market <u>Value</u>	Aggregate Unrealized <u>Gain (Loss).</u>	Market Value as % of Cost <u>Basis</u>
<b>Fixed Maturities with Unrealized Losses at December 31, 2003</b>			
<b>Investment grade with losses for:</b>			
One year or less (227 issues)	\$2,953	(\$58)	98%
Greater than one year (17 issues)	<u>90</u>	<u>(5)</u>	95
	<u>\$3,043</u>	<u>(\$63)</u>	98%
<b>Non-investment grade with losses for:</b>			
One year or less (15 issues)	\$ 22	(\$ 2)	92%
Greater than one year (27 issues)	<u>97</u>	<u>(7)</u>	93
	<u>\$ 119</u>	<u>(\$ 9)</u>	93%

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When a decline in the value of a specific investment is considered to be "other than temporary," a provision for impairment is charged to earnings (accounted for as a realized loss) and the cost basis of that investment is reduced. The determination of whether unrealized losses are "other than temporary" requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

- whether the unrealized loss is credit-driven or a result of changes in market interest rates,
- the extent to which market value is less than cost basis,
- historical operating, balance sheet and cash flow data contained in issuer SEC filings,
- issuer news releases,
- near-term prospects for improvement in the issuer and/or its industry,
- industry research and communications with industry specialists,
- third party research and credit rating reports,
- internally generated financial models and forecasts,
- discussions with issuer management, and
- ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Based on its analysis of the factors enumerated above, management believes (i) AFG will recover its cost basis in the securities with unrealized losses and (ii) that AFG has the ability and intent to hold the securities until they mature or recover in value. Should either of these beliefs change with regard to 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, charges for other than temporary impairment could be material to results of operations in a future period. Management believes it is not likely that future impairment charges will have a significant effect on AFG's liquidity.

Net realized gains (losses) on securities sold and charges for "other than temporary" impairment on securities held were as follows (in millions):

	Net Realized Gains (Losses) <u>on Sales</u>	Charges for <u>Impairment</u>	<u>Other(a)</u>	<u>Total</u>
2003	\$117.1	(\$ 58.4)	\$ 0.2	\$58.9
2002	112.8	(179.4)	(12.4)	(79.0)
2001	89.1	(125.5) (b)	11.6	(24.8)
2000	(1.9)	(27.5)	2.6	(26.8)
1999	37.4	(19.4)	2.1	20.1

- a. Includes adjustments to carry derivatives at market and to reflect the impact of realized gains and losses on the amortization of deferred policy acquisition costs.
- b. Does not include \$16.9 million writedown of certain collateralized debt obligations which was recorded as the cumulative effect of an adoption of an accounting change at April 1, 2001.

Increased impairment charges in recent years reflect a rise in corporate defaults in the marketplace resulting from the weakened economy and other factors.

**Uncertainties** As more fully explained in the following paragraphs, management believes that the areas posing the greatest risk of material loss are the adequacy of its insurance reserves and American Premier's contingencies arising out of its former operations.

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**Property and Casualty Insurance Reserves** The liability for unpaid losses and loss adjustment expenses ("LAE") was as follows (in millions):

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Specialty	\$4,105	\$3,712
Personal	243	838
Other lines (including asbestos and environmental)	<u>561</u>	<u>654</u>
	<u>\$4,909</u>	<u>\$5,204</u>

The liabilities for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon: (a) the accumulation of case estimates for losses reported prior to the close of the accounting periods on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expense for investigating and adjusting claims; and (e) the current state of law and coverage litigation. Using these items as well as historical trends adjusted for changes in underwriting standards, policy provisions, product mix and other factors, company actuaries determine a single or "point" estimate which management utilizes in recording its best estimate of the liabilities. Ranges of loss reserves are not developed by company actuaries.

Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors which are subject to significant variation. Through the use of analytical reserve development techniques, management utilizes items such as the effect of inflation on medical, hospitalization, material, repair and replacement costs, general economic trends and the legal environment.

While current factors and reasonably likely changes in variable factors are considered in estimating the liability for unpaid losses, there is no method or system which can eliminate the risk of actual ultimate results differing from such estimates. As shown in the reserve development table (loss triangle) on page 11, the original estimates of AFG's liability for losses and loss adjustment expenses, net of reinsurance, over the past 10 years have developed through December 31, 2003, to be deficient (for three years) by as much as 10.4% and redundant (for 7 years) by as much as 7.2% (excluding the effect of special charges for asbestos and environmental exposures). AFG believes this development illustrates the variability in factors considered in estimating its insurance reserves.

Quarterly reviews of unpaid loss and LAE reserves are prepared using standard actuarial techniques. These may include: Case Incurred Development Method; Paid Development Method; Bornhuetter-Ferguson Method; and Incremental Paid LAE to Paid Loss Methods. Generally, data is segmented by major product or coverage within product using countrywide data; however, in some situations data may be reviewed by state or region.

**Asbestos and Environmental-related ("A&E") Reserves** Establishing reserves for A&E claims relating to policies and participations in reinsurance treaties and former operations is subject to uncertainties that are significantly greater than those presented by other types of claims. For this group of claims, traditional actuarial techniques that rely on historical loss development trends cannot be used and a meaningful range of loss cannot be estimated. Case reserves and expense reserves are established by the claims department as specific policies are identified. In addition to the case reserves established for known claims, management establishes additional reserves for claims not yet known or reported and for possible development on known claims. These additional reserves are management's best estimate based on its review of industry trends and other industry information about such claims, with due consideration to individual claim situations like A.P. Green. Estimating ultimate liability for asbestos claims presents a unique and difficult challenge to the insurance industry 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. The casualty insurance industry is engaged in extensive litigation over these coverage and liability issues as the volume and severity of claims against asbestos defendants continue to increase.

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While management believes that AFG's reserves for A&E claims are a reasonable estimate of ultimate liability for such claims, actual results may vary materially from the amounts currently recorded due to the difficulty in predicting the number of future claims and the impact of recent bankruptcy filings, and unresolved issues such as whether coverage exists, whether policies are subject to aggregate limits on coverage, whether claims are to be allocated among triggered policies and implicated years, and whether claimants who exhibit no signs of illness will be successful in pursuing their claims.

In February 2003, Great American Insurance Company entered into an agreement for the settlement of asbestos related coverage litigation under insurance policies issued during the 1970's and 1980's to Bigelow-Liptak Corporation and related companies, subsequently known as A.P. Green Industries, Inc. Management believes that this settlement will enhance financial certainty and provides resolution to litigation that represents AFG's largest known asbestos-related claim and the only such claim that management believes to be material.

The settlement is for \$123.5 million (Great American has the option to pay in cash or over time with 5.25% interest), all but \$30 million of which was covered by reserves established prior to September 30, 2002, and anticipated reinsurance recoverables for this matter. As a result, AFG recorded a \$30 million pretax charge (\$19.5 million after tax) in the fourth quarter of 2002. The agreement allows up to 10% of the settlement to be paid in AFG Common Stock.

The settlement has received the approval of the bankruptcy court supervising the reorganization of A.P. Green. It remains subject to the confirmation by the bankruptcy court of a plan of reorganization that includes an injunction prohibiting the assertion against Great American of any present or future asbestos personal injury claims under policies issued to A.P. Green and related companies. This process should be completed in 2004. No assurance can be made that a plan of reorganization will be confirmed; no payments are required until completion of the process. If there is no plan

confirmation, the outcome of this litigation will again be subject to the complexities and uncertainties associated with a Chapter 11 proceeding and asbestos coverage litigation.

The payments and reserve balances for asbestos, environmental and other mass torts were as follows (in millions):

	Net Amounts Paid in <u>2003</u>	Net Reserve Balance <u>12/31/03</u>
Asbestos	\$23.6	\$278.7
Environmental	15.6	121.2
Other Mass Tort	<u>4.3</u>	<u>23.4</u>
Total	<u>\$43.5</u>	<u>\$423.3</u>

Nearly one-half of AFG's asbestos reserves relate to policies written by AFG subsidiaries. Claims from these policies generally are product oriented claims with only a limited amount of non-product exposures, and are dominated by small to mid-sized commercial entities that are mostly regional policyholders with few national target defendants.

The assumed reinsurance business includes exposures for the periods 1954 to 1983. The asbestos and environmental assumed claims are ceded by various insurance companies under reinsurance treaties. A majority of the individual assumed claims have exposures of less than \$100,000 to AFG. Asbestos losses assumed include some of the industry known manufacturers, distributors and installers. Pollution losses include industry known insured names and sites.

Other mass tort losses include lead, silica and various chemical exposures.

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**Exposure to Market Risk** Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. AFG's exposures to market risk relate primarily to its investment portfolio and annuity contracts which are exposed to interest rate risk and, to a lesser extent, equity price risk. To a much lesser extent, AFG's long-term debt is also exposed to interest rate risk.

**Fixed Maturity Portfolio** The fair value of AFG's fixed maturity portfolio is directly impacted by changes in market interest rates. AFG's fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily intermediate-term maturities. This practice allows flexibility in reacting to fluctuations of interest rates. The portfolios of AFG's insurance operations are managed with an attempt to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations. AFG's life and annuity operations attempt to align the duration of their invested assets to the projected cash flows of policyholder liabilities.

The following table provides information about AFG's "available for sale" fixed maturity investments at December 31, 2003 and 2002, that are sensitive to interest rate risk. The table shows principal cash flows (in millions) and related weighted average interest rates by expected maturity date for each of the five subsequent years and for all years thereafter. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. Mortgage-backed securities ("MBSs") and sinking fund issues are included based on maturity year adjusted for expected payment patterns. Actual cash flows may differ from those expected.

	<u>December 31, 2003</u>			<u>December 31, 2002</u>	
	Principal			Principal	
	<u>Cash Flows</u>	<u>Rate</u>		<u>Cash Flows</u>	<u>Rate</u>
2004	\$ 647	7.19%	2003	\$ 1,301	10.09%
2005	1,120	4.86	2004	848	8.31
2006	947	6.22	2005	1,035	7.05
2007	778	6.42	2006	1,135	6.69
2008	1,132	5.98	2007	1,158	6.12
Thereafter	<u>6,994</u>	5.89	Thereafter	<u>5,939</u>	6.13
Total	<u>\$11,618</u>	5.94%		<u>\$11,416</u>	6.88%
Fair Value	<u>\$12,102</u>			<u>\$12,007</u>	

**Equity Price Risk** Equity price risk is the potential economic loss from adverse changes in equity security prices. Although AFG's investment in "Other stocks" is less than 4% of total investments, one-half of "Other stocks" is invested in Provident Financial Group. In February 2004, Provident announced that it is being acquired by National City Corporation, one of the nation's largest banks. If this transaction is completed, AFG will receive 8.1 million shares (approximately 1%) of National City in exchange for its investment in Provident.

**Annuity Contracts** Substantially all of GAFRI's fixed rate annuity contracts permit GAFRI to change crediting rates (subject to minimum interest rate guarantees of 3% to 4% per annum as determined by applicable law) enabling management to react to changes in market interest rates. Nonetheless, due to the drop in interest rates, GAFRI's spreads have narrowed and will likely continue to narrow through at least 2004. In the fourth quarter of 2003, GAFRI began to issue a portion of new business using a minimum interest guarantee of less than 3% in states where required approvals have been received. Actuarial assumptions used to estimate DPAC and annuity benefits, as well as GAFRI's ability to maintain spread, could be impacted if the current interest rate environment continues for an extended period and causes policyholder behavior to be altered.

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Projected payments (in millions) in each of the subsequent five years and for all years thereafter on GAFRI's fixed annuity liabilities at December 31 were as follows.

	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>	<u>Fifth</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
2003	\$610	\$710	\$870	\$740	\$690	\$3,355	\$6,975	\$6,781
2002	550	610	740	810	700	3,044	6,454	6,284

Approximately half of GAFRI's fixed annuity liabilities at December 31, 2003, were two-tier in nature in that policyholders can receive a higher amount if they annuitize rather than surrender their policy, even if the surrender charge period has

expired. At December 31, 2003, the average stated crediting rate on the inforce block of GAFRI's principal fixed annuity products was approximately 4.1%. The current stated crediting rates (excluding bonus interest) on new sales of GAFRI's products generally range from 2.8% to 3.3%. GAFRI estimates that its effective weighted-average crediting rate on its inforce business over the next five years will approximate 3.8%. This rate reflects actuarial assumptions as to (i) expected investment spread, (ii) deaths, (iii) annuitizations, (iv) surrenders and (v) renewal premiums. Actual experience and changes in actuarial assumptions may result in different effective crediting rates than those above.

GAFRI's equity-indexed fixed annuities provide policyholders with a crediting rate tied, in part, to the performance of an existing stock market index. GAFRI attempts to mitigate the risk in the equity-based component of these products through the purchase of call options on the appropriate index. GAFRI's strategy is designed so that an increase in the liabilities, due to an increase in the market index, will be substantially offset by unrealized and realized gains on the call options purchased by GAFRI. Under SFAS No. 133, both the equity-based component of the annuities and the related call options are considered derivatives and marked to market through current earnings as annuity benefits. Adjusting these derivatives to market value had a net effect of less than 1% of annuity benefits in 2003 and 2002. In 2002, GAFRI chose to suspend new sales of equity-indexed annuities due primarily to lack of volume.

**Debt and Preferred Securities** The following table shows scheduled principal payments (in millions) on fixed-rate long-term debt of AFG and its subsidiaries and related weighted average interest rates for each of the subsequent five years and for all years thereafter.

	<u>December 31, 2003</u>			<u>December 31, 2002</u>	
	Scheduled			Scheduled	
	Principal			Principal	
	<u>Payments</u>	<u>Rate</u>		<u>Payments</u>	<u>Rate</u>
2004	*		2003	*	
2005	\$ 9.9	9.11%	2004	*	
2006	18.6	6.74	2005	\$ 10.1	9.09%
2007	75.3	7.13	2006	18.7	6.74
2008	289.9	4.99	2007	79.9	7.13
Thereafter	<u>434.5</u>	7.30	Thereafter	<u>429.4</u>	7.14
Total	<u>\$829.0</u>	6.48%		<u>\$539.8</u>	7.16%
Fair Value	<u>\$877.8</u>			<u>\$504.2</u>	

(\* ) Less than \$2 million.

The AFG Convertible Debentures issued in 2003 are included in the above table at the first put date (2008). In December 2003, GAFRI entered into an interest rate swap, effectively converting \$40 million of its 6-7/8% fixed-rate Notes due in 2008 (included in the table above) to a floating rate (about 4.1% at December 31, 2003).

At December 31, 2002, AFG and GAFRI had a total of \$396.6 million outstanding under their variable rate bank lines (2.8% weighted average interest rate at December 31, 2002). No amounts were borrowed under the bank lines at December 31, 2003.

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There were \$265 million and \$242 million of subsidiary trust preferred securities with a weighted average interest rate of 8.74% and 9.09% outstanding at December 31, 2003 and 2002, respectively. Although none of these are scheduled for maturity or mandatory redemption during the next five years, approximately \$190 million were redeemed in the first quarter of 2004. Under Financial Accounting Standards Board Interpretation No. 46 ("FIN 46"), which AFG implemented as of December 31, 2003, AFG was required to deconsolidate the wholly-owned subsidiary trusts that issued these securities because they are "variable interest entities" in which AFG is not considered to be the primary beneficiary. These subsidiary trusts were formed to issue the preferred securities and, in turn, purchase a like amount of subordinated debt from their parent company, which provides interest and principal payments to fund the respective trust obligations. Accordingly, at December 31, 2003, the subordinated debt due the trusts is shown as a liability in the Balance Sheet. Prior to that date, the subsidiary trust preferred securities were included in minority interest in the Balance Sheet.

#### RESULTS OF OPERATIONS - THREE YEARS ENDED DECEMBER 31, 2003

**General** The following table shows AFG's net earnings and diluted earnings per share as stated in the Statement of Operations as well as the after-tax effect of other items included in these GAAP measures that are listed below to assist investors in analyzing their impact on the trend in operating results (in millions, except per share amounts):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Net earnings (loss)</b>	\$293.8	\$84.6	(\$14.8)
After tax income (expense) items included in net earnings:			
Arbitration settlement	(28.5)	-	-
Litigation settlements	(23.1)	(19.5)	-
Special tax benefits	141.5	31.0	-
A&E charge and WTC losses	-	-	(61.1)
Net earnings (losses) from investee corporations	9.1	(9.0)	(16.5)
Realized investment gains (losses)	50.8	(44.7)	(13.1)
Discontinued operations	(33.6)	1.4	(19.9)
Cumulative effect of accounting changes	6.3	(40.4)	(10.0)
<b>Diluted per share amounts:</b>			
<b>Net earnings (loss)</b>	\$4.12	\$1.22	(\$ .22)
Arbitration settlement	(.41)	-	-
Litigation settlements	(.33)	(.28)	-
Special tax benefits	2.01	.44	-
A&E charge and WTC losses	-	-	(.90)
Investee corporations	.13	(.13)	(.24)
Realized investment gains (losses)	.73	(.64)	(.19)
Discontinued operations	(.48)	.02	(.29)
Cumulative effect of accounting changes	.09	(.59)	(.15)

In addition to the effects of items shown in the table above, net earnings increased in 2003 as improved underwriting results more than offset a decline in the fixed annuity operations. Net earnings increased in 2002 primarily due to significantly improved underwriting results and income from the sale of real estate, partially offset by reduced earnings in the annuity and life operations. Net earnings for 2001 include goodwill amortization expense of \$13.7 million (\$.20 per share).

**Property and Casualty Insurance - Underwriting** AFG's property and casualty group has consisted of two major business groups: Specialty and Personal. See Note B, "Acquisitions and Sales of Subsidiaries," to the Financial Statements for a discussion of the sale of nearly all of the Personal group.

The Specialty group includes a highly diversified group of business lines. Some of the more significant areas are inland and ocean marine, California workers' compensation, agricultural-related coverages, executive and professional liability, fidelity and surety bonds, commercial auto, collateral protection, umbrella, and excess and surplus coverages.

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The Personal group wrote nonstandard and preferred/standard private passenger auto insurance and, to a lesser extent, homeowners' insurance. Nonstandard automobile insurance covers risks not typically accepted for standard automobile coverage because of the applicant's driving record, type of vehicle, age or other criteria.

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) have quick loss payouts which reduce the time funds are held, thereby limiting investment income earned thereon. On the other hand, "long-tail" lines of business (primarily liability coverages and workers' compensation) 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.

Underwriting profitability is measured by the combined ratio which is a sum of the ratios of underwriting losses, loss adjustment expenses, underwriting expenses and policyholder dividends to premiums. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, other income or federal income taxes.

For certain lines of business and products where the credibility of the range of loss estimates is less certain (primarily many of the various specialty businesses listed above), management believes that it is prudent and appropriate to use conservative assumptions until such time as the data, experience and projections have more credibility, as evidenced by data volume, consistency and maturity of the data. While this practice mitigates the risk of adverse development on this business, it does not eliminate it.

While AFG desires and seeks to earn an underwriting profit on all of its business, it is not always possible to do so. As a result, AFG attempts to expand in the most profitable areas and control growth or even reduce its involvement in the least profitable ones.

Over the last several years, AFG has been realigning its property and casualty business mix and focusing on rate adequacy in order to improve its operating profitability. Management has continued to direct capital in order to take advantage of certain specialty market opportunities. Management believes these actions have been successful and that the current mix of specialty businesses positions the company for solid growth and continuing improved profitability in the foreseeable future.

AFG's combined ratio has been better than the industry average for seventeen of the last eighteen years and excluding AFG's special A&E charges, for all eighteen years. Management believes that AFG's insurance operations have performed better than the industry as a result of product line diversification and stringent underwriting discipline.

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Premiums and combined ratios for AFG's property and casualty insurance operations were as follows (dollars in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Gross Written Premiums (GAAP).</u>			
Specialty:			
Property and Transportation	\$1,142	\$ 886	\$ 742
Specialty Casualty	1,413	1,235	859
Specialty Financial	396	332	356
California Workers' Compensation	290	229	243
Other	<u>2</u>	<u>31</u>	<u>36</u>
Total Specialty	3,243	2,713	2,236
Personal (a)	<u>265</u>	<u>1,222</u>	<u>1,284</u>
	<u>\$3,508</u>	<u>\$3,935</u>	<u>\$3,520</u>
<u>Net Written Premiums (GAAP).</u>			
Specialty:			
Property and Transportation	\$ 515	\$ 413	\$ 506
Specialty Casualty	679	609	512
Specialty Financial	302	255	247
California Workers' Compensation	271	219	236
Other	<u>87</u>	<u>81</u>	<u>41</u>
Total Specialty	1,854	1,577	1,542
Personal (a)	<u>158</u>	<u>837</u>	<u>1,040</u>
	<u>\$2,012</u>	<u>\$2,414</u>	<u>\$2,582</u>
<u>Combined Ratios (GAAP).</u>			
Specialty:			
Property and Transportation	87.8%	90.1%	96.7%
Specialty Casualty	98.2	106.6	111.5
Specialty Financial	108.3	101.4	80.1
California Workers' Compensation	92.0	96.4	104.8
Total Specialty	96.0	98.4	101.7
Personal (a)	103.0	99.8	107.9
Aggregate (including discontinued lines)(b)	98.9%	101.0%	107.5%

(a) Includes the operations of Infinity through the sale date in mid-February 2003 and the direct auto business through its sale at the end of April 2003.

(b) Includes 2.3 points in 2003 for the effect of an arbitration decision relating to a claim arising from a business in runoff, 1.2 points for 2002 relating to the A. P. Green asbestos litigation charge and 3.6 points for 2001 relating to the A&E charge and the attack on the World Trade Center.

As shown in Note P under "Insurance Reserves," AFG's property and casualty operations recorded loss development of \$167 million in 2003, \$171 million in 2002 and \$163 million in 2001 related to prior accident years. Major areas of adverse development were as follows (in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Property and transportation	\$ 32	\$ 19	\$ 10
Specialty casualty	82	78	48
Personal lines	*	15	*
Arbitration settlement	44	-	-
Asbestos	-	49	108
Other	<u>9</u>	<u>10</u>	<u>(3)</u>
	<u>\$167</u>	<u>\$171</u>	<u>\$163</u>

(\*) Amounts are immaterial and included in Other.

The prior year development in Property and transportation related primarily to higher than anticipated frequency of claims in the 1993 through 2001 accident years for the homebuilders' liability business, which is in runoff.

Specialty casualty development includes amounts related to executive liability, other liability and excess casualty runoff. Executive liability development impacted 2001, 2002 and 2003 and resulted primarily from claim severity on directors' and officers' liability policy coverages for 1996 through 2000. Both settlement and defense costs related to shareholder lawsuits have increased beyond estimates. The development in other liability impacted both 2003 and 2002 reflecting an unexpected shift of judicial climate in some previously conservative states. Verdicts, judgments, and settlements have increased. The development in excess casualty runoff during 2002 reflects higher frequency of claims related to the 1999 and 2000 accident years. Excess casualty runoff development in 2001, and to a lesser extent in 2002, was affected by increased severity resulting from a rigorous claims review of case reserves established by former management.

In the personal lines, personal injury and uninsured motorist claims experienced increased severity. During 2002, claims remained open longer and settlement amounts were higher than in previous years.

The arbitration settlement represents a charge in the second quarter of 2003 for an unfavorable decision resulting from Great American's share of a 1995 property fire and business interruption claim. Great American was a 9.5% participant with a number of other companies in the insurance pool that insured the loss during the 1995 coverage year.

Asbestos development was due primarily to a charge of \$30 million for the settlement of asbestos-related coverage in litigation in 2002 and the special \$100 million A & E charge in 2001, which is discussed below. See "Uncertainties - Asbestos and Environmental-related Reserves" for additional information about these claims.

**2001 Special A&E Charge** During the third quarter of 2001, AFG recorded an A&E charge of \$100 million after experiencing an increase in the number and severity of asbestos claims and observing the developments of adverse trends in the property and casualty insurance industry concerning asbestos losses. Of this charge, \$31 million was recorded by Transport Insurance Company, which has been reclassified to discontinued operations. This charge, accompanied by a transfer of \$36 million from excess reserves for other environmental claims, resulted in an increase of \$136 million in asbestos reserves. For a discussion of uncertainties relative to asbestos and environmental claims, see "Uncertainties - Asbestos and Environmental-related Reserves".

**Specialty** The Specialty group's gross written premiums increased approximately 20% for 2003 compared to 2002, reflecting the impact of continuing rate increases and volume growth in most of its businesses. Specialty rate increases averaged approximately 20% during 2003 and should be in the range of 5% to 8% in 2004. Net written premiums increased 18% in 2003 compared to 2002.

The Specialty group's combined ratio improved 2.4 points over 2002 reflecting rate increases partially offset by \$16 million in higher prior year development in 2003.

The 29% growth in property and transportation gross written premiums reflects significant volume growth in the federal crop insurance program. In addition, the other property and transportation business experienced rate increases and volume growth in 2003. The 14% increase in gross written premium in specialty casualty primarily relates to rate increases. The 19% increase in specialty financial gross written premiums reflects rate increases as well as volume growth in the fidelity and crime products and certain collateral protection products. The 27% increase in California workers' compensation relates mostly to rate increases.

The 2.3 point improvement in property and transportation's combined ratio reflects rate increases, partially offset by \$13 million in additional prior year development in 2003 compared to 2002. Specialty Casualty's 8.4 point combined ratio improvement is primarily due to rate increases.

The specialty financial combined ratio deterioration of 6.9 points is primarily a result of the decline in results related to the residual value products. Lower used car prices, dealer incentives on new cars and the volume of used cars available from expiring leases contributed to the deterioration in the residual value results. California workers' compensation combined ratio improved 4.4 points as rate increases and \$10 million of benefit related to recently enacted legislation were partially offset by increased claim costs.

The Specialty group's gross written premiums increased 21% in 2002 compared to 2001, reflecting the effect of rate increases and the volume growth in certain businesses, partially offset by planned reductions in less profitable lines of business. Specialty rate increases averaged about 27% during 2002. Net written premiums increased 2% in 2002 compared to 2001 as strong growth in gross written premiums was offset by the impact of increased reinsurance coverage in certain lines.

Excluding the effect of the attack on the World Trade Center, the Specialty group's combined ratio improved 1.5 points for 2002. The improvement reflects strategic changes in the mix of specialty businesses and the impact of rate increases, partially offset by the effects of prior year loss development.

**Personal** The Personal group results represent primarily Infinity's underwriting results through the public offering in mid-February 2003 and the direct-to-consumer auto business, which was sold in April 2003. AFG's remaining personal lines business generated about 3% of net written premiums in 2003 and 2002.

The Personal group's gross written premiums for 2002 decreased about 5% compared to 2001 due primarily to intentional reductions in new business volume in certain non-core markets and through the direct channel, partially offset by the effect

of continuing rate increases and volume growth in target markets. Due primarily to rate increases and a reduction in marketing and media cost of the direct business, the Personal group's combined ratio improved by 8.1 points compared to 2001.

**Life, Accident and Health Premiums and Benefits** The increase in life, accident and health premiums and benefits in 2003 and 2002 reflect the addition of new distribution sources for GAFRI's supplemental insurance products, partially offset in 2003 by lower sales of life insurance products. In addition, life, accident and health benefits for 2003 and 2002 reflect the effects of adverse mortality in GAFRI's life insurance operations.

**Investment Income** Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Investment income decreased in 2003 compared to 2002 reflecting lower average yields on fixed maturity investments (due in part to an increase in tax-exempt bonds). Investment income increased in 2002

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due primarily to higher average investment in fixed maturity securities, partially offset by lower average yields on those investments.

**Gains (Losses) on Securities** Realized gains (losses) on sales of securities include provisions for other than temporary impairment of securities still held of \$58.4 million in 2003, \$179.4 million in 2002 and \$125.5 million in 2001. Impairment charges in 2003 reflect primarily the downturn in the airline industry and writedowns of certain asset-backed securities. Impairment charges in 2002 and 2001 reflect primarily the downturn in the communications and airline industries and writedowns of certain asset-backed securities.

Realized gains (losses) on securities include losses of \$1.1 million in 2003 and \$11.9 million in 2002, and gains of \$5.2 million in 2001 to adjust the carrying value of AFG's investment in warrants to market value under SFAS No. 133.

**Gains (Losses) on Sales of Subsidiaries and Investees** During 2003, AFG recognized a gain of \$56.5 million on the December 2003 sale of its remaining interest in Infinity which more than offset the \$39.4 million loss it recognized when it sold a 61% interest in Infinity in February 2003. Additional net gains of \$2.7 million were recognized in 2003 on the sale of three small insurance subsidiaries and the settlement of disputed amounts under a contract covering a prior year sale.

In 2002, AFG recognized a \$10.8 million pretax loss on the disposal of its New Jersey private passenger auto business.

In 2001, AFG recognized a \$7.1 million pretax gain on the sale of a small insurance subsidiary. In connection with the sale of the Japanese division in 2001, AFG recognized a \$6.9 million pretax loss and deferred a gain of approximately \$21 million on ceded insurance which is being recognized over the estimated settlement period (weighted average of 4 years) of the ceded claims.

**Gain on Sale of Other Investments** In September 2002, AFG realized a \$9.3 million pretax gain on the sale of its minority ownership in a residential homebuilding company.

**Real Estate Operations** AFG's subsidiaries are engaged in a variety of real estate operations including hotels, apartments, office buildings and recreational facilities; they also own several parcels of land. Revenues and expenses of these operations, including gains and losses on disposal, are included in AFG's statement of operations as shown below (in millions).

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Other income	\$96.5	\$115.0	\$102.6
Other operating and general expenses	73.7	71.7	64.9
Interest charges on borrowed money	2.3	2.6	2.3
Minority interest expense, net	1.9	1.1	3.7

Other income includes net pretax gains on the sale of real estate assets of \$10.3 million in 2003, \$31.0 million in 2002 and \$27.2 million in 2001.

#### **Other Income**

**2003 compared to 2002** Other income increased \$11.0 million (4%) in 2003 compared to 2002 due primarily to increased revenues earned by the Specialty group's growing warranty business and higher fee income in certain other specialty insurance operations, partially offset by the absence of income from Infinity (following its sale in mid-February) and decreased gains on the sale of real estate.

**2002 compared to 2001** Other income increased \$37.3 million (17%) in 2002 due primarily to higher income from real estate operations (including the effect of property sales and a hotel acquired in May 2002), increased fees earned by the Specialty group's new warranty business and higher fee income in certain other specialty insurance operations.

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**Annuity Benefits** Annuity benefits reflect amounts accrued on annuity policyholders' funds accumulated. On its deferred annuities (annuities in the accumulation phase), GAFRI generally credits interest to policyholders' accounts at their current stated interest rates. Furthermore, for "two-tier" deferred annuities (annuities under which a higher interest amount can be earned if a policy is annuitized rather than surrendered), GAFRI accrues an additional liability to provide for expected deaths and annuitizations. Changes in crediting rates, actual surrender, death and annuitization experience or modifications in actuarial assumptions can affect this accrual.

The majority of GAFRI's fixed annuity products permit GAFRI to change the crediting rate at any time subject to minimum interest rate guarantees (as determined by applicable law). Approximately half of the annuity benefits accumulated relate to policies that have a minimum guarantee of 3%; the majority of the balance has a guarantee of 4%. In states where required approvals have been received, GAFRI has begun issuing products with guaranteed minimum crediting rates of less than 3% beginning in the fourth quarter of 2003.

Historically, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. The recent interest rate environment has resulted in a spread compression. Significant changes in projected investment yields could result in charges (or credits) to earnings in the period the projections are modified.

**Annuity and Life Acquisition Expenses** Annuity and life acquisition expenses include amortization of annuity and life, accident and health deferred policy acquisition costs ("DPAC") as well as a portion of commissions on sales of insurance products. Annuity and life acquisition expenses also include amortization of the present value of future profits of businesses acquired.

**2003 compared to 2002** The increase in annuity and life acquisition expenses in 2003 compared to 2002 reflects the continued narrowing of spreads in the fixed annuity operations and an increase in in-force policies, primarily in the annuities and supplemental insurance operations. Included in 2003 were \$15.2 million in DPAC writeoffs related to spread narrowing.

**2002 compared to 2001** The increase in annuity and life acquisition expenses in 2002 compared to 2001 reflects (i) a writeoff of DPAC; (ii) the amortization costs associated with GAFRI's purchase of MNL in June 2002 and (iii) higher commission expense due to GAFRI's growth in premiums. Included in 2002 and 2001 were DPAC writeoffs related to variable annuities of \$13.5 million and \$3.0 million, respectively, resulting from the actual performance of the equity markets and a reduction of assumed future returns. Included in 2002 is a DPAC writeoff of \$4 million related primarily to adverse mortality in GAFRI's life operations. Partially offsetting the DPAC writeoffs in 2002 was a reduction of approximately \$7 million in DPAC amortization on fixed annuities relating to decreases in crediting rates on certain fixed annuity products.

The vast majority of GAFRI's DPAC asset relates to its fixed annuity, variable annuity and life insurance lines of business. Continued spread compression, decreases in the stock market and adverse mortality could lead to write-offs of DPAC in the future. However, absent significant deterioration in those factors, GAFRI does not anticipate any material write-offs in the foreseeable future.

**Interest on Borrowed Money.** Changes in interest expense result from fluctuations in market rates as well as changes in borrowings. AFG has generally financed its borrowings on a long-term basis which has resulted in higher current costs.

**2003 compared to 2002** Interest expense decreased in 2003 primarily due to lower average indebtedness and lower interest charges on amounts due reinsurers.

**2002 compared to 2001** Interest expense was virtually unchanged in 2002 as lower average rates on AFG's variable rate debt were substantially offset by higher average indebtedness and higher average payable to reinsurers balances.

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#### **Other Operating and General Expenses**

**2003 compared to 2002** Other operating and general expenses for 2003 include a third quarter pretax charge of \$35.5 million related to an agreement to settle a lawsuit alleging antitrust violations by a number of California workers' compensation insurers including an AFG subsidiary. Excluding this charge, other operating and general expenses decreased 2% in 2003 compared to 2002 as the absence of expenses from Infinity (following its sale in mid-February) offset higher expenses in the Specialty group's growing warranty business.

**2002 compared to 2001** Other operating and general expenses for 2001 include goodwill amortization of \$13.7 million. Under SFAS No. 142, which was implemented January 1, 2002, goodwill is no longer amortized. Excluding 2001 goodwill amortization, other operating and general expenses increased \$37.7 million (10%) in 2002. Expenses of the Specialty group's new warranty business, higher expenses in real estate operations (due primarily to the acquisition of a new hotel in May 2002) and higher expenses related to growth in certain other Specialty operations were partially offset by lower charges for environmental reserves related to former operations and lower technology-related expenses.

**Income Taxes** The 2003 provision for income taxes includes a benefit of \$136 million related to the AFG/AFG merger for the effect of the elimination of deferred tax liabilities associated with AFC's holding of AFG stock and reflects \$5.5 million in tax benefits related to AFG's basis in Infinity stock. The 2002 provision for income taxes includes \$31 million in tax benefits for the reduction of previously accrued amounts due to the resolution of certain tax matters. See Note K to the Financial Statements for more information on the effects of the AFG/AFG merger and an analysis of items affecting AFG's effective tax rate.

#### **Investee Corporations**

**Infinity Property and Casualty Corporation** AFG's proportionate share (\$12.2 million) of Infinity's earnings is included in equity in net earnings (losses) of investees for the period between the initial sale of 61% of Infinity in February 2003 and AFG's sale of its remaining shares in December 2003.

**Start-up Manufacturing Businesses** Equity in earnings (losses) of investees also includes losses of two start-up manufacturing businesses that were formerly subsidiaries. Equity in net earnings (losses) of investees includes \$3.1 million in 2003 compared to \$3.6 million in 2002 and \$2.9 million in 2001 in losses of one of these businesses. Investee losses in 2002 and 2001 include \$5.4 million and \$13.7 million (including litigation judgments of \$4.7 million), respectively, in losses of the other manufacturing business, which sold substantially all of its assets in December 2002.

**Cumulative Effect of Accounting Changes** Effective December 31, 2003, AFG implemented Interpretation No.46, "Consolidation of Variable Interest Entities." This interpretation sets forth the requirements for determining the status of entities that do not share economic risk and reward through typical equity ownership, but rather through contractual relationships that distribute economic risks and rewards among various parties. Once an entity is determined to be a VIE, it is required to be consolidated by the primary beneficiary, which is deemed to be the party that is exposed to a majority of the expected losses, or benefits from a majority of the expected residual returns, or both.

See Note A - "Accounting Policies" - "Managed Investment Entity" and "Payable to Subsidiary Trusts." The cumulative effect of implementing FIN 46 was an increase in income of \$6.3 million.

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Effective January 1, 2002, AFG implemented Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", under which goodwill is no longer amortized, but is subject to an impairment test at least annually. The initial impairment testing resulted in a charge of \$40.4 million (net of minority interest and taxes) for the cumulative effect of a change in accounting principle.

In 2001, the cumulative effect of accounting change represents the implementation of a new accounting standard (EITF 99-20) which resulted in a writedown of \$10.0 million (net of minority interest and taxes) of the carrying value of certain collateralized debt obligations as of April 1, 2001.

#### **RECENT ACCOUNTING STANDARDS**

The following accounting standards have been or may be implemented by AFG. The implementation of these standards is discussed under various subheadings of Note A to the Financial Statements; effects of each are shown in the relevant Notes.

<u>Accounting Standard</u>	<u>Subject of Standard (Year Implemented)</u>	<u>Reference</u>
EITF 99-20	Asset-backed Securities (2001)	"Investments"
SFAS #141	Business Combinations (2001)	"Business Combinations"
SFAS #142	Goodwill and Other Intangibles (2002)	"Goodwill"

SFAS #144	Impairment or Disposal of Long-Lived Assets (2002)	"Discontinued Operations"
SFAS #148	Stock-based Compensation (2002)	"Stock-based Compensation"
FIN 46	Consolidation of Variable Interest Entities (2003)	"Managed Investment Entity"/ "Payable to Subsidiary Trust"
SFAS #133 B36	Embedded Derivatives in Reinsurance Contracts (2003)	"Reinsurance"

Other standards issued in recent years did not apply to AFG or had only negligible effects on AFG.

**SOP 03-1** In July 2003, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts." The most significant accounting implications to GAFRI of the SOP are as follows: (1) changing GAFRI's method for accounting for assets and liabilities related to two-tier annuities and persistency bonuses; (2) amortizing DPAC over the life of deferred annuity contracts excluding the annuitization phase; and (3) establishing an additional liability for guaranteed minimum death benefits for variable annuity contracts.

GAFRI will adopt the SOP effective January 1, 2004. Although interpretation of accounting for certain items covered by the SOP has not been finalized, the effect of initially adopting this SOP is expected to be less than 1% of AFG's equity and will be reported as a cumulative effect of a change in accounting principle in the 2004 results of operations. This effect results primarily from the change in accounting for persistency bonuses. GAFRI does not expect that the final amount will have a material adverse impact on the company.

#### ITEM 7A

##### Quantitative and Qualitative Disclosures About Market Risk

The information required by Item 7A is included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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#### ITEM 8

##### Financial Statements and Supplementary Data

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"Selected Quarterly Financial Data" has been included in Note O to the Consolidated Financial Statements.

Please refer to "Forward-Looking Statements" following the Index in front of this Form 10-K.

#### ITEM 9A

##### Controls and Procedures

AFG's management, with participation of its Chief Executive Officer and 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 CEO and CFO concluded that the controls and procedures are effective. There have been no significant changes in AFG's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART III

The information required by the following Items will be included in AFG's definitive Proxy Statement for the 2004 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission within 120 days after the end of Registrant's fiscal year and is incorporated herein by reference.

- ITEM 10 Directors and Executive Officers of the Registrant
- ITEM 11 Executive Compensation
- ITEM 12 Security Ownership of Certain Beneficial Owners and Management and  
Related Stockholder Matters
- ITEM 13 Certain Relationships and Related Transactions
- ITEM 14 Principal Accountant Fees and Services

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REPORT OF INDEPENDENT AUDITORS

Board of Directors

American Financial Group, Inc.

We have audited the accompanying consolidated balance sheet of American Financial Group, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Financial Group, Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes A and E to the consolidated financial statements, in 2002, the Company implemented Statement of Financial Accounting Standards No. 142, which required a change in the method of accounting for goodwill, and in 2003, the Company implemented FASB interpretation No. 46, which required a change in consolidation policy related to variable interest entities.

ERNST & YOUNG LLP

Cincinnati, Ohio

February 12, 2004

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Dollars In Thousands)

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
<b>Assets:</b>		
Cash and short-term investments	\$ 593,552	\$ 871,103
Investments:		
Fixed maturities:		
Available for sale - at market (amortized cost - \$11,724,181 and \$11,549,710)	12,101,981	12,006,910
Trading - at market	195,390	-
Other stocks - at market (cost - \$258,466 and \$174,645)	454,866	300,445
Policy loans	215,571	214,852
Real estate and other investments	<u>266,435</u>	<u>257,731</u>
Total cash and investments	13,827,795	13,651,041
Recoverables from reinsurers and prepaid		

reinsurance premiums	3,131,775	2,866,780
Agents' balances and premiums receivable	502,458	708,327
Deferred acquisition costs	851,199	842,070
Other receivables	320,517	307,008
Assets of managed investment entity	424,669	-
Variable annuity assets (separate accounts)	568,434	455,142
Prepaid expenses, deferred charges and other assets	402,081	425,775
Goodwill	<u>168,330</u>	<u>248,683</u>
	<u>\$20,197,258</u>	<u>\$19,504,826</u>

**Liabilities and Capital:**

Unpaid losses and loss adjustment expenses	\$ 4,909,109	\$ 5,203,831
Unearned premiums	1,594,839	1,847,924
Annuity benefits accumulated	6,974,629	6,453,881
Life, accident and health reserves	1,018,861	902,393
Payable to reinsurers	408,518	508,718
Long-term debt:		
Holding companies	586,051	648,410
Subsidiaries	250,811	296,771
Payable to subsidiary trusts (issuers of preferred securities)	265,472	-
Liabilities of managed investment entity	406,547	-
Variable annuity liabilities (separate accounts)	568,434	455,142
Accounts payable, accrued expenses and other liabilities	<u>950,267</u>	<u>990,884</u>
Total liabilities	<u>17,933,538</u>	<u>17,307,954</u>

Minority interest (including trust-issued preferred securities at December 31, 2002)	187,559	471,024
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**Shareholders' Equity:**

Common Stock, no par value		
- 200,000,000 shares authorized		
- 73,056,085 and 69,129,352 shares outstanding	73,056	69,129
Capital surplus	1,035,784	923,042
Retained earnings	664,721	409,777
Unrealized gain on marketable securities, net	<u>302,600</u>	<u>323,900</u>
Total shareholders' equity	<u>2,076,161</u>	<u>1,725,848</u>
	<u>\$20,197,258</u>	<u>\$19,504,826</u>

See notes to consolidated financial statements.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF OPERATIONS**

(In Thousands, Except Per Share Data)

	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Income:</b>			
Property and casualty insurance premiums	\$1,909,206	\$2,402,600	\$2,593,938
Life, accident and health premiums	331,887	305,647	280,122
Investment income	773,188	861,503	851,479
Realized gains (losses) on:			
Securities	58,891	(78,968)	(24,776)
Subsidiaries and investees	19,824	(10,769)	170
Other investments	-	9,253	-
Other income	<u>266,647</u>	<u>255,609</u>	<u>218,328</u>
	<u>3,359,643</u>	<u>3,744,875</u>	<u>3,919,261</u>
<b>Costs and Expenses:</b>			
Property and casualty insurance:			
Losses and loss adjustment expenses	1,353,177	1,812,495	2,047,057
Commissions and other underwriting expenses	534,161	614,062	741,026
Annuity benefits	294,940	300,966	294,654
Life, accident and health benefits	250,713	245,271	213,022
Annuity and life acquisition expenses	121,322	114,507	79,297
Interest charges on borrowed money	57,320	60,407	60,744
Other operating and general expenses	<u>447,004</u>	<u>421,344</u>	<u>397,307</u>
	<u>3,058,637</u>	<u>3,569,052</u>	<u>3,833,107</u>
Operating earnings before income taxes	301,006	175,823	86,154
Provision (benefit) for income taxes	<u>(47,454)</u>	<u>17,117</u>	<u>20,471</u>
Net operating earnings	348,460	158,706	65,683
Minority interest expense, net of tax	(36,393)	(26,149)	(34,070)
Equity in net earnings (losses) of investees, net of tax	<u>9,084</u>	<u>(8,990)</u>	<u>(16,550)</u>
Earnings (loss) from continuing operations	321,151	123,567	15,063
Discontinued operations	(33,636)	1,433	(19,863)
Cumulative effect of accounting changes	<u>6,300</u>	<u>(40,360)</u>	<u>(10,040)</u>

<b>Net Earnings (Loss)</b>	<u>\$ 293,815</u>	<u>\$ 84,640</u>	<u>(\$ 14,840)</u>
Premium over stated value paid on redemption of subsidiaries' preferred shares	(4,121)	-	-
Net earnings (loss) available to Common Shares	<u>\$ 289,694</u>	<u>\$ 84,640</u>	<u>(\$ 14,840)</u>
<b>Basic earnings (loss) per Common Share:</b>			
Continuing operations	\$4.53	\$1.80	\$ .22
Discontinued operations	(.48)	.02	(.29)
Cumulative effect of accounting changes	<u>.09</u>	<u>(.59)</u>	<u>(.15)</u>
Net earnings (loss) available to Common Shares	<u>\$4.14</u>	<u>\$1.23</u>	<u>(\$ .22)</u>
<b>Diluted earnings (loss) per Common Share:</b>			
Continuing operations	\$4.51	\$1.79	\$ .22
Discontinued operations	(.48)	.02	(.29)
Cumulative effect of accounting changes	<u>.09</u>	<u>(.59)</u>	<u>(.15)</u>
Net earnings (loss) available to Common Shares	<u>\$4.12</u>	<u>\$1.22</u>	<u>(\$ .22)</u>
Average number of Common Shares:			
Basic	69,937	68,800	67,928
Diluted	70,272	69,203	68,368
Cash dividends per Common Share	\$ .50	\$ .50	\$1.00

See notes to consolidated financial statements.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Dollars In Thousands)

	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Unrealized Gain on Securities	Total
<b>Balance at December 31, 2000</b>	67,410,091	\$ 965,654	\$442,276	\$140,600	\$1,548,530
Net earnings (loss)	-	-	(14,840)	-	(14,840)
Change in unrealized	-	-	-	18,700	<u>18,700</u>
Comprehensive income					3,860
Dividends on Common Stock	-	-	(67,874)	-	(67,874)
Shares issued:					
Exercise of stock options	65,335	1,522	-	-	1,522
Dividend reinvestment plan	85,105	1,806	-	-	1,806
Employee stock purchase plan	53,370	1,365	-	-	1,365
Retirement plan contributions	876,877	20,970	-	-	20,970
Deferred compensation distributions	331	9	-	-	9
Directors fees paid in stock	4,044	96	-	-	96
Shares acquired and retired	(3,543)	(51)	(49)	-	(100)
Tax effect of intercompany dividends	-	(6,400)	-	-	(6,400)
Capital transactions of subsidiaries	-	(4,215)	-	-	(4,215)
Other	-	<u>(1,190)</u>	-	-	<u>(1,190)</u>
<b>Balance at December 31, 2001</b>	<u>68,491,610</u>	<u>\$ 979,566</u>	<u>\$359,513</u>	<u>\$159,300</u>	<u>\$1,498,379</u>
Net earnings	-	\$ -	\$ 84,640	\$ -	\$ 84,640
Change in unrealized	-	-	-	164,600	<u>164,600</u>
Comprehensive income					249,240
Dividends on Common Stock	-	-	(34,367)	-	(34,367)
Shares issued:					
Exercise of stock options	28,837	656	-	-	656
Dividend reinvestment plan	298,076	6,616	-	-	6,616
Employee stock purchase plan	45,869	1,143	-	-	1,143
Retirement plan contributions	260,040	6,589	-	-	6,589
Deferred compensation distributions	1,809	45	-	-	45
Directors fees paid in stock	3,904	96	-	-	96
Shares acquired and retired	(793)	(12)	(9)	-	(21)
Tax effect of intercompany dividends	-	<u>(3,200)</u>	-	-	<u>(3,200)</u>

Other	-	672	-	-	672
<b>Balance at December 31, 2002</b>	<u>69,129,352</u>	<u>\$ 992,171</u>	<u>\$409,777</u>	<u>\$323,900</u>	<u>\$1,725,848</u>
Net earnings	-	\$ -	\$293,815	\$ -	\$ 293,815
Change in unrealized	-	-	-	(21,300)	(21,300)
Comprehensive income					272,515
Dividends on Common Stock	-	-	(34,750)	-	(34,750)
Shares issued:					
AFG/AFC merger	3,299,563	75,032	(4,048)	-	70,984
Exercise of stock options	35,000	771	-	-	771
Dividend reinvestment plan	165,428	3,412	-	-	3,412
Employee stock purchase plan	41,940	914	-	-	914
Retirement plan contributions	376,234	7,740	-	-	7,740
Deferred compensation distributions	3,300	71	-	-	71
Directors fees paid in stock	5,272	115	-	-	115
Shares acquired and retired	(4)	-	-	-	-
Elimination of tax effect of prior intercompany dividends	-	34,000	-	-	34,000
Repurchase of trust preferred securities	-	-	(73)	-	(73)
Other	-	(5,386)	-	-	(5,386)
<b>Balance at December 31, 2003</b>	<u>73,056,085</u>	<u>\$1,108,840</u>	<u>\$664,721</u>	<u>\$302,600</u>	<u>\$2,076,161</u>

See notes to consolidated financial statements.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(In Thousands)

	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Operating Activities:</b>			
Net earnings (loss)	\$ 293,815	\$ 84,640	(\$ 14,840)
Adjustments:			
Cumulative effect of accounting changes	(6,300)	40,360	10,040
Equity in net (earnings) losses of investees	(9,084)	8,990	16,550
Minority interest	16,470	6,096	11,366
Depreciation and amortization	176,857	174,990	126,167
Annuity benefits	294,940	300,966	294,654
Realized (gains) losses on investing activities	(35,633)	49,093	(2,604)
Deferred annuity and life policy acquisition costs	(148,247)	(170,194)	(137,724)
Increase in reinsurance and other receivables	(515,698)	(669,776)	(298,995)
Decrease (increase) in other assets	(85,511)	30,978	(16,211)
Increase in insurance claims and reserves	717,010	703,244	546,522
Increase (decrease) in payable to reinsurers	(21,398)	212,256	154,384
Increase in other liabilities	56,277	39,415	4,558
Other, net	<u>16,002</u>	<u>1,252</u>	<u>28,650</u>
	<u>749,500</u>	<u>812,310</u>	<u>722,517</u>
<b>Investing Activities:</b>			
Purchases of and additional investments in:			
Fixed maturity investments	(8,013,349)	(6,199,022)	(3,827,768)
Equity securities	(147,836)	(16,583)	(9,071)
Subsidiary	-	(48,447)	-
Real estate, property and equipment	(29,699)	(53,639)	(90,111)
Maturities and redemptions of fixed maturity investments	1,833,418	1,807,482	902,820
Sales of:			
Fixed maturity investments	4,745,708	3,566,812	2,468,492
Equity securities	59,987	23,669	15,814
Subsidiaries and investees	461,386	-	40,395
Real estate, property and equipment	16,649	22,417	71,002
Cash and short-term investments of acquired (former) subsidiaries, net	(112,666)	4,684	(134,237)
Collection of receivable from investee	55,000	-	-
Decrease (increase) in other investments	<u>578</u>	<u>27,220</u>	<u>(7,827)</u>
	<u>(1,130,824)</u>	<u>(865,407)</u>	<u>(570,491)</u>
<b>Financing Activities:</b>			
Fixed annuity receipts	788,174	874,470	616,628
Annuity surrenders, benefits and withdrawals	(572,013)	(549,919)	(622,474)
Net transfers from (to) variable annuity assets	966	20,807	(363)

Additional long-term borrowings	337,208	224,560	242,613
Reductions of long-term debt	(454,775)	(159,926)	(143,840)
Issuances of Common Stock	1,516	1,608	2,582
Issuances of trust preferred securities	33,943	-	-
Repurchases of trust preferred securities	(11,322)	-	(75,000)
Subsidiary's issuance of stock in rights offering	10,632	-	-
Cash dividends paid on Common Stock	(31,338)	(27,834)	(66,068)
Other, net	782	(3,739)	(601)
	<u>103,773</u>	<u>380,027</u>	<u>(46,523)</u>

<b>Net Increase (Decrease) in Cash and Short-term Investments</b>	(277,551)	326,930	105,503
Cash and short-term investments at beginning of period	<u>871,103</u>	<u>544,173</u>	<u>438,670</u>
Cash and short-term investments at end of period	<u>\$ 593,552</u>	<u>\$ 871,103</u>	<u>\$ 544,173</u>

See notes to consolidated financial statements.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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A. Accounting Policies	J. Shareholders' Equity
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E. Assets and Liabilities of Managed Investment Entity	N. Commitments and Contingencies
F. Goodwill and Other Intangibles	O. Quarterly Operating Results
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A. Accounting Policies

**Basis of Presentation** The consolidated financial statements include the accounts of American Financial Group, Inc. ("AFG") and its subsidiaries. Certain reclassifications have been made to prior years to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated. All acquisitions have been treated as purchases. The results of operations of companies since their formation or acquisition are included in the consolidated financial statements.

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

**Subsidiary Realignment** Early in 2003, AFG began an analysis of alternatives to simplify its corporate structure and promote easier oversight, analysis and operation of its subsidiaries. As a result, mergers and a recapitalization were consummated. Committees of independent directors conducted the analyses with the counsel of recognized outside experts and approved each of the transactions. AFG merged with two of its subsidiaries, American Financial Corporation ("AFC") and AFC Holding Company with AFC's Series J Preferred stock being acquired and retired in exchange for approximately 3.3 million shares of AFG Common Stock (aggregate value of \$75 million). In addition, approximately \$170 million in deferred tax liabilities associated with AFC's holding of AFG stock were eliminated. As of January 31, 2004, American Premier Underwriters, Inc. ("APU", a wholly-owned subsidiary) paid an extraordinary dividend consisting of approximately two-thirds of its assets, including insurance subsidiaries, to its immediate parent, APU Holding Company, and retained sufficient assets to enable it to meet its estimated liabilities.

**Investments** Fixed maturity securities classified as "available for sale" are reported at fair value with unrealized gains and losses reported as a separate component of shareholders' equity. Fixed maturities classified as "trading" are reported at fair value with changes in unrealized holding gains or losses during the period included in investment income. Short-term investments are carried at cost; loans receivable are carried primarily at the aggregate unpaid balance. Premiums and discounts on mortgage-backed securities 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. The most significant determinants of prepayments are the difference between interest rates on the underlying mortgages and current mortgage loan rates and the structure of the security. Other factors affecting prepayments include the size, type and age of underlying mortgages, the geographic location of the mortgaged properties and the creditworthiness of

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

the borrowers. Variations from anticipated prepayments will affect the life and yield of these securities.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other than temporary, a provision for impairment is charged to earnings (included in realized gains) and the cost basis of that investment is reduced.

**Derivatives** Derivatives included in AFG's Balance Sheet consist primarily of (i) the interest component of certain life reinsurance contracts (included in other liabilities), (ii) an interest rate swap (included in debt), and (iii) the equity-based component of certain annuity products (included in annuity benefits accumulated) and related call options (included in other investments) designed to be consistent with the characteristics of the liabilities and used to mitigate the risk embedded in those annuity products. Changes in the fair value of derivatives are included in current earnings.

In December 2003, Great American Financial Resources, Inc. ("GAFRI"), an 82%-owned subsidiary of AFG, entered into an interest rate swap, effectively converting the interest rate on \$40 million of its 6-7/8% fixed rate Senior Notes to a floating rate based on LIBOR. The swap realigns GAFRI's mix of floating and fixed rate debt and has been designated a fair value hedge. The terms of the swap match those of the debt; therefore, the swap is considered to be (and is accounted for as) a 100% effective hedge. Both the swap and the hedged debt are adjusted for changes in fair value by offsetting amounts. Accordingly, since the swap is included with long-term debt in the Balance Sheet, the only effect on AFG's financial statements is that the interest expense on the hedged debt is recorded based on the variable rate.

**Managed Investment Entity** The Financial Accounting Standards Board ("FASB") issued revised Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" ("VIEs") in December 2003. FIN 46 sets forth the requirements for consolidating entities that do not share economic risk and reward through typical equity ownership, but rather through contractual relationships that distribute economic risks and rewards among various parties. Once an entity is determined to be a VIE, it is generally required to be consolidated by the primary beneficiary (the party with a majority of either the expected losses or residual rewards or both). Under FIN 46, AFG is considered to be the primary beneficiary of a collateralized debt obligation ("CDO") in which it owns subordinated notes (considered equity) representing approximately two-thirds of the CDO's equity (but less than 50% of the voting power) and 5 % of the total notes issued by the CDO. Accordingly, AFG implemented FIN 46 effective December 31, 2003; the cumulative difference between accounting for the CDO as an investment and as a consolidated subsidiary at that date is shown in the Statement of Operations as the cumulative effect of an accounting change. Since AFG has no right to use the CDO assets and the CDO liabilities can be extinguished only by using CDO assets, the assets and liabilities of the CDO are shown separate from AFG's other assets and liabilities in the Consolidated Balance Sheet.

**Goodwill** Goodwill represents the excess of cost of subsidiaries over AFG's equity in their underlying net assets. Through December 31, 2001, goodwill was being amortized over periods of 20 to 40 years. Effective January 1, 2002, AFG implemented Statement of Financial Accounting Standards ("SFAS") No. 142, under which goodwill is no longer amortized but is subject to an impairment test at least annually. As required under SFAS No. 142, AFG completed the transitional test for goodwill impairment (as of January 1, 2002) in the fourth quarter of 2002. The resulting write-down was reported by restating first quarter 2002 results for the cumulative effect of a change in accounting principle.

**Insurance** As discussed under "Reinsurance" below, unpaid losses and loss adjustment expenses and unearned premiums have not been reduced for reinsurance recoverable.

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#### AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Reinsurance** Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. AFG's insurance subsidiaries report as assets (a) the estimated reinsurance recoverable on unpaid losses, including an estimate for losses incurred but not reported, and (b) amounts paid to reinsurers applicable to the unexpired terms of policies in force. Payable to reinsurers includes ceded premiums retained by AFG's property and casualty insurance subsidiaries under contracts to fund ceded losses as they become due. AFG's insurance subsidiaries also assume reinsurance from other companies. Income on reinsurance assumed is recognized based on reports received from ceding companies.

GAFRI's subsidiaries cede life insurance policies to a third party on a funds withheld basis where GAFRI retains the assets (securities) associated with the reinsurance contracts. Interest is credited to the reinsurer based on the actual investment performance (including realized gains and losses) of the retained assets. Effective October 1, 2003, GAFRI implemented SFAS No. 133 Implementation Issue B36 ("B36"). Under B36, these reinsurance contracts are considered to contain embedded derivatives (that must be marked to market) because the yield on the payables is based on specific blocks of the ceding companies' assets, rather than the overall creditworthiness of the ceding company. GAFRI determined that changes in the fair value of the underlying portfolios of fixed maturity securities is an appropriate measure of the value of the embedded derivative. As permitted under B36, GAFRI reclassified the securities related to these transactions from "available for sale" to "trading". The \$16.1&n bsp;million cumulative effect of marking to market the derivatives embedded in the payables at October 1, 2003, was offset by the initial effect of transferring the related securities from available for sale to trading. Beginning in the fourth quarter of 2003, the mark to market on the embedded derivatives offsets the investment income recorded on the mark to market of the related trading portfolios.

**Deferred Policy Acquisition Costs ("DPAC")** Policy acquisition costs (principally commissions, premium taxes and other marketing and underwriting expenses) related to the production of new business are deferred. For the property and casualty companies, 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.

DPAC related to annuities and universal life insurance products is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of expected gross profits on the policies. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains. DPAC related to annuities is also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from securities had actually been realized. This adjustment is included in "Unrealized gains (losses) on marketable securities, net" in the shareholders' equity section of the Balance Sheet.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues.

**Annuity and Life Acquisition Expenses** Annuity and life acquisition expenses on the Statement of Operations consists primarily of amortization of DPAC related to the annuity and life, accident and health businesses. This line item also includes certain marketing and commission costs that are expensed as paid.

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#### AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

**Unpaid Losses and Loss Adjustment Expenses** The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon (a) the accumulation of case estimates for losses reported prior to the close of the accounting period on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expenses for investigating and adjusting claims and (e) the current state of the law and coverage litigation. Establishing reserves for asbestos and environmental 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 Operations in the period in which determined. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate.

**Annuity Benefits Accumulated** Annuity receipts and benefit payments are recorded as increases or decreases in "annuity benefits accumulated" rather than as revenue and expense. Increases in this liability for interest credited are charged to expense and decreases for surrender charges are credited to other income.

**Life, Accident and Health Reserves** Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations. Reserves established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

**Variable Annuity Assets and Liabilities** Separate accounts related to variable annuities represent deposits invested in underlying investment funds on which GAFRI earns a fee. Investment funds are selected and may be changed only by the policyholder, who retains all investment risk.

**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 reports received from such companies and organizations. For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

**Policyholder Dividends** Dividends payable to policyholders are included in "Accounts payable, accrued expenses and other liabilities" and represent estimates of amounts payable on participating policies which share in favorable underwriting results. Estimates are accrued during the period in which premiums are earned. Changes in estimates are included in income in the period determined. Policyholder dividends do not become legal liabilities unless and until declared by the boards of directors of the insurance companies.

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## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Payable to Subsidiary Trusts (Issuers of Preferred Securities)** Under FIN 46, AFG is required to deconsolidate three wholly-owned subsidiary trusts because they are "variable interest entities" in which AFG is not considered to be the primary beneficiary. These subsidiary trusts were formed to issue preferred securities and, in turn, purchase a like amount of subordinated debt from their parent company which provides interest and principal payments to fund the respective trust obligations. Accordingly, the subordinated debt due to the trusts is shown as a liability in the Balance Sheet beginning December 31, 2003, and the related interest expense will be shown in the Statement of Operations as "interest on subsidiary trust obligations" beginning in the first quarter of 2004. Prior to these dates, these items were included in the Balance Sheet as minority interest and in the Statement of Operations as minority interest expense. Implementation of FIN 46 with respect to the preferred securities had no effect on earnings.

**Minority Interest** For balance sheet purposes, minority interest represents the interests of noncontrolling shareholders in AFG subsidiaries. For income statement purposes, minority interest expense represents those shareholders' interest in the earnings of AFG subsidiaries. See "Payable to Subsidiary Trusts" above.

**Income Taxes** Prior to the AFG/AFC merger in November 2003, AFC filed consolidated federal income tax returns which included all 80%-owned U.S. subsidiaries, except for certain life insurance subsidiaries and their subsidiaries. Because holders of AFC Preferred Stock held in excess of 20% of AFC's voting rights, AFG (parent) and AFC Holding Company were not eligible to file consolidated returns with AFC, and therefore, filed separately. Following the AFG/AFC merger, AFG will file consolidated federal income tax returns, which will include the companies previously included in the AFC consolidated return.

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. Deferred tax assets are recognized if it is more likely than not that a benefit will be realized.

**Stock-Based Compensation** As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," AFG accounts for stock options and other stock-based compensation plans using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under AFG's stock option plan, options are granted to officers, directors and key employees at exercise prices equal to the fair value of the shares at the dates of grant. No compensation expense is recognized for stock option grants.

The following table illustrates the effect on net earnings (in thousands) and earnings per share had compensation cost been recognized and determined based on the "fair values" at grant dates consistent with the method prescribed by SFAS No. 123. See Note J "Shareholders' Equity" for further information on stock options.

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## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For SFAS No. 123 purposes, the "fair value" of \$5.62 per option granted in 2003, \$8.52 in 2002 and \$8.18 in 2001 was calculated using the Black-Scholes option pricing model and the following assumptions: dividend yield of 2%; expected volatility of 30% for 2003 and 2002 and 27% for 2001; risk-free interest rate of 3.6% for 2003, 4.9% for 2002 and 5.3% for 2001; and expected option life of 7.4 years. There is no single reliable method to determine the actual value of options at grant date. Accordingly, actual value of the option grants may be higher or lower than the SFAS No. 123 "fair value".

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net earnings (loss), as reported	\$293,815	\$84,640	(\$14,840)
Pro forma stock option expense, net of tax	<u>—(6,362)</u>	<u>—(5,639)</u>	<u>—(5,436)</u>
Adjusted net earnings (loss)	<u>\$287,453</u>	<u>\$79,001</u>	<u>(\$20,276)</u>
Earnings per share (as reported):			
Basic	\$4.14	\$1.23	(\$0.22)
Diluted	\$4.12	\$1.22	(\$0.22)
Earnings per share (adjusted):			
Basic	\$4.05	\$1.15	(\$0.30)
Diluted	\$4.04	\$1.14	(\$0.30)

**Benefit Plans** AFG provides retirement benefits to qualified employees of participating companies through the AFG Retirement and Savings Plan, a defined contribution plan. The Company makes all contributions to the retirement fund portion of the plan and matches a percentage of employee contributions to the savings fund. Employees have been permitted to direct the investment of their contributions to independently managed investment funds, while Company contributions have been invested primarily in securities of AFG and affiliates. Employees may direct the investment of a portion of their vested retirement fund account balances (increasing from 87.5% in December 2003 to 100% in April 2004) from securities of AFG and its affiliates to independently managed investment funds. As of December 31, 2003, the Plan owned 11% of AFG's outstanding Common Stock. 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 the employees earn such benefits.

**Discontinued Operations** SFAS No. 144, "Accounting For the Impairment or Disposal of Long-Lived Assets," broadens the definition of what constitutes a discontinued operation to include a component of an entity (rather than a segment of a business). A component of an entity may be a reportable segment, a subsidiary or an asset group. Under SFAS No. 144, future operating losses of discontinued entities are no longer recognized before they occur.

**Earnings Per Share** Basic earnings per share is calculated using the weighted average number of shares of common stock outstanding during the period. The calculation of diluted earnings per share includes the following dilutive effect of common stock options: 2003 - 335,000 shares; 2002 - 403,000 shares; and 2001 - 440,000 shares.

**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 and property and equipment. "Financing activities" include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts,

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## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

benefits and withdrawals are also reflected as financing activities. 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. Acquisitions and Sales of Subsidiaries

**Fidelity Excess and Surplus Insurance Company** In June 2003, AFG sold Fidelity Excess and Surplus Insurance Company, an inactive subsidiary, for \$28.9 million, realizing a pretax gain of \$4.3 million. AFG retained all liability for Fidelity's business related to the period AFG owned the company.

**Direct automobile insurance business** In April 2003, AFG sold two of its subsidiaries that market automobile insurance directly to customers for \$32.2 million, realizing a pretax gain of \$3.4 million on the sale. The transaction included the transfer of the right of Great American Insurance Company ("GAI"), an AFG subsidiary, to renew certain of its personal automobile insurance business written on a direct basis in selected markets. Premiums generated by the businesses sold were approximately \$79 million in 2002.

**Infinity Property and Casualty Corporation** On December 31, 2002, AFG transferred to Infinity Property and Casualty Corporation ("Infinity", a newly formed subsidiary) subsidiaries involved primarily in the issuance of nonstandard auto policies. Effective January 1, 2003, GAI transferred to Infinity its personal insurance business written through independent agents. In February 2003, AFG sold 61% of Infinity in a public offering for net proceeds of \$186.3 million, realizing a pretax loss of \$39.4 million on the sale. In addition, AFG realized a \$5.5 million tax benefit related to its basis in Infinity stock. In December 2003, AFG sold its remaining share of Infinity for net proceeds of \$214 million, realizing a pretax gain of \$56.5 million on the sale. The businesses transferred generated aggregate net written premiums of approximately \$690 million in 2002.

**New Jersey private passenger automobile insurance business** In September 2002, an AFG subsidiary entered into an agreement under which two unrelated entities assumed the subsidiary's obligations to renew its private passenger automobile insurance business written in New Jersey. AFG recognized a \$10.8 million pretax loss on the transaction. As of September 9, 2002, AFG no longer accepts any new private passenger automobile insurance in that state.

**Manhattan National Life Insurance** In June 2002, GAFRI paid \$48.5 million for Manhattan National Life Insurance Company ("MNL"), which no longer was writing new business, but had approximately 90,000 policies-in-force (primarily term

life). GAFRI has reinsured 90% of this in-force business.

**Seven Hills Insurance Company** In July 2001, AFG sold Seven Hills Insurance Company for \$18.4 million, realizing a pretax gain of \$7.1 million. AFG retained all liability for Seven Hills' business related to the period AFG owned the company.

**Japanese division** In December 2000, AFG agreed to sell its Japanese property and casualty division to Mitsui Marine & Fire Insurance Company of America for \$22 million in cash and recorded an estimated \$10.7 million pretax loss. Upon completion of the sale in March 2001, AFG realized an additional pretax loss of \$6.9 million (including post closing adjustments) and deferred a gain of approximately \$21 million on ceded insurance; the deferred gain is being recognized over the estimated settlement period (weighted average of 4 years) of the ceded claims.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

C. **Segments of Operations** AFG manages its business as three segments: (i) property and casualty insurance, (ii) annuity, life and supplemental health insurance and (iii) other, which includes holding company assets and costs, and beginning December 31, 2003, the assets and operations of the CDO that AFG manages.

Prior to the sale of its remaining interest in Infinity in the fourth quarter of 2003, AFG separated its property and casualty insurance segment into two components or sub-segments, the Specialty group and the Personal group. The Personal group wrote nonstandard and preferred/standard private passenger auto and other personal insurance coverage. Since AFG has disposed of substantially all of its Personal group business, it has revised its reporting of the Specialty sub-segment into the following components: (i) Property and Transportation which includes inland and ocean marine, agricultural-related business and commercial automobile, (ii) Specialty Casualty which includes executive and professional liability, umbrella and excess liability and excess and surplus, (iii) Specialty Financial which includes fidelity and surety bonds and collateral protection and (iv) California Workers' Compensation. AFG's reportable segments and their components were determined based primarily upon similar economic characteristics, products and services.

AFG's annuity, life and health business markets primarily retirement products as well as life and supplemental health insurance. AFG's businesses operate throughout the United States. In 2003, 2002, and 2001, AFG derived just over 2% of its revenues from the sale of life and supplemental health products in Puerto Rico and just over 1% of its revenues from the sale of property and casualty insurance in Mexico, Canada and Europe.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

The following tables (in thousands) show AFG's assets, revenues and operating profit (loss) by significant business segment and sub-segment. Operating profit (loss) represents total revenues less operating expenses.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Assets</b>			
Property and casualty insurance (a)	\$ 9,230,244	\$ 9,960,769	\$ 8,796,909
Annuities and life	10,177,839	9,349,280	8,370,904
Other	<u>789,175</u>	<u>194,777</u>	<u>233,868</u>
	<u>\$20,197,258</u>	<u>\$19,504,826</u>	<u>\$17,401,681</u>
<b>Revenues (b)</b>			
Property and casualty insurance:			
Premiums earned:			
Specialty			
Property and transportation	\$ 480,597	\$ 419,528	\$ 484,941
Specialty casualty	656,725	572,051	486,508
Specialty financial	262,280	229,415	169,352
California workers' compensation	262,691	213,879	236,533
Other	83,295	62,215	32,163
Personal	163,610	905,246	1,182,651
Other lines	<u>8</u>	<u>266</u>	<u>1,790</u>
	1,909,206	2,402,600	2,593,938
Investment income	252,860	328,593	341,926
Realized gains (losses)	75,193	(52,862)	3,906
Other income	<u>166,071</u>	<u>130,523</u>	<u>108,207</u>
	2,403,330	2,808,854	3,047,977
Annuities, life and health (c)	931,018	897,365	855,733
Other	<u>25,295</u>	<u>38,656</u>	<u>15,551</u>
	<u>\$ 3,359,643</u>	<u>\$ 3,744,875</u>	<u>\$ 3,919,261</u>
<b>Operating Profit (Loss)</b>			
Property and casualty insurance:			
Underwriting:			
Specialty			
Property and transportation	\$ 58,612	\$ 41,336	\$ 16,175
Specialty casualty	11,560	(37,584)	(56,135)
Specialty financial	(21,866)	(3,127)	33,769
California workers' compensation	20,919	7,647	(11,253)
Other	(162)	16,272	(5,830)
Personal	(4,795)	1,339	(93,254)
Other lines (d)	<u>(42,400)</u>	<u>(49,840)</u>	<u>(77,617)</u>
	21,868	(23,957)	(194,145)
Investment and other income (e)	<u>255,891</u>	<u>206,861</u>	<u>293,611</u>
	277,759	182,904	99,466
Annuities, life and health	67,335	61,553	100,864
Other (f)	<u>(64,088)</u>	<u>(68,634)</u>	<u>(114,176)</u>
	<u>\$ 301,006</u>	<u>\$ 175,823</u>	<u>\$ 86,154</u>

(a) Not allocable to sub-segments.

- (b) Revenues include sales of products and services as well as other income earned by the respective segments.
- (c) Investment income comprises approximately three-fifths of these revenues. Includes impairment charges of \$36.7 million, \$87.5 million and \$51.9 million in 2003, 2002 and 2001, respectively.
- (d) Represents development of lines in "run-off" and includes a pretax charge of \$43.8 million in 2003 for an arbitration decision relating to a 1995 property claim from a discontinued business; AFG has ceased underwriting new business in these operations. Includes special charges of \$30 million in 2002 related to the A.P. Green settlement and \$69 million in 2001 related to asbestos and other environmental matters ("A&E").
- (e) Includes a 2003 pretax charge of \$35.5 million related to the settlement of litigation.
- (f) Includes holding company expenses.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

D. **Investments** Fixed maturities and other stocks classified as available-for-sale at December 31 consisted of the following (in millions):

	2003				2002			
	Amortized Cost	Market Value	Gross Gains	Unrealized Losses	Amortized Cost	Market Value	Gross Gains	Unrealized Losses
Fixed maturities:								
United States Government and government agencies and authorities States, municipalities and political subdivisions	\$ 1,392.6	\$ 1,411.8	\$ 24.4	(\$ 5.2)	\$ 1,353.6	\$ 1,402.0	\$ 49.5	(\$ 1.1)
Foreign government	146.3	150.0	4.2	(0.5)	163.3	169.9	6.6	-
Public utilities	1,011.4	1,068.8	61.7	(4.3)	1,038.9	1,058.3	43.4	(24.0)
Mortgage-backed securities	3,387.5	3,388.1	45.7	(45.1)	3,106.6	3,232.1	134.6	(9.1)
All other corporate Redeemable preferred stocks	4,780.5	5,043.0	277.3	(14.8)	5,241.8	5,462.7	312.0	(91.1)
	<u>62.2</u>	<u>70.3</u>	<u>8.3</u>	<u>(0.2)</u>	<u>61.1</u>	<u>66.7</u>	<u>7.8</u>	<u>(2.2)</u>
	<u>\$11,724.2</u>	<u>\$12,102.0</u>	<u>\$450.1</u>	<u>(\$72.3)</u>	<u>\$11,549.7</u>	<u>\$12,006.9</u>	<u>\$590.3</u>	<u>(\$133.1)</u>
Other stocks	<u>\$ 258.5</u>	<u>\$ 454.9</u>	<u>\$197.5</u>	<u>(\$ 1.1)</u>	<u>\$ 174.6</u>	<u>\$ 300.4</u>	<u>\$130.5</u>	<u>(\$ 4.7)</u>

The following table shows gross unrealized losses on fixed maturities and other stocks by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2003.

	Twelve Months or Less			More Than Twelve Month		
	Unrealized Loss	Market Value	Market as % of Cost	Unrealized Loss	Market Value	Market as % of Cost
Fixed maturities:						
United States Government and government agencies and authorities States, municipalities and political subdivisions	(\$ 5.2)	\$ 316.4	98%	(\$ 0.0)	\$ 0.1	94%
Foreign government	(0.7)	94.6	99%	(1.5)	31.7	95%
Public utilities	(0.5)	42.6	99%	-	-	-%
Mortgage-backed securities	(2.9)	80.7	97%	(1.4)	26.6	95%
All other corporate Redeemable preferred stocks	(44.1)	2,039.8	98%	(1.0)	10.9	92%
	(6.6)	390.7	98%	(8.2)	117.6	94%
	<u>(0.2)</u>	<u>10.5</u>	<u>98%</u>	<u>-</u>	<u>-</u>	<u>-%</u>
	<u>(\$60.2)</u>	<u>\$2,975.3</u>	<u>98%</u>	<u>(\$12.1)</u>	<u>\$186.9</u>	<u>94%</u>
Other stocks	<u>(\$ 0.9)</u>	<u>\$ 36.9</u>	<u>98%</u>	<u>(\$ 0.2)</u>	<u>\$ 3.5</u>	<u>95%</u>

The table below sets forth the scheduled maturities of fixed maturities based on market value as of December 31, 2003. Asset-backed securities and other securities with sinking funds are reported at average maturity. Data based on amortized cost is generally the same. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers. Mortgage-backed securities had an average life of approximately six years at December 31, 2003.

Maturity	
One year or less	2%
After one year through five years	24
After five years through ten years	34
After ten years	<u>12</u>
	72
	22

Certain risks are inherent in connection with 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.

The only investment (other than U.S. Treasury Notes) which exceeds 10% of Shareholders' Equity is an equity investment in Provident Financial Group, Inc., having a market value of \$227 million and \$189 million at December 31, 2003 and 2002, respectively. See Note R - "Subsequent Event".

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## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Realized gains (losses) and changes in unrealized appreciation (depreciation) on fixed maturity and equity security investments are summarized as follows (in thousands):

	<u>Fixed</u> <u>Maturities</u>	<u>Equity</u> <u>Securities</u>	<u>Tax</u> <u>Effects</u>	<u>Total</u>
<u>2003</u>				
Realized - Continuing operations	\$ 51,647	\$ 7,244	(\$ 20,514)	\$ 38,377
Realized - Discontinued operations	1,600	11	(564)	1,047
Change in Unrealized	(79,400)	70,600	3,000	(5,800)
<u>2002</u>				
Realized - Continuing operations	(61,614)	(17,354)	27,594	(51,374)
Realized - Discontinued operations	389	(500)	39	(72)
Change in Unrealized	301,900	(100)	(103,800)	198,000
<u>2001</u>				
Realized - Continuing operations	(15,990)	(8,786)	8,674	(16,102)
Realized - Discontinued operations	675	(39)	(223)	413
Change in Unrealized	139,000	(84,500)	(19,200)	35,300

Gross gains and losses on available-for-sale fixed maturity investment transactions included in the Statement of Cash Flows consisted of the following (in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Gross Gains	\$152.2	\$155.3	\$108.9
Gross Losses	(\$ 99.0)	(\$216.5)	(\$124.2)

E. Assets and Liabilities of Managed Investment Entity AFG has an investment in, and acts as investment manager for, a CDO of which AFG has been determined to be the "primary beneficiary." Under FIN 46, AFG is required to consolidate the CDO beginning December 31, 2003. The cumulative effect of this change in accounting was an increase in income of \$6.3 million.

Upon formation in 1999, the CDO issued securities in various senior and subordinate classes and the proceeds were invested in primarily floating rate, secured bank loans, and to a lesser extent, high yield bonds, all of which serve as collateral for the securities issued by the CDO. None of the collateral was purchased from AFG. Income from the CDO's investments is used to service its debt and pay other operating expenses including management fees to AFG. AFG's investment in this CDO is subordinate to the senior classes (approximately 92% of the total securities) issued by the CDO. To the extent there are defaults and unrecoverable losses on the underlying collateral resulting in reduced cash flows, AFG's class would bear losses first.

The assets (substantially all cash and investments carried at market as "trading securities") of this managed investment entity are separately disclosed in the Consolidated Balance Sheet because they are not available for use to satisfy AFG obligations. Likewise, the CDO liabilities (substantially all debt) are separately disclosed because they represent claims against only the CDO's assets and not against AFG's other assets. Accordingly, AFG's exposure to loss on this investment is limited to its investment (approximately \$11.5 million at December 31, 2003).

Beginning in 2004, the operating results of the CDO will be included in AFG's Consolidated Statement of Earnings. However, due to the non-recourse nature of the instruments issued by the CDO, any excess losses included in AFG's results that are not absorbed by AFG's investment over the life of the CDO would ultimately reverse when the CDO is liquidated. Accordingly, while implementation of FIN 46 will impact the timing of income recognition, it will not impact the overall amount of income recognized over the life of this investment.

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## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

AFG is the investment manager and has an investment of \$6.3 million in another CDO (included in fixed maturities) at December 31, 2003, which is not required to be consolidated. This CDO was formed in 2000 and had approximately \$475 million in investments at December 31, 2003.

F. Goodwill and Other Intangibles Effective January 1, 2002, goodwill is no longer amortized but is subject to annual impairment testing. AFG completed its initial test in the fourth quarter of 2002 which resulted in a \$40.4 million (\$.59 per share, basic and diluted) impairment charge, net of tax, reported by restating first quarter 2002 results for the cumulative effect of a change in accounting principle. The impairment charge for the annuities and life insurance segment related to a decrease in estimated future earnings based upon lower forecasted new business sales over the next few years. The impairment charge for the personal lines segment related primarily to planned future reductions in new business volume written through the direct channel.

If the goodwill amortization of \$13.7 million (\$.20 per share, basic and diluted) in 2001 had not been expensed, net loss for the period would have been \$1.2 million (\$.02 per share).

Changes in the carrying value of goodwill during 2002 and 2003, by reporting segment, are presented in the following table (in thousands):

	<u>Property and Casualty</u>		<u>Annuities</u>	<u>Total</u>
	<u>Specialty</u>	<u>Personal</u>	<u>and Life</u>	
Balance December 31, 2001	\$150,999	\$117,391	\$40,404	\$308,794
Goodwill from acquisitions	-	-	1,461	1,461
Transitional impairment charge	-	(39,600)	(21,184)	(60,784)
Other	(788)	-	-	(788)
Balance December 31, 2002	150,211	77,791	20,681	248,683
Goodwill related to businesses sold	-	(77,791)	(645)	(78,436)
Other	-	-	(1,917)	(1,917)
Balance December 31, 2003	<u>\$150,211</u>	<u>\$ -</u>	<u>\$18,119</u>	<u>\$168,330</u>

Included in deferred acquisition costs in AFG's Balance Sheet are \$57.9 million and \$66.8 million at December 31, 2003 and 2002, respectively, representing the present value of future profits ("PVFP") related to acquisitions by AFG's annuity and life business. The PVFP amounts are net of \$65.8 million and \$57.3 million of accumulated amortization. Amortization of the PVFP was \$8.5 million in 2003, \$11.8 million in 2002 and \$9.2 million in 2001. During each of the next five years, the PVFP is expected to decrease at a rate of approximately 14% of the balance at the beginning of each respective year.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**G. Long-Term Debt** Long-term debt consisted of the following at December 31 (in thousands):

	<u>2003</u>	<u>2002</u>
<b>Holding Companies:</b>		
AFG 7-1/8% Senior Debentures due April 2009, less discount of \$1,349 and \$1,552 (imputed rate - 7.2%)	\$301,501	\$301,298
AFG 7-1/8% Senior Debentures due December 2007	75,100	79,600
AFG Senior Convertible Debentures due June 2033 (imputed rate - 4.0%)	189,857	-
Notes payable under bank line American Premier Underwriters, Inc. ("APU") 10-7/8% Subordinated Notes due May 2011, including premium of \$712 and \$777 (imputed rate - 9.6%)	-	248,000
Other	11,433	11,498
	<u>8,160</u>	<u>8,014</u>
	<u>\$586,051</u>	<u>\$648,410</u>
<b>Subsidiaries:</b>		
GAFRI 6-7/8% Senior Notes due June 2008	\$100,000	\$100,000
GAFRI 7-1/2% Senior Debentures due November 2033	112,500	-
GAFRI notes payable under bank line	-	148,600
Notes payable secured by real estate	27,063	35,610
Other	<u>11,248</u>	<u>12,561</u>
	<u>\$250,811</u>	<u>\$296,771</u>

At December 31, 2003, sinking fund and other scheduled principal payments on debt for the subsequent five years were as follows (in millions):

	<u>Holding</u>	<u>Subsidiaries</u>	<u>Total</u>
	<u>Companies</u>		
2004	\$ -	\$ 2.0	\$ 2.0
2005	-	11.2	11.2
2006	-	19.5	19.5
2007	80.3	.1	80.4
2008	-	100.1	100.1

In June 2003, AFG issued Senior Convertible Notes due in 2033 at an issue price of 37.153% of the principal amount due at maturity. AFG received \$189.9 million before issue costs of \$4.5 million. Interest is payable semiannually at a rate of 4% of issue price per year through June 2008, after which, interest at 4% annually will be accrued and added to the carrying value of the Notes. In addition, contingent cash interest will be paid if the average market price of a Note for an applicable five-day trading period equals 120% or more of the accreted value. The Notes are redeemable at AFG's option at any time on or after June 2, 2008, at prices ranging from \$371.53 per Note to \$1,000 per Note at maturity. Holders may require AFG to purchase all or a portion of their Notes on five year anniversaries beginning in 2008, at the accreted value. Generally, holders may convert each Note into 11.5016 shares of AFG Common Stock (i) if the average market price of AFG Common Stock to be received up on conversion exceeds 120% of the accreted value, (ii) if the credit rating of the Notes is significantly lowered, or (iii) if AFG calls the notes for redemption.

In November 2003, GAFRI received approximately \$109 million from the sale of \$112.5 million principal amount of 7-1/2% senior debentures due 2033.

In December 2003, GAFRI entered into an interest rate swap, effectively converting \$40 million of its 6-7/8% fixed-rate Senior Notes to a floating rate of 3-month LIBOR plus 2.906% (about 4.1% at December 31, 2003).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

In the first quarter of 2004, AFG issued \$115 million principal amount of 7-1/8% senior debentures due 2034 and GAFRI issued \$86.3 million principal amount of 7-1/4% senior debentures due 2034. Proceeds from both offerings were used to redeem at face value a portion of the outstanding trust preferred securities.

AFG may borrow up to \$280 million under its credit agreement. The line consists of two facilities: a 364-day revolving facility, extendable annually, for one-third of the total line and a three-year revolving facility for the remaining two-thirds with a final maturity in November 2005. Amounts borrowed bear interest at rates ranging from 1.25% to 2.25% over LIBOR based on AFG's credit rating. In addition, GAFRI has an unsecured credit agreement under which it can borrow up to \$155 million at floating rates based on prime or Eurodollar rates through December 2004.

Cash interest payments of \$48 million, \$47 million and \$51 million were made on long-term debt in 2003, 2002 and 2001, respectively. Interest expense in the Statement of Operations includes interest credited on funds held by AFG's insurance subsidiaries under reinsurance contracts and other similar agreements as follows: 2003 - \$7.8 million; 2002 - \$11.7 million; and 2001 - \$7.1 million.

**H. Payable to Subsidiary Trusts (Issuers of Preferred Securities)** Wholly-owned subsidiary trusts of AFG and GAFRI have issued preferred securities and, in turn, purchased from their parent company a like amount of subordinated debt which provides interest and principal payments to fund the respective trusts' obligations. The preferred securities must be redeemed upon maturity or redemption of the subordinated debt. AFG and GAFRI effectively provide unconditional guarantees of their respective trusts' obligations.

In accordance with FIN 46, variable interest entities that issued preferred securities subsequent to January 31, 2003, are not consolidated for reporting purposes. Beginning December 31, 2003, previously consolidated subsidiary trusts were deconsolidated for reporting purposes under FIN 46. Accordingly, the subordinated debt due the trusts is shown as a liability in AFG's Balance Sheet instead of the preferred securities which were previously reported as minority interest. The preferred securities supported by the payable to subsidiary trusts consisted of the following at December 31, 2003 (in thousands):

Date of Issuance	Issue (Maturity Date)	Amount Outstanding	Optional Redemption Dates
October 1996	AFG 9-1/8% TOPrS (2026)	\$95,459	Currently redeemable
November 1996	GAFRI 9-1/4% TOPrS (2026)	65,013	Currently redeemable
March 1997	GAFRI 8-7/8% Pfd (2027)	70,000	On or after 3/1/2007
May 2003	GAFRI 7.35% Pfd (2033)	20,000	On or after 5/15/2008
May 2003	Variable Rate Pfd (2033)	15,000	On or after 5/23/2008

In May 2003, a GAFRI subsidiary and a 68%-owned subsidiary of GAI issued an aggregate of \$35 million in trust preferred securities maturing in 2033.

The AFG 9-1/8% trust preferred securities and the GAFRI 9-1/4% trust preferred securities were redeemed at face value in the first quarter of 2004.

**I. Minority Interest** Minority interest in AFG's balance sheet is comprised of the following (in thousands):

	2003	2002
Interest of noncontrolling shareholders		
in subsidiaries' common stock	\$180,937	\$157,207
Managed investment entity	6,622	-
Preferred securities issued by		
subsidiary trusts (a)	-	241,663
AFC preferred stock (b)	-	72,154
	<u>\$187,559</u>	<u>\$471,024</u>

(a) See Note H - "Payable to Subsidiary Trusts."

(b) Exchanged for 3.3 million shares of AFG Common Stock in November 2003.

## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Minority Interest Expense** Minority interest expense is comprised of (in thousands):

	2003	2002	2001
Interest of noncontrolling shareholders			
in earnings of subsidiaries	\$16,470	\$ 6,096	\$11,366
Accrued distributions by consolidated subsidiaries on preferred securities:			
Trust issued securities, net of tax	14,151	14,281	16,932
AFC preferred stock	<u>5,772</u>	<u>5,772</u>	<u>5,772</u>
	<u>\$36,393</u>	<u>\$26,149</u>	<u>\$34,070</u>

**J. Shareholders' Equity** At December 31, 2003, the shares of AFG Common Stock outstanding included 1,361,711 shares held by American Premier, its subsidiary, for possible distribution to certain creditors and other claimants upon proper claim presentation and settlement pursuant to the 1978 plan of reorganization of its predecessor, The Penn Central Corporation. Shares being held for distribution are not eligible to vote, but otherwise are accounted for as issued and outstanding. 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.

In conjunction with the AFG/AFG merger, AFG issued 3.3 million shares of Common Stock in exchange for all of the outstanding shares of AFC Series J preferred stock in November 2003.

The Senior Convertible Notes issued in June 2003 could be converted under certain conditions into 5.9 million shares of AFG Common Stock.

**Stock Options** At December 31, 2003, there were 9.7 million shares of AFG Common Stock reserved for issuance under AFG's Stock Option Plan. Options are granted with an exercise price equal to the market price of AFG Common Stock at the date of grant. Options generally become exercisable at the rate of 20% per year commencing one year after grant; those granted to non-employee directors of AFG are fully exercisable upon grant. Options generally expire ten years after the date of grant. Data for AFG's Stock Option Plan is presented below:

	2003		2002		2001	
	Shares	Average Exercise Price	Shares	Average Exercise Price	Shares	Average Exercise Price
Outstanding at beginning of year	6,982,562	\$27.58	6,089,131	\$27.91	6,452,496	\$27.86
Granted	956,250	\$18.54	1,056,750	\$25.78	20,500	\$26.22
Exercised	(35,000)	\$21.12	(28,837)	\$20.80	(65,335)	\$21.39
Forfeited	(188,156)	\$25.02	(134,482)	\$29.41	(318,530)	\$28.16
Outstanding at end of year	<u>7,715,656</u>	\$26.56	<u>6,982,562</u>	\$27.58	<u>6,089,131</u>	\$27.91
Options exercisable at year-end	<u>5,404,330</u>	\$28.51	<u>4,560,210</u>	\$29.01	<u>3,818,305</u>	\$29.23
Options available for grant at year-end	<u>1,942,881</u>		<u>2,710,975</u>		<u>3,633,243</u>	

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares	Average Exercise Price	Average Remaining Life	Shares	Average Exercise Price	
\$18.45 - \$20.00	2,626,891	\$19.34	7.4 years	1,147,441	\$19.79	
\$20.01 - \$25.00	1,199,225	\$23.94	1.5 "	1,195,225	\$23.95	
\$25.01 - \$30.00	1,235,614	\$25.93	7.2 "	536,414	\$26.09	
\$30.01 - \$35.00	914,750	\$30.36	2.1 "	912,450	\$30.35	
\$35.01 - \$40.00	1,462,676	\$36.81	4.3 "	1,336,300	\$36.91	
\$40.01 - \$45.19	276,500	\$42.40	4.2 "	276,500	\$42.40	

No compensation cost has been recognized for stock option grants. For information about the SFAS #123 "fair value" of options granted, see Note A - "Accounting Policies - Stock-based Compensation."

**Unrealized Gain (Loss) on Marketable Securities, Net** The change in unrealized gain (loss) on marketable securities included the following (in millions):

	Pretax	Tax Effects	Minority Interest	Net
<u>2003</u>				
Unrealized holding gains on securities arising during the period	\$ 86.5	(\$30.6)	\$ 1.0	\$ 56.9
Adoption of FIN 46	(2.1)	0.8	0.1	(1.2)
Transfer to Trading Securities	(16.1)	5.6	1.9	(8.6)
Realized gains included in net income and unrealized gains of subsidiaries sold	<u>(104.5)</u>	<u>36.7</u>	<u>(0.6)</u>	<u>(68.4)</u>
Change in unrealized gain on marketable securities, net	<u>(\$ 36.2)</u>	<u>\$ 12.5</u>	<u>\$ 2.4</u>	<u>(\$ 21.3)</u>
<u>2002</u>				
Unrealized holding gains on securities arising during the period	\$195.7	(\$66.6)	(\$11.8)	\$117.3
Realized losses included in net income	<u>79.1</u>	<u>(27.7)</u>	<u>(4.1)</u>	<u>47.3</u>
Change in unrealized gain on marketable securities, net	<u>\$274.8</u>	<u>(\$94.3)</u>	<u>(\$15.9)</u>	<u>\$164.6</u>
<u>2001</u>				
Unrealized holding gains (losses) on securities arising during the period	\$ 0.8	(\$ 0.3)	(\$ 4.1)	(\$ 3.6)
Adoption of EITF 99-20	16.9	(6.0)	(0.9)	10.0
Realized losses included in net income and unrealized gains of subsidiary sold	<u>23.6</u>	<u>(8.3)</u>	<u>(3.0)</u>	<u>12.3</u>
Change in unrealized gain on marketable securities, net	<u>\$ 41.3</u>	<u>(\$14.6)</u>	<u>(\$ 8.0)</u>	<u>\$ 18.7</u>

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**K. Income Taxes** The following is a reconciliation of income taxes at the statutory rate of 35% and income taxes as shown in the Statement of Operations (in thousands):

2003 2002 2001

Earnings (loss) before income taxes:			
Operating	\$301,006	\$175,823	\$86,154
Minority interest expense	(44,013)	(33,839)	(43,187)
Equity in net earnings (losses) of investees	13,975	(13,830)	(25,462)
Discontinued operations	(51,795)	2,196	(30,256)
Accounting changes	<u>6,300</u>	<u>(57,716)</u>	<u>(15,948)</u>
Total	<u>\$225,473</u>	<u>\$ 72,634</u>	<u>(\$28,699)</u>
Income taxes at statutory rate	\$ 78,916	\$ 25,422	(\$10,045)
Effect of:			
Adjustment to prior year taxes	(143,500)	(33,192)	(6,317)
Minority interest	7,764	3,058	5,672
Tax exempt interest	(4,970)	(1,367)	(1,233)
Effect of foreign operations	(4,416)	(4,212)	(3,421)
Dividends received deduction	(2,539)	(2,313)	(2,317)
Amortization and writeoff of intangibles	907	3,711	4,526
Nondeductible meals, etc.	770	992	1,381
State income taxes	460	153	781
Losses utilized	-	(3,300)	(1,245)
Tax credits	-	-	(1,243)
Other	<u>(1,734)</u>	<u>(958)</u>	<u>(398)</u>
Total Provision (Credit)	<u>(68,342)</u>	<u>(12,006)</u>	<u>(13,859)</u>
Amounts applicable to:			
Minority interest expense	7,620	7,690	9,117
Equity in net (earnings) losses of investees	(4,891)	4,840	8,912
Discontinued operations	18,159	(763)	10,393
Accounting changes	-	<u>17,356</u>	<u>5,908</u>
Provision (credit) for income taxes as shown on the Statement of Operations	<u>(\$ 47,454)</u>	<u>\$ 17,117</u>	<u>\$20,471</u>

The AFG/AFC merger in November 2003 resulted in the elimination of \$170 million in deferred tax liabilities associated with AFC's holding of AFG stock. Of this amount, \$136 million had previously been recorded through charges to earnings in conjunction with AFC's accounting for AFG's predecessor under the equity method from 1980 through March 1995. The remaining \$34 million had previously been recorded through charges to capital surplus for the tax effect of AFG dividends paid to AFC from April 1995 through the end of 2002, during which time AFG and AFC were in separate tax groups.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Total earnings before income taxes include income subject to tax in foreign jurisdictions of \$21.7 million in 2003, \$17.8 million in 2002 and \$8.3 million in 2001.

The total income tax provision (credit) consists of (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current taxes:			
Federal	\$ 43,028	\$17,535	\$44,715
Foreign	3,115	2,293	-
State	707	236	1,201
Deferred taxes:			
Federal	(116,338)	(33,762)	(59,042)
Foreign	<u>1,146</u>	<u>1,692</u>	<u>(733)</u>
	<u>(\$ 68,342)</u>	<u>(\$12,006)</u>	<u>(\$13,859)</u>

For income tax purposes, AFG and certain members of its consolidated tax group had the following carryforwards available at December 31, 2003 (in millions):

	<u>Expiring</u>	<u>Amount</u>
Operating Loss	{ 2005 - 2009	\$ 4
	{ 2010 - 2019	51
	{ 2020 - 2022	105
Capital Loss	2008	240
Other - Tax Credits		8

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes. The significant components of deferred tax assets and liabilities included in the Balance Sheet at December 31, were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 56.0	\$ 70.4
Capital loss carryforwards	86.0	-
Insurance claims and reserves	263.2	278.6
Other, net	<u>112.8</u>	<u>108.8</u>
	518.0	457.8
Valuation allowance for deferred tax assets	<u>(50.0)</u>	<u>(34.9)</u>

	468.0	422.9
Deferred tax liabilities:		
Deferred acquisition costs	(222.2)	(242.6)
Investment securities	<u>(93.4)</u>	<u>(188.3)</u>
	<u>(315.6)</u>	<u>(430.9)</u>
Net deferred tax asset (liability)	<u>\$152.4</u>	<u>(\$ 8.0)</u>

The gross deferred tax asset has been reduced by a valuation allowance based on an analysis of the likelihood of realization. Factors considered in assessing the need for a valuation allowance include: (i) recent tax returns, which show neither a history of large amounts of taxable income nor cumulative losses in recent years, (ii) opportunities to generate taxable income from sales of appreciated assets, and (iii) the likelihood of generating larger amounts of taxable income in the future. The likelihood of realizing this asset will be reviewed periodically; any adjustments required to the valuation allowance will be made in the period in which the developments on which they are based become known.

Cash payments for income taxes, net of refunds, were \$50.2 million, \$30.0 million and \$6.6 million for 2003, 2002 and 2001, respectively.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

L. **Discontinued Operation** In the fourth quarter of 2003, AFG pursued a sale of Transport Insurance Company, an inactive property and casualty subsidiary with only run-off liabilities, including old asbestos and environmental claims. Transport's asbestos and environmental ("A&E") reserves represent approximately 12% of AFG's total A&E reserves. Although an agreement has not been finalized, management expects to complete a sale in 2004. In December, AFG recorded a \$55 million impairment charge to reduce its investment in Transport to estimated fair value, which was determined based on negotiations with potential buyers.

Transport's results are reflected as discontinued for all periods presented in the Statement of Operations; Balance Sheet amounts have not been reclassified. The carrying amount of the major classes of Transport's assets and liabilities and a summary of the discontinued operations follow (in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Assets:</b>			
Investment in fixed-maturity securities	\$ 70.8	\$ 74.5	
Amounts due from reinsurers and prepaid reinsurance premiums	59.3	62.8	
<b>Liabilities:</b>			
Unpaid losses and loss adjustment expenses	\$111.8	\$117.4	
<b>Operations:</b>			
Revenue	\$ 6.1	\$ 4.7	\$ 4.4
Pretax earnings (loss)	3.2	2.2	(30.3)
Provision (benefit) for income taxes	<u>1.1</u>	<u>0.8</u>	<u>(10.4)</u>
Earnings (loss) from discontinued operations	2.1	1.4	(19.9)
AFG's provision for impairment, net of tax	<u>(35.7)</u>	<u>-</u>	<u>-</u>
Discontinued operations	<u>(\$ 33.6)</u>	<u>\$ 1.4</u>	<u>(\$ 19.9)</u>

M. **Equity in Net Earnings (Losses) of Investees** From the date of the initial sale of 61% of Infinity in February 2003 through the date of the sale of its remaining interest in Infinity in December 2003, AFG accounted for its ownership interest in Infinity as an investee using the equity method. Equity in Infinity's net earnings during this period was \$12.2 million.

Equity in net earnings (losses) of investees for 2002 and 2001 represents AFG's share of the losses from two start-up manufacturing businesses that were formerly subsidiaries. One of these businesses was sold in December 2002; equity in the net loss of the remaining business was \$3.1 million in 2003.

N. **Commitments and Contingencies** Loss accruals (included in other liabilities) have been recorded for various environmental and occupational injury and disease claims and other contingencies arising out of the railroad operations disposed of by American Premier's predecessor, Penn Central Transportation Company ("PCTC"), prior to its bankruptcy reorganization in 1978 and certain manufacturing operations disposed of by American Premier.

At December 31, 2003, American Premier had liabilities for environmental and personal injury claims aggregating \$74.9 million. The environmental claims consist of a number of proceedings and claims seeking to impose responsibility for hazardous waste remediation costs related to certain sites formerly owned or operated by the railroad and manufacturing operations. Remediation costs are difficult to estimate for a number of reasons, including the number and financial resources of other potentially responsible parties, the range of costs for remediation alternatives, changing technology and the time period over which these matters develop. The personal injury claims include pending and expected claims, primarily by former employees of PCTC, for injury or disease allegedly caused by exposure to excessive noise, asbestos or other substances in the workplace. In December 2001, American Premier recorded a \$12.1 million charge to increase its

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

environmental reserves due to an increase in expected ultimate claim costs. At December 31, 2003, American Premier had \$8.8 million of offsetting recovery assets (included in other assets) for such environmental and personal injury claims

based upon estimates of probable recoveries from insurance carriers.

AFG has accrued approximately \$6.2 million at December 31, 2003, for environmental costs and certain other matters associated with the sales of former operations.

AFG's insurance subsidiaries continue to receive claims related to environmental exposures, asbestos and other mass tort claims. Establishing reserves for these claims is subject to uncertainties that are significantly greater than those presented by other types of claims. The liability for asbestos and environmental reserves at December 31, 2003 and 2002, respectively, was \$515 million and \$572 million; related recoverables from reinsurers (net of allowances for doubtful accounts) at those dates were \$92 million and \$105 million, respectively. These amounts include the reserves (\$70 million) and reinsurance recoverables (\$18 million) of Transport Insurance Company, which AFG expects to sell in 2004.

While management believes AFG has recorded adequate reserves for the items discussed in this note, the outcome is uncertain and could result in liabilities exceeding amounts AFG has currently recorded. Additional amounts could have a material adverse effect on AFG's future results of operations and financial condition.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

O. **Quarterly Operating Results (Unaudited)** The operations of certain of AFG's business segments are seasonal in nature. While insurance premiums are recognized on a relatively level basis, claim losses related to adverse weather (snow, hail, hurricanes, tornadoes, etc.) may be seasonal. Quarterly results necessarily rely heavily on estimates. These estimates and certain other factors, such as the nature of investees' operations and discretionary sales of assets, cause the quarterly results not to be necessarily indicative of results for longer periods of time.

The following are quarterly results of consolidated operations for the two years ended December 31, 2003 (in millions, except per share amounts).

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
<u>2003</u>					
Revenues	\$839.9	\$776.6	\$848.3	\$894.8	\$3,359.6
Earnings (loss) from:					
Continuing operations	24.8	29.9	41.2	225.2	321.1
Discontinued operations	.3	.6	.4	(34.9)	(33.6)
Cumulative effect of accounting change	-	-	-	6.3	6.3
Net earnings (loss)	25.1	30.5	41.6	196.6	293.8
Basic earnings (loss) per common share:					
Continuing operations	\$.36	\$.43	\$.59	\$3.10	\$4.53
Discontinued operations	-	.01	.01	(.49)	(.48)
Cumulative effect of accounting change	-	-	-	.09	.09
Net earnings (loss) available to Common Shares	\$.36	\$.44	\$.60	\$2.70	\$4.14
Diluted earnings (loss) per common share:					
Continuing operations	\$.36	\$.43	\$.58	\$3.08	\$4.51
Discontinued operations	-	.01	.01	(.49)	(.48)
Cumulative effect of accounting change	-	-	-	.09	.09
Net earnings (loss) available to Common Shares	\$.36	\$.44	\$.59	\$2.68	\$4.12
Average number of Common Shares:					
Basic	69.3	69.6	69.7	71.2	69.9
Diluted	69.4	69.9	70.0	71.7	70.3
<u>2002</u>					
Revenues	\$924.4	\$917.4	\$941.9	\$961.2	\$3,744.9
Earnings (loss) from:					
Continuing operations	42.1	11.5	26.2	43.8	123.6
Discontinued operations	(.3)	.6	.7	.4	1.4
Cumulative effect of accounting change	(40.4)	-	-	-	(40.4)
Net earnings	1.4	12.1	26.9	44.2	84.6
Basic earnings per common share:					
Continuing operations	\$.61	\$.17	\$.38	\$.63	\$1.80
Discontinued operations	-	.01	.01	.01	.02
Cumulative effect of accounting change	(.59)	-	-	-	(.59)
Net earnings available to Common Shares	\$.02	\$.18	\$.39	\$.64	\$1.23
Diluted earnings per common share:					
Continuing operations	\$.61	\$.16	\$.38	\$.63	\$1.79
Discontinued operations	-	.01	.01	.01	.02
Cumulative effect of accounting change	(.59)	-	-	-	(.59)
Net earnings available to Common Shares	\$.02	\$.17	\$.39	\$.64	\$1.22
Average number of Common Shares:					
Basic	68.6	68.7	68.9	69.0	68.8
Diluted	69.0	69.4	69.2	69.3	69.2

Quarterly earnings per share do not add to year-to-date amounts due to changes in shares outstanding.

Results for 2003 include (i) a \$5.5 million first quarter tax benefit related to AFG's investment in Infinity, (ii) a \$43.8 million second quarter charge for an arbitration decision relating to a 1995 property claim, (iii) a \$12.5 million second quarter charge related to the narrowing of spreads on GAFRI's fixed annuities, (iv) a \$35.5 million third quarter charge related to a litigation settlement, (v) a fourth quarter tax benefit of \$136 million related to the

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

elimination of deferred taxes in connection with the AFG/AFG merger, and (vi) a fourth quarter \$55 million charge related to the planned sale of Transport Insurance Company (included in discontinued operations).

Results for 2002 include a \$16 million tax benefit in the first quarter and a \$15 million tax benefit in the fourth quarter resulting from the reduction of previously accrued amounts due to the resolution of certain tax matters. Fourth quarter 2002 results also include a \$30 million charge related to the settlement of asbestos-related litigation.

AFG has realized gains (losses) on sales of subsidiaries in recent years (see Note B). Realized gains (losses) on securities, affiliates and other investments amounted to (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
2003	(\$37.7)	\$25.3	\$21.8	\$69.3	\$78.7
2002	(17.4)	(47.7)	(24.9)	9.5	(80.5)

P. **Insurance** Securities owned by insurance subsidiaries having a carrying value of approximately \$900 million at December 31, 2003, were on deposit as required by regulatory authorities.

**Insurance Reserves** The liability for losses and loss adjustment expenses for long-term scheduled payments under certain workers' compensation insurance has been discounted at about 7%, an approximation of long-term investment yields. As a result, the total liability for losses and loss adjustment expenses at December 31, 2003, has been reduced by \$26 million.

The following table provides an analysis of changes in the liability for losses and loss adjustment expenses, net of reinsurance (and grossed up), over the past three years on a GAAP basis (in millions). Adverse development recorded in 2003, 2002 and 2001 in prior year reserves related primarily to charges for asbestos and certain Specialty lines in run-off.

	2003	2002	2001
Balance at beginning of period	\$3,400	\$3,253	\$3,192
Provision for losses and LAE occurring in the current year	1,203	1,664	1,950
Net increase (decrease) in provision for claims of prior years	<u>167</u>	<u>171</u>	<u>163</u>
Total losses and LAE incurred (*)	1,370	1,835	2,113
Payments for losses and LAE of:			
Current year	(389)	(594)	(831)
Prior years	<u>(849)</u>	<u>(1,094)</u>	<u>(1,036)</u>
Total payments	(1,238)	(1,688)	(1,867)
Reserves of businesses sold	(682)	-	(120)
Reclass to unearned premiums	<u>-</u>	<u>-</u>	<u>(65)</u>
Balance at end of period	<u>\$2,850</u>	<u>\$3,400</u>	<u>\$3,253</u>
Add back reinsurance recoverables, net of allowance	<u>2,059</u>	<u>1,804</u>	<u>1,525</u>
Gross unpaid losses and LAE included in the Balance Sheet	<u>\$4,909</u>	<u>\$5,204</u>	<u>\$4,778</u>

(\*) Before amortization of deferred gains on retroactive reinsurance of \$15 million in 2003, \$20 million in 2002 and \$33 million in 2001. Includes losses of Transport Insurance Company which have been reclassified to discontinued operations: 2003 - \$2 million; 2002 - \$2 million; and 2001 - \$33 million.

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#### AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Net Investment Income** The following table shows (in millions) investment income earned and investment expenses incurred by AFG's insurance companies.

	2003	2002	2001
Insurance group investment income:			
Fixed maturities	\$753.6	\$849.7	\$838.8
Equity securities	13.1	9.6	8.1
Other	<u>.4</u>	<u>.6</u>	<u>1.1</u>
	767.1	859.9	848.0
Insurance group investment expenses (*)	<u>(39.7)</u>	<u>(40.3)</u>	<u>(36.7)</u>
	<u>\$727.4</u>	<u>\$819.6</u>	<u>\$811.3</u>

(\*) Included primarily in "Other operating and general expenses" in the Statement of Operations.

**Statutory Information** AFG's insurance subsidiaries are required to file financial statements with state insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). Net earnings and policyholders' surplus on a statutory basis for the insurance subsidiaries were as follows (in millions):

Net Earnings (Loss)	Policyholders' Surplus
---------------------	---------------------------

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>
Property and casualty companies	\$94	\$116	\$34	\$1,814	\$1,742
Life insurance companies	78	(24)	(25)	549	445

**Reinsurance** In the normal course of business, AFG's insurance subsidiaries cede reinsurance to other companies to diversify risk and limit maximum loss arising from large claims. To the extent that any reinsuring companies are unable to meet obligations under agreements covering reinsurance ceded, AFG's insurance subsidiaries would remain liable. The following table shows (in millions) (i) amounts deducted from property and casualty written and earned premiums in connection with reinsurance ceded, (ii) written and earned premiums included in income for reinsurance assumed and (iii) reinsurance recoveries deducted from losses and loss adjustment expenses.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Direct premiums written	\$3,530	\$4,027	\$3,573
Reinsurance assumed	100	80	94
Reinsurance ceded	<u>(1,618)</u>	<u>(1,693)</u>	<u>(1,114)</u>
Net written premiums	<u>\$2,012</u>	<u>\$2,414</u>	<u>\$2,553 (*)</u>
Direct premiums earned	\$3,455	\$3,798	\$3,393
Reinsurance assumed	79	91	92
Reinsurance ceded	<u>(1,625)</u>	<u>(1,486)</u>	<u>(891)</u>
Net earned premiums	<u>\$1,909</u>	<u>\$2,403</u>	<u>\$2,594</u>
Reinsurance recoveries	<u>\$1,124</u>	<u>\$1,142</u>	<u>\$ 773</u>

(\*) Net of \$29.7 million unearned premium transfer related to the sale of the Japanese division.

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Q. Additional Information** Total rental expense for various leases of office space and equipment was \$38 million, \$52 million and \$53 million for 2003, 2002 and 2001, respectively. Sublease rental income related to these leases totaled \$612,000 in 2002 and \$2.4 million in 2001.

Future minimum rentals, related principally to office space, required under operating leases having initial or remaining noncancelable lease terms in excess of one year at December 31, 2003, were as follows: 2004 - \$36 million; 2005 - \$25 million; 2006 - \$22 million; 2007 - \$13 million; 2008 - \$8 million and \$13 million thereafter. In addition, AFG has 99-year land leases (approximately 93 years remaining) at one of its real estate properties. Minimum lease payments under these leases are expected to total approximately \$180,000 in 2004 and are adjusted annually for inflation.

Other operating and general expenses included charges for possible losses on agents' balances, other receivables and other assets in the following amounts: 2003 - \$1.3 million; 2002 - \$2.7 million; and 2001 - \$3.5 million. Losses and loss adjustment expenses included charges for possible losses on reinsurance recoverables of \$4.7 million in 2003 and \$6.6 million in 2002. The aggregate allowance for all such losses amounted to approximately \$84 million and \$89 million at December 31, 2003 and 2002, respectively.

**Unrealized Gain (Loss) on Marketable Securities, Net** In addition to adjusting equity securities and fixed maturity securities classified as "available for sale" to fair value, SFAS 115 requires that certain other balance sheet amounts be adjusted to the extent that unrealized gains and losses from securities would result in adjustments had those gains or losses actually been realized. The components of the Consolidated Balance Sheet caption "Unrealized gain on marketable securities, net" in shareholders' equity are summarized as follows (in millions):

	Unadjusted Asset (Liability).	Effect of SFAS 115	Adjusted Asset (Liability).
<u>2003</u>			
Fixed maturities - available-for-sale	\$11,724.2	\$377.8	\$12,102.0
Other stocks	258.5	196.4	454.9
Deferred acquisition costs	909.9	(58.7)	851.2
Annuity benefits accumulated	(6,965.7)	<u>(8.9)</u>	(6,974.6)
Pretax unrealized		506.6	
Deferred taxes	327.4	(175.0)	152.4
Minority interest	(158.6)	<u>(29.0)</u>	(187.6)
Unrealized gain		<u>\$302.6</u>	
<u>2002</u>			
Fixed maturities - available-for-sale	\$11,549.7	\$457.2	\$12,006.9
Other stocks	174.6	125.8	300.4
Deferred acquisition costs	873.1	(31.0)	842.1
Annuity benefits accumulated	(6,444.7)	<u>(9.2)</u>	(6,453.9)
Pretax unrealized		542.8	
Deferred taxes	179.5	(187.5)	(8.0)
Minority interest	(439.6)	<u>(31.4)</u>	(471.0)
Unrealized gain		<u>\$323.9</u>	

## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**Fair Value of Financial Instruments** The following table presents (in millions) the carrying value and estimated fair value of AFG's financial instruments at December 31.

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Fixed maturities	\$12,297	\$12,297	\$12,007	\$12,007
Other stocks	455	455	300	300
<b>Liabilities:</b>				
Annuity benefits				
accumulated	\$ 6,975	\$ 6,781	\$ 6,454	\$ 6,284
Long-term debt:				
Holding companies	586	629	648	624
Subsidiaries	251	257	297	287
Payable to subsidiary trusts	265	271	N/A	N/A
<b>Minority Interest:</b>				
Trust preferred securities	N/A	N/A	\$ 242	\$ 238
AFC preferred stock	\$ -	\$ -	72	54
<b>Shareholders' Equity</b>	<b>\$ 2,076</b>	<b>\$ 1,933</b>	<b>\$ 1,726</b>	<b>\$ 1,595</b>

When available, fair values are based on prices quoted in the most active market for each security. If quoted prices are not available, fair value is estimated based on present values, discounted cash flows, fair value of comparable securities, or similar methods. The fair value of the liability for annuities in the payout phase is assumed to be the present value of the anticipated cash flows, discounted at current interest rates. Fair value of annuities in the accumulation phase is assumed to be the policyholders' cash surrender amount. Fair value of shareholders' equity is based on the quoted market price of AFG's Common Stock.

**Financial Instruments with Off-Balance-Sheet Risk** On occasion, AFG and its subsidiaries have entered into financial instrument transactions which may present off-balance-sheet risks of both a credit and market risk nature. These transactions include commitments to fund loans, loan guarantees and commitments to purchase and sell securities or loans. At December 31, 2003, AFG and its subsidiaries had commitments to fund credit facilities and contribute limited partnership capital totaling up to \$15 million.

**Restrictions on Transfer of Funds and Assets of Subsidiaries** Payments of dividends, loans and advances by AFG's subsidiaries are subject to various state laws, federal regulations and debt covenants which limit the amount of dividends, loans and advances that can be paid. Under applicable restrictions, the maximum amount of dividends available to AFG in 2004 from its insurance subsidiaries without seeking regulatory clearance is approximately \$181 million. Additional amounts of dividends, loans and advances require regulatory approval.

**Benefit Plans** AFG expensed approximately \$20 million in both 2003 and 2002 and \$19 million in 2001 for its retirement and employee savings plans.

**Transactions With Affiliates** AFG purchased a \$3.7 million minority interest in a residential homebuilding company from an unrelated party in 1995. At that same time, a brother of AFG's chairman purchased a minority interest in the company for \$825,000. In 2000, that brother and another brother of AFG's chairman acquired the remaining shares from the third parties. In addition, GAFRI had extended a line of credit to this company under which the homebuilder could borrow up to \$8 million at 13%. At December 31, 2001, \$6.4 million was due

## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

under the credit line. In September 2002, the homebuilding company was sold to an unrelated party for a gain of \$9.3 million (included in realized gains on other investments) and GAFRI's line of credit was repaid and terminated.

In 2001, an AFG subsidiary purchased a 29% interest in an aircraft for \$1.6 million (fair value as determined by independent third party) from a company owned by a brother of AFG's chairman. The remaining interests in the aircraft are owned by AFG's chairman and his two brothers. Costs of operating the aircraft are being borne proportionately.

In 2000, GAFRI received an \$18.9 million subordinated note in connection with the sale of its minority ownership interest in an ethanol company back to that company. Following the sale, AFG's Chairman beneficially owns 100% of the ethanol company. The note bore interest at 12-1/4% and was repaid as follows: \$6 million in 2001, \$1 million in 2002 and the remaining \$11.9 million in 2003. In December 2003, the ethanol company repaid a GAFRI subsidiary \$4.0 million under a subordinated note that bore interest at 14%. As of the end of 2003, AFG's only remaining interest in the ethanol company is Great American's \$10 million line of credit, under which no amounts have been borrowed.

In connection with the sale of the remaining shares of Infinity in December 2003, AFG paid Infinity \$13.5 million to commute a prior indemnification and cost reimbursement obligation. AFG purchased at fair value \$4.7 million in marketable securities from Infinity during 2003. During 2003, Infinity paid AFG \$9.0 million for rent, information technology, investment, accounting, legal, actuarial and other services. In 2003, Infinity repaid a \$55 million note due to AFG plus \$2.5 million in interest.

During 2003, AFG subsidiaries invested \$20 million in preferred stock and warrants of an unrelated party who utilized the proceeds to repay bank loans, including \$3.4 million in loans and fees to the Provident Bank. AFG's Chairman and

members of his immediate family own approximately one-fourth of Provident's parent company; AFG owns 14% of the parent company.

R. **Subsequent Event (Unaudited)** In February 2004, Provident announced that it was being acquired by National City Corporation, one of the nation's largest banks. If this transaction is completed, AFG will receive 8.1 million shares (approximately \$290 million market value at March 1, 2004) of National City in exchange for its investment in Provident. Based on the March 1 price for National City, AFG would recognize an after-tax gain of approximately \$140 million on the sale.

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**PART IV**

**ITEM 15**

**Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) Documents filed as part of this Report:

1. Financial Statements are included in Part II, Item 8.
2. Financial Statement Schedules:
  - A. Selected Quarterly Financial Data is included in Note 0 to the Consolidated Financial Statements.
  - B. Schedules filed herewith for 2003, 2002 and 2001:

	<u>Page</u>
I - Condensed Financial Information of Registrant	S-2
V - Supplemental Information Concerning Property-Casualty Insurance Operations	S-4

All other schedules for which provisions are made in the applicable regulation of the Securities and Exchange Commission have been omitted as they are not applicable, not required, or the information required thereby is set forth in the Financial Statements or the notes thereto.

3. Exhibits - see Exhibit Index on page E-1.

(b) Report on Form 8-K:

<u>Date of Report</u>	<u>Item Reported</u>
October 7, 2003	Press Release regarding AFC/AFG Merger Agreement.
October 29, 2003	Third Quarter 2003 Earnings Release.
November 21, 2003	Press Release regarding Completion of AFC/AFG Merger.
December 17, 2003	Press Release regarding Sale of Remaining Infinity Shares.
January 30, 2004	Press Release regarding Sale of 7-1/8% Senior Debentures due 2034.
February 2, 2004	Correction of Press Release regarding Sale of 7-1/8% Senior Debentures due 2034.
February 12, 2004	Fourth Quarter and Full Year 2003 Earnings Release.
February 17, 2004	Press Release regarding Potential Effect of a Proposed Merger Agreement between Provident Financial Group, Inc. and National City Corporation.

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**AMERICAN FINANCIAL GROUP, INC. - PARENT ONLY (\*)**

**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**(In Thousands)**

**Condensed Balance Sheet**

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
<b>Assets:</b>		
Cash and short-term investments	\$ 5,097	\$ 6,084
Receivables from affiliates	66,545	165,442
Investment in subsidiaries	4,019,453	3,622,334
Investment in securities	3,064	2,464
Other investments	34,921	34,921

Other assets	<u>295,343</u>	<u>130,898</u>
	<u>\$4,424,423</u>	<u>\$3,962,143</u>
<b>Liabilities and Shareholders' Equity:</b>		
Accounts payable, accrued expenses and other liabilities	\$ 68,860	\$ 71,533
Payables to affiliates	1,704,784	1,455,696
Long-term debt	574,618	636,912
Shareholders' equity	<u>2,076,161</u>	<u>1,798,002</u>
	<u>\$4,424,423</u>	<u>\$3,962,143</u>

**Condensed Statement of Operations**

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Income:</b>			
Dividends from subsidiaries	\$ 282	\$ 76,004	\$ 60,282
Equity in undistributed earnings of subsidiaries	366,735	146,758	73,163
Realized gains on investments	40	9,076	849
Investment and other income	<u>4,075</u>	<u>5,844</u>	<u>15,031</u>
	<u>371,132</u>	<u>237,682</u>	<u>149,325</u>
<b>Costs and Expenses:</b>			
Interest charges on intercompany borrowings	30,992	28,259	35,836
Interest charges on other borrowings	34,757	33,839	39,221
Other operating and general expenses	<u>34,415</u>	<u>47,430</u>	<u>56,763</u>
	<u>100,164</u>	<u>109,528</u>	<u>131,820</u>
<b>Earnings from continuing operations</b>			
before income taxes and accounting changes	270,968	128,154	17,505
Provision (credit) for income taxes	<u>(50,183)</u>	<u>4,587</u>	<u>2,442</u>
Earnings from continuing operations	<u>321,151</u>	<u>123,567</u>	<u>15,063</u>
<b>Discontinued operations</b>			
	(33,636)	1,433	(19,863)
Cumulative effect of accounting changes	<u>6,300</u>	<u>(40,360)</u>	<u>(10,040)</u>
<b>Net Earnings (Loss)</b>	<u>\$293,815</u>	<u>\$ 84,640</u>	<u>(\$ 14,840)</u>

(\*) For periods prior to the AFG/AFC merger in November 2003, the Parent Only Financial Statements include the accounts of AFG, AFC and AFC Holding Company.

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**AMERICAN FINANCIAL GROUP, INC. - PARENT ONLY (\*)**

**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT - CONTINUED**

(In Thousands)

**Condensed Statement of Cash Flows**

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Operating Activities:</b>			
Net earnings (loss)	\$293,815	\$ 84,640	(\$ 14,840)
Adjustments:			
Cumulative effect of accounting changes	(6,300)	40,360	10,040
Equity in earnings of subsidiaries	(217,986)	(131,438)	(68,921)
Depreciation and amortization	2,451	3,975	4,602
Realized gains on investing activities	(1)	(8,697)	(2,432)
Change in balances with affiliates	316,039	192,103	122,809
Increase in other assets	(127,907)	(84,912)	(38,027)
Increase (decrease) in other liabilities	2,053	(32,947)	32,334
Dividends from subsidiaries	282	48,732	60,282
Other	<u>984</u>	<u>1,307</u>	<u>2,091</u>
	<u>263,430</u>	<u>113,123</u>	<u>107,938</u>
<b>Investing Activities:</b>			
Capital contributions to subsidiaries	(165,000)	(156,041)	(67,514)
Purchases of investments	-	(5,583)	-
Sales of investments	42	18,546	1,209
Purchases of property and equipment	(341)	(1,429)	(4,620)
Sales of property and equipment	<u>15</u>	<u>1,576</u>	<u>24</u>
	<u>(165,284)</u>	<u>(142,931)</u>	<u>(70,901)</u>
<b>Financing Activities:</b>			
Additional long-term borrowings	220,482	192,060	135,338
Reductions of long-term debt	(288,282)	(153,414)	(112,152)
Issuances of Common Stock	4,499	10,915	17,766
Repurchases of trust preferred securities	(3,324)	-	-
Cash dividends paid	(31,338)	(27,834)	(66,068)

Other	<u>(1,170)</u>	<u>-</u>	<u>-</u>
	<u>(99,133)</u>	<u>21,727</u>	<u>(25,116)</u>
<b>Net Increase (Decrease) in Cash and Short-term Investments</b>	(987)	(8,081)	11,921
Cash and short-term investments at beginning of period	<u>6,084</u>	<u>14,165</u>	<u>2,244</u>
Cash and short-term investments at end of period	<u>\$ 5,097</u>	<u>\$ 6,084</u>	<u>\$ 14,165</u>

(\*) For periods prior to the AFG/AFC merger in November 2003, the Parent Only Financial Statements include the accounts of AFG, AFC and AFC Holding Company.

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**AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**SCHEDULE V - SUPPLEMENTAL INFORMATION CONCERNING**  
**PROPERTY-CASUALTY INSURANCE OPERATIONS**  
**THREE YEARS ENDED DECEMBER 31, 2003**  
**(IN MILLIONS)**

COLUMN A AFFILIATION WITH REGISTRANT	COLUMN B DEFERRED POLICY ACQUISITION COSTS	COLUMN C (a) RESERVES FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES	COLUMN D (b) DISCOUNT DEDUCTED IN COLUMN C	COLUMN E (c) UNEARNED PREMIUMS	COLUMN F EARNED PREMIUMS	COLUMN G NET INVESTMENT INCOME	COLUMN H CLAIMS AND CLAIM ADJUSTMENT EXPENSES INCURRED RELATED TO		COLUMN I AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS	COLUMN J PAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES	COLUMN K PREMIUMS WRITTEN
							CURRENT YEARS	(d) PRIOR YEARS			

CONSOLIDATED PROPERTY-CASUALTY ENTITIES

2003	<u>\$237</u>	<u>\$4,909</u>	<u>\$26</u>	<u>\$1,595</u>	<u>\$1,909</u>	<u>\$219</u>	<u>\$1,203</u>	<u>\$167</u>	<u>\$395</u>	<u>\$1,238</u>	<u>\$2,012</u>
2002	<u>\$251</u>	<u>\$5,204</u>	<u>\$25</u>	<u>\$1,848</u>	<u>\$2,403</u>	<u>\$293</u>	<u>\$1,664</u>	<u>\$171</u>	<u>\$429</u>	<u>\$1,688</u>	<u>\$2,414</u>
2001					<u>\$2,594</u>	<u>\$307</u>	<u>\$1,950</u>	<u>\$163</u>	<u>\$556</u>	<u>\$1,867</u>	<u>\$2,553</u>

- (a) Grossed up for reinsurance recoverables of \$2,059 and \$1,804 at December 31, 2003 and 2002, respectively.  
(b) Discounted at approximately 7% in 2003 and 8% in 2002.  
(c) Grossed up for prepaid reinsurance premiums of \$620 and \$679 at December 31, 2003 and 2002, respectively.  
(d) Includes amounts recorded in discontinued operations: 2003 - \$2 million; 2002 - \$2 million; and 2001 - \$33 million.

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, American Financial Group, Inc. has duly caused this Report to be signed on its behalf by the undersigned, duly authorized.

American Financial Group, Inc.

Signed: March 12, 2004

BY: s/CARL H. LINDNER  
Carl H. Lindner  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>s/CARL H. LINDNER</u> Carl H. Lindner	Chairman of the Board of Directors	March 12, 2004
<u>s/THEODORE H. EMMERICH</u> Theodore H. Emmerich	Director*	March 12, 2004
<u>s/JAMES E. EVANS</u> James E. Evans	Director	March 12, 2004
<u>s/TERRY S. JACOBS</u> Terry S. Jacobs	Director*	March 12, 2004
<u>s/CARL H. LINDNER III</u> Carl H. Lindner III	Director	March 12, 2004
<u>s/S. CRAIG LINDNER</u> S. Craig Lindner	Director	March 12, 2004
<u>s/WILLIAM R. MARTIN</u> William R. Martin	Director*	March 12, 2004
<u>s/WILLIAM A. SCHUTZER</u> William A. Schutzer	Director	March 12, 2004
<u>s/WILLIAM W. VERITY</u> William W. Verity	Director	March 12, 2004
<u>s/FRED J. RUNK</u> Fred J. Runk	Senior Vice President and Treasurer (principal financial and accounting officer)	March 12, 2004

\* Member of the Audit Committee

#### INDEX TO EXHIBITS

#### AMERICAN FINANCIAL GROUP, INC.

<u>Number</u>	<u>Exhibit Description</u>	
3(a)	Amended and Restated Articles of Incorporation, filed as Exhibit 3(a) to AFG's Form 10-K for 1997.	(*)
3(b)	Code of Regulations, filed as Exhibit 3(b) to AFG's Form 10-K for 1997.	(*)
4	Instruments defining the rights of security holders.	Registrant has no outstanding debt issues exceeding 10% of the assets of Registrant and consolidated subsidiaries.
	Management Contracts:	
10(a)	Stock Option Plan, filed as Exhibit 10(a) to AFG's Form 10-K for 1998.	(*)
10(b)	Form of stock option agreements, filed as Exhibit 10(b) to AFG's Form 10-K for 1998.	(*)
10(c)	2003 Annual Bonus Plan, filed as Exhibit 10 to AFG's March 31, 2003 Form 10-Q/A.	(*)
<u>10(d)</u>	Amended and restated Nonqualified Auxiliary RASP.	
10(e)	Retirement program for outside directors,	

filed as Exhibit 10(e) to AFG's Form 10-K  
for 1995. (\*)

10(f) Directors' Compensation Plan,  
filed as Exhibit 10(f) to AFG's Form 10-K  
for 1995. (\*)

10(g) Deferred Compensation Plan, filed as  
Exhibit 10 to AFG's Registration Statement  
on Form S-8 on December 2, 1999. (\*)

[10\(h\)](#) Amended and restated Credit Agreement, dated as  
of November 20, 2003, among American Financial  
Group, Inc., as Borrower, Fleet National  
Bank, Bank of America, N.A. and KeyBank National  
Association.

[12](#) [Computation of ratios of earnings  
to fixed charges.](#)

[21](#) [Subsidiaries of the Registrant.](#)

[23](#) [Consent of independent auditors.](#)

[31\(a\)](#) [Sarbanes-Oxley Section 302\(a\) Certification of  
Chief Executive Officer.](#)

[31\(b\)](#) [Sarbanes-Oxley Section 302\(a\) Certification of  
Chief Financial Officer.](#)

[32](#) [Sarbanes-Oxley Section 906 Certification of Chief  
Executive Officer and Chief Financial Officer.](#)

(\*) Incorporated herein by reference.

## EXHIBIT 12 - COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(Dollars in Thousands)

	Year Ended December 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Pretax income (loss) excluding					
discontinued operations	\$270,968	\$128,154	\$ 17,505	(\$ 76,669)	\$222,800
Minority interest in subsidiaries					
having fixed charges(*)	44,013	33,839	43,187	44,961	48,780
Less undistributed equity in (earnings)					
losses of investees	(13,975)	13,830	25,462	142,230	32,156
Fixed charges:					
Interest on annuities	294,940	300,966	294,654	293,171	262,632
Interest expense	57,177	60,271	60,616	67,638	64,544
Interest on subsidiary trust					
obligations	1,473	-	-	-	-
Debt discount (premium) and expense	2,084	879	1,072	763	(129)
Portion of rentals representing					
interest	<u>12,703</u>	<u>16,483</u>	<u>16,900</u>	<u>13,963</u>	<u>12,226</u>
EARNINGS	<u>\$669,383</u>	<u>\$554,422</u>	<u>\$459,396</u>	<u>\$486,057</u>	<u>\$643,009</u>
Fixed charges:					
Interest on annuities	\$294,940	\$300,966	\$294,654	\$293,171	\$262,632
Interest expense	57,177	60,271	60,616	67,638	64,544
Interest on subsidiary trust					
obligations	1,473	-	-	-	-
Debt discount (premium) and expense	2,084	879	1,072	763	(129)
Portion of rentals representing					
interest	12,703	16,483	16,900	13,963	12,226
Pretax preferred dividend					
requirements of subsidiaries	<u>27,543</u>	<u>28,184</u>	<u>32,296</u>	<u>35,648</u>	<u>36,566</u>
FIXED CHARGES	<u>\$395,920</u>	<u>\$406,783</u>	<u>\$405,538</u>	<u>\$411,183</u>	<u>\$375,839</u>
Ratio of Earnings to Fixed Charges	<u>1.69</u>	<u>1.36</u>	<u>1.13</u>	<u>1.18</u>	<u>1.71</u>
Earnings in Excess of Fixed Charges	<u>\$273,463</u>	<u>\$147,639</u>	<u>\$ 53,858</u>	<u>\$ 74,874</u>	<u>\$267,170</u>

(\*) Amounts include subsidiary preferred dividends and accrued distributions on preferred securities of consolidated trusts.

## EXHIBIT 21 - SUBSIDIARIES OF THE REGISTRANT

The following is a list of subsidiaries of AFG at December 31, 2003. All corporations are subsidiaries of AFG and, if indented, subsidiaries of the company under which they are listed.

<u>Name of Company</u>	<u>Incorporated</u>	<u>Percentage of Ownership</u>
American Financial Capital Trust I	Delaware	100
American Money Management Corporation	Ohio	100
APU Holding Company	Ohio	100
American Premier Underwriters, Inc.	Pennsylvania	100
Premier Lease & Loan Services Insurance Agency, Inc.	Washington	100
Premier Lease & Loan Services of Canada, Inc.	Washington	100
Republic Indemnity Company of America	California	100
Republic Indemnity Company of California	California	100
Great American Holding, Inc.	Ohio	100
Great American Security Insurance Company	Ohio	100
Great American Spirit Insurance Company	Indiana	100
Great American Insurance Company	Ohio	100
American Empire Surplus Lines Insurance Company	Delaware	100
American Empire Insurance Company	Ohio	100
Brothers Property Corporation	Ohio	80
GAI Warranty Company	Ohio	100
GAI Warranty Company of Florida	Florida	100
Great American Alliance Insurance Company	Ohio	100
Great American Assurance Company	Ohio	100
Great American Custom Insurance Services, Inc.	Ohio	100
Professional Risk Brokers, Inc.	Illinois	100
Great American E&S Insurance Company	Delaware	100
Great American Fidelity Insurance Company	Delaware	100
Great American Financial Resources, Inc.	Delaware	82
AAG Holding Company, Inc.	Ohio	100
American Annuity Group Capital Trust I	Delaware	100
American Annuity Group Capital Trust II	Delaware	100
Great American Life Insurance Company	Ohio	100
Annuity Investors Life Insurance Company	Ohio	100
Loyal American Life Insurance Company	Ohio	100
Manhattan National Life Insurance Company	Illinois	100
United Teacher Associates Insurance Company	Texas	100
Great American Life Assurance Company of Puerto Rico, Inc.	Puerto Rico	100
Great American Insurance Company of New York	New York	100
Great American Management Services, Inc.	Ohio	100
Great American Protection Insurance Company	Indiana	100
Mid-Continent Casualty Company	Oklahoma	100
Mid-Continent Insurance Company	Oklahoma	100
Oklahoma Surety Company	Oklahoma	100
National Interstate Corporation	Ohio	68
National Interstate Insurance Company	Ohio	100
National Interstate Insurance Company of Hawaii, Inc.	Hawaii	100
National Interstate Capital Trust I	Delaware	100
Transport Insurance Company	Ohio	100
Worldwide Casualty Insurance Company	Ohio	100

The names of certain subsidiaries are omitted, as such subsidiaries in the aggregate would not constitute a significant subsidiary.

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 AMERICAN FINANCIAL GROUP, INC.

AMENDED AND RESTATED CREDIT AGREEMENT

Originally dated as of November 25, 2002

As amended and restated as of November 20, 2003

FLEET NATIONAL BANK,  
 Administrative Agent

-----  
 BANK OF AMERICA, N. A.,  
 Syndication Agent

KEYBANK NATIONAL ASSOCIATION,  
 Documentation Agent

FLEET SECURITIES, INC.,  
 Arranger

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CREDIT AGREEMENT

This Agreement, dated as of November 20, 2003, is among American Financial Group, Inc., an Ohio corporation, Fleet National Bank, for itself and as Administrative Agent for the Lenders, Bank of America, N. A., for itself and as syndication agent for the Lenders, KeyBank National Association, for itself and as documentation agent for the Lenders and the other Lenders from time to time party hereto. The parties hereto agree as follows:

RECITALS: Pursuant to this Agreement, the Lenders are extending to the Borrower revolving credit facilities of \$280,000,000 in the aggregate, including a 364-day revolving credit facility of \$93,333,333 and a three-year revolving credit facility of \$186,666,667. At any time on or prior to December 31, 2003 the Borrower may request that the amount of the revolving credit facilities be increased up to \$300,000,000 in the aggregate. The Borrower may request a 364-day extension of the maturity date of the 364-day revolving credit facility each year. The revolving credit facilities are unsecured. The proceeds of the revolving credit facilities may be used for general corporate purposes as provided herein.

AMENDMENT AND RESTATEMENT: Effective as of the Restatement Closing Date, this Agreement amends and restates in its entirety the Credit Agreement dated as of November 25, 2002, as amended and in effect on the date hereof prior to giving effect to this Agreement, among the Borrower, certain of its Subsidiaries and a group of lenders for which Fleet National Bank is acting as agent. This Agreement is not a termination or novation of such existing Credit Agreement, which shall continue in effect as modified hereby. The Credit Obligations and other Credit Documents presently outstanding in connection with such existing Credit Agreement shall remain in effect from and after the Restatement Closing Date, as modified by this Agreement.

1. DEFINITIONS; CERTAIN RULES OF CONSTRUCTION. Certain capitalized terms are used in this Agreement and in the other Credit Documents with the specific meanings defined below in this Section 1. Except as otherwise explicitly specified to the contrary or unless the context clearly requires otherwise, (a) the capitalized term "Section" refers to sections of this Agreement, (b) the capitalized term "Exhibit" refers to exhibits to this Agreement, (c) references to a particular Section include all subsections thereof, (d) the word "including" shall be construed as "including without limitation", (e) accounting terms not otherwise defined herein have the meaning provided under GAAP, (f) references to a particular statute or regulation include all rules and regulations thereunder and any amendment, modification or replacement, in each case as from time to time in effect, (g) references to a particular Person include such Person's successors and assigns to the extent not prohibited by this Agreement and the other Credit Documents and (h) references to "Dollars" or "\$" mean United States Funds. References to "the date hereof" mean the date first set forth above.

"ACCUMULATED BENEFIT OBLIGATIONS" means the actuarial present value of the accumulated benefit obligations under any Plan, calculated in a manner consistent with Statement No. 87 of the Financial Accounting Standards Board.

"ADMINISTRATIVE AGENT" means Fleet in its capacity as administrative agent for the Lenders under this Agreement, as well as its successors and assigns in such capacity pursuant to Section 10.5.

"ADMINISTRATIVE AGENT OFFICER" shall mean any vice president or assistant vice president of the Administrative Agent or any other officers or employees of the Administrative Agent from time to time designated by it in writing to the Borrower.

"AFC" means American Financial Corporation, an Ohio corporation prior to its merger into the Borrower on the Restatement Closing Date.

"AFC HOLDING" means AFC Holding Company, an Ohio corporation prior to its merger into the Borrower on the Restatement Closing Date.

"AFFILIATE" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with such Person, and shall include (a) any officer or director or general partner of such Person and (b) any Person of which such Person or any Affiliate (as defined in clause (a) above) of such Person shall, directly or indirectly, beneficially own either (i) at least 30% of the outstanding equity securities having the general power to vote or (ii) at least 30% of all equity interests.

"APPLICABLE EURODOLLAR MARGIN" means, for either of the 364-Day Revolving Loan or the Three-Year Revolving Loan, on any day, the percentage in the table below corresponding to the applicable S&P and Moody's Rating for the public senior debt of the Borrower at the end of the fiscal quarter prior to such day.

Level	S&P / Moody's Rating	Applicable Eurodollar Margin: 364-Day Revolving Loan	Applicable Eurodollar Margin: Three-Year Revolving Loan
I	> BBB+/Baa1	1.25%	1.25%
II	BBB/Baa2	1.50%	1.50%
III	BBB-/Baa3	1.75%	1.75%
IV	< BBB-/Baa3	2.25%	2.25%

Changes in the Applicable Eurodollar Margin shall occur on the first Banking Day after quarterly financial statements have been furnished to the Lenders in accordance with Sections 6.5.1 or 6.5.2 from time to time. In the event of a split rating of one level between the applicable Moody's and S&P ratings, the higher level shall apply. In the event of a split rating of more than one level between the applicable Moody's and S&P ratings, the level that is one level above the lower level shall apply. In the event that the financial statements required to be delivered pursuant to Section 6.5.1 or 6.5.2, as applicable, are not delivered when due, then during the period from the date upon which such financial statements were due until the date upon which they are actually delivered, the Applicable Eurodollar Margin shall be the maximum amount set forth in the table above.

"APPLICABLE RATE" means:

- (a) with respect to any portion of the Loan which is at the time subject to an effective Eurodollar Pricing Option, the sum of the Applicable Eurodollar Margin plus the Eurodollar Rate; and
- (b) with respect to any other portion of the Loan, the Base Rate.

"APU" means American Premier Underwriters, Inc., a Pennsylvania corporation.

"ASSIGNEE" has the meaning provided in Section 11.1.1.

"ASSIGNMENT AND ACCEPTANCE" has the meaning provided in Section 11.1.1.

"BANKING DAY" means any day on which banks are open to conduct business in Boston, Massachusetts and New York, New York and, if such term is used with reference to a Eurodollar Pricing Option, any day on which dealings are effected in the Eurodollars in question by first class banks in the inter-bank Eurodollar market in New York, New York and at the location of the applicable Eurodollar Office.

"BANKRUPTCY CODE" means Title 11 of the United States Code.

"BANKRUPTCY DEFAULT" means an Event of Default referred to in Section 8.1.13.

"BASE RATE" means, on any day, the greater of (a) the rate of interest announced by Fleet at the Boston Office as its prime rate, or (b) the Federal Funds Rate plus 1/2%. The Base Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. Changes in the rate of interest resulting from changes in the Base Rate shall take place immediately without notice or demand of any kind.

"BORROWER" means American Financial Group, Inc., an Ohio corporation.

"BOSTON OFFICE" means the principal banking office of the Administrative Agent in Boston, Massachusetts.

"BY-LAWS" means all written rules, regulations, procedures and by-laws and all other documents relating to the management, governance or internal regulation of any Person other than an individual, or interpretive of the Charter of such Person, all as from time to time in effect.

"CAPITALIZED LEASE" means any lease which is required to be capitalized on the balance sheet of the lessee in accordance with GAAP and Statement Nos. 13 and 97 of the Financial Accounting Standards Board.

"CAPITALIZED LEASE OBLIGATIONS" means the amount of the liability reflecting the aggregate discounted amount of future payments under all Capitalized Leases calculated in accordance with GAAP and Statement Nos. 13 and 97 of the Financial Accounting Standards Board.

"CAPITAL TRUST SECURITIES" means capital stock issued by American Financial Capital Trust I or any other trust or similar entity, the proceeds of which are invested by such Person in an equivalent amount of Subordinated Debentures.

"CHARTER" means the articles of organization, certificate of incorporation, limited liability company operating agreement, statute, constitution, joint venture or partnership agreement, or other charter of any Person other than an individual, each as from time to time in effect.

"CLOSING DATE" means any date on which any extension of credit is made pursuant to Section 2.

"CODE" means the federal Internal Revenue Code of 1986.

"COMMITMENT" means, with respect to any Lender, such Lender's obligations to extend the credit contemplated by this Agreement.

"COMMITMENT FEE RATE" means, for either of the 364-Day Revolving Loan or the Three-Year Revolving Loan, on any day, the percentage in the table below corresponding to the applicable S&P and Moody's Rating for the public senior debt of the Borrower at the end of the fiscal quarter prior to such day.

Level	S&P / Moody's Rating	Commitment Fee Rate: 364-Day Revolving Loan	Commitment Fee Rate: Three-Year Revolving Loan
I	> BBB+/Baa1	0.200%	0.30%
-	-	-	-
II	BBB/Baa2	0.250%	0.35%
III	BBB-/Baa3	0.300%	0.40%
IV	< BBB-/Baa3	0.375%	0.50%

Changes in the Commitment Fee Rate shall occur on the first Banking Day after quarterly financial statements have been furnished to the Lenders in accordance with Sections 6.5.1 or 6.5.2 from time to time. In the event of a split rating of one level between the applicable Moody's and S&P ratings, the higher level shall apply. In the event of a split rating of more than one level between the applicable Moody's and S&P ratings, the level that is one level above the lower level shall apply. In the event that the financial statements required to be delivered pursuant to Section 6.5.1 or 6.5.2, as applicable, are not delivered when due, then during the period from the date upon which such financial statements were due until the date upon which they are actually delivered, the Commitment Fee Rate shall be the maximum amount set forth in the table above.

"CONSOLIDATED" and "CONSOLIDATING", when used with reference to any term, mean that term (or the terms "combined" and "combining", as the case may be, in the case of partnerships and joint ventures) as applied to the accounts of the Borrower (or other specified Person) and all of its Subsidiaries (or other specified Persons), or such of its Subsidiaries as may be specified, consolidated (or combined) in accordance with GAAP and with appropriate deductions for minority interests in Subsidiaries.

"CREDIT DOCUMENTS" means:

- (a) This Agreement, the Revolving Notes, the Subordination Agreement and any Interest Rate Protection Agreement provided by a Lender (or an Affiliate of a Lender) to the Borrower, each as from time to time in effect; and

- (b) Any other present or future agreement or instrument from time to time entered into among the Administrative Agent or all the Lenders, on the one hand, and the Borrower or any of its Subsidiaries, or any other Person as a guarantor, pledgor or other obligor, on the other hand, relating to, amending or modifying this Agreement or any other Credit Document referred to above or which is stated to be a Credit Document, each as from time to time in effect.

"CREDIT OBLIGATIONS" means all present and future liabilities, obligations and Indebtedness of the Borrower, any of its Subsidiaries or any other Person becoming party to a Credit Document as a guarantor, pledgor or other obligor owing to the Lenders or any of them under or in connection with this Agreement or any other Credit Document, including obligations in respect of principal, interest, commitment fees, amounts provided for in Sections 3.2.4, 3.4 and 3.5, and other fees, charges, indemnities and expenses from time to time owing hereunder or under any other Credit Document, including payment and reimbursement obligations under Interest Rate Protection Agreements that constitute Credit Documents (all whether accruing before or after a Bankruptcy Default and regardless of whether allowed as a claim in bankruptcy or similar proceedings).

"CREDIT PARTICIPANT" has the meaning provided in Section 11.2.

"DEFAULT" means any Event of Default and any event or condition which with the passage of time or giving of notice, or both, would become an Event of Default.

"DELINQUENCY PERIOD" has the meaning provided in Section 10.4.3.

"DELINQUENT PAYMENT" has the meaning provided in Section 10.4.3.

"DISTRIBUTION" means:

(a) The declaration or payment of any dividend, on or in respect of any shares of any class of capital stock of the Borrower or any of its Subsidiaries, other than dividends payable solely in shares of common stock of the payor;

(b) The purchase or other retirement of any shares of any class of capital stock of the Borrower or any of its Subsidiaries directly or indirectly through a Subsidiary or otherwise;

(c) Any other distribution on or in respect of any shares of any class of capital stock of the Borrower or any of its Subsidiaries; or

(d) Any payment of principal of or interest or premium on, or any purchase or other retirement of, any Indebtedness required to be, or which is by its terms, subordinated to any of the Credit Obligations, including (i) the Subordinated Debentures and (ii) Indebtedness of the Borrower owing to any of its Subsidiaries or Affiliates.

"ELIGIBLE ASSIGNEE" means (a) a Lender, (b) an Affiliate of a Lender, (c) a Related Fund and (d) subject to the prior approval of the Administrative Agent and, so long as no Event of

Default shall have occurred and be continuing, the Borrower, such approval by the Administrative Agent and the Borrower not to be unreasonably withheld:

(i) a commercial bank organized under the laws of the United States of America, or any state thereof, and having total assets in excess of \$500,000,000;

(ii) a savings and loan association or savings bank organized under the laws of the United States of America, or any state thereof, and having total assets in excess of \$500,000,000;

(iii) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow or of the Cayman Islands, or a political subdivision of any such country, and having total assets in excess of \$500,000,000, so long as such bank is acting through a branch or agency located in the United States of America;

(iv) the central bank of any country that is a member of the Organization for Economic Cooperation and Development; and

(v) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of \$500,000,000;

PROVIDED, HOWEVER, that the Borrower or an Affiliate of the Borrower shall not qualify as an Eligible Assignee under any circumstances.

"ENVIRONMENTAL LAWS" means all applicable federal, state or local statutes, laws, ordinances, codes, rules, regulations and guidelines (including consent decrees and administrative orders) relating to public health and safety and protection of the environment.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA GROUP MEMBER" means the Borrower and any of its Subsidiaries and any Person which is a member of the controlled group or under common control with the Borrower or any of its Subsidiaries within the meaning of sections 414(b) or 414(c) of the Code or section 4001(a)(14) of ERISA.

"EURODOLLAR BASIC RATE" means, for any Eurodollar Interest Period:

(a) the rate of interest at which deposits of United States Funds are offered in the London interbank market for a period of time equal to such Eurodollar Interest Period that appears on Dow Jones Market Service Page 3750 (or any successor service) as of 11:00 a.m. (London time) two Banking Days prior to the Banking Day on which such Eurodollar Interest Period begins or

(b) if no such rate appears on Dow Jones Market Service Page 3750 (or any successor service), the rate of interest determined by the Administrative Agent to be the average of up to four interest rates per annum at which deposits of United States Funds are offered in the London interbank market for a period of time equal to such Eurodollar Interest Period which appear on the Reuter's Screen LIBO Page (or any successor service) as of 11:00 a.m. (London time) two Banking Days prior to the Banking Day on which such Eurodollar Interest Period begins if at least two such offered rates so appear on the Reuter's Screen LIBO Page (or any successor service) or

(c) if no such rate appears on the Dow Jones Market Service Page 3750 (or any successor service) and fewer than two offered rates appear on the Reuter's Screen LIBO Page (or any successor service), the rate of interest at which deposits of United States Funds in an amount comparable to the portion of the Loan as to which the related Eurodollar Pricing Option has been elected and which have a term corresponding to such Eurodollar Interest Period are offered to the Agent by first class banks in the London inter-bank market for delivery in immediately available funds at a Eurodollar Office on the first day of such Eurodollar Interest Period as determined by the Administrative Agent at approximately 11:00 a.m. (London time) two Banking Days prior to the date upon which such Eurodollar Interest Period is to commence (which determination by the Administrative Agent shall, in the absence of manifest error, be conclusive).

"EURODOLLAR INTEREST PERIOD" means any period, selected as provided in Section 3.2.1, of one, two, three or six months commencing on any Banking Day; provided, however, that subject to Section 3.2.3, if any Eurodollar Interest Period so selected would otherwise begin or end on a date which is not a Banking Day, such Eurodollar Interest Period shall instead begin or end, as the case may be, on the next succeeding Banking Day unless such next succeeding Banking Day would fall in the next calendar month, in which case such Eurodollar Interest Period shall end on the next preceding Banking Day, and if there exists no day numerically corresponding to the commencement date of such Eurodollar Interest Period in the month in which the last day of such Eurodollar Interest Period would otherwise fall, such Eurodollar Interest Period shall end on the last Banking Day of such month; provided, however, that if any Eurodollar Interest Period would extend beyond the Final Maturity Date, the last day of such Eurodollar Interest Period shall be the Final Maturity Date, all in accordance with the then current banking practice in the inter-bank Eurodollar market with respect to Eurodollar deposits at the applicable Eurodollar Office.

"EURODOLLAR OFFICE" means such non-United States office or international banking facility of any Lender as such Lender may from time to time select.

"EURODOLLAR PRICING OPTIONS" means the options granted pursuant to Section 3.2.1 to have the interest on all or any portion of the Loan computed on the basis of a Eurodollar Rate.

"EURODOLLAR RATE" for any Eurodollar Interest Period means the rate, rounded to the nearest 1/100%, obtained by dividing (a) the Basic Eurodollar Rate for such Eurodollar Interest Period by (b) an amount equal to 1 MINUS the Eurodollar Reserve Rate; PROVIDED, HOWEVER, that if at any time during such Eurodollar Interest Period the Eurodollar Reserve Rate applicable to any outstanding Eurodollar Pricing Option changes, the Eurodollar Rate for such Eurodollar Interest

Period shall automatically be adjusted to reflect such change, effective as of the date of such change.

"EURODOLLAR RESERVE RATE" means the stated maximum rate (expressed as a decimal) of all reserves (including any basic, supplemental, marginal or emergency reserve or any reserve asset), if any, as from time to time in effect, required by any Legal Requirement to be maintained by any Lender against (a) "Eurocurrency liabilities" as specified in Regulation D of the Board of Governors of the Federal Reserve System, (b) any other category of liabilities that includes deposits by reference to which the interest rate on portions of the Loan subject to Eurodollar Pricing Options is determined, (c) the principal amount of or interest on any portion of the Loan subject to a Eurodollar Pricing Option, or (d) any other category of extensions of credit, or other assets, that includes loans by a non-United States office of any of the Lenders to United States residents.

"EURODOLLARS" means, with respect to any Lender, deposits of United States Funds in a non-United States office or an international banking facility of such Lender.

"EVENT OF DEFAULT" has the meaning provided in Section 8.1.

"EXCHANGE ACT" means the federal Securities Exchange Act of 1934.

"FEDERAL FUNDS RATE" means, for any day, (a) the rate equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as such weighted average is published for such day (or, if such day is not a Banking Day, for the immediately preceding Banking Day) by the Federal Reserve Bank of New York or (b) if such rate is not so published for such Banking Day, as determined by the Administrative Agent using any reasonable means of determination. Each determination by the Administrative Agent of the Federal Funds Rate shall, in the absence of manifest error, be conclusive.

"FINAL MATURITY DATE" means (a) with respect to the 364-Day Revolving Loan, November 19, 2004, or such later date as determined in accordance with Section 2.4 and (b) with respect to the Three-Year Revolving Loan, November 24, 2005.

"FINANCIAL OFFICER" means, with respect to any Person, the chief financial officer or treasurer of such Person or a vice president whose primary responsibility is for the financial affairs of such Person.

"FINANCING DEBT" means:

- (a) Indebtedness for borrowed money;
- (b) Indebtedness evidenced by notes, debentures or similar instruments;
- (c) Indebtedness in respect of Capitalized Leases;
- (d) Indebtedness for the deferred purchase price of assets (other than normal trade accounts payable in the ordinary course of business); and

- (e) Indebtedness in respect of mandatory redemption or dividend rights on capital stock (or other equity).

"GAAP" means generally accepted accounting principles, as defined by the Financial Accounting Standards Board, as from time to time in effect.

"GAFR" means Great American Financial Resources, Inc., a Delaware corporation.

"GAIC" means Great American Insurance Corporation, an Ohio corporation.

"GALIC" means Great American Life Insurance Company, an Ohio corporation.

"GRANTING LENDER" has the meaning provided in Section 11.3.

"HOLDING COMPANIES" means, collectively, the Borrower and APU.

"INDEBTEDNESS" means all obligations, contingent or otherwise, which in accordance with GAAP should be classified upon the obligor's balance sheet as liabilities, but in any event including:

- (a) Indebtedness for borrowed money;
- (b) Indebtedness evidenced by notes, debentures or similar instruments;
- (c) Indebtedness in respect of Capitalized Leases;
- (d) Indebtedness for the deferred purchase price of assets (other than normal trade accounts payable in the ordinary course of business); and
- (e) Indebtedness in respect of mandatory redemption or dividend rights on capital stock (or other equity).
- (f) Liabilities secured by any Lien existing on property owned or acquired by the obligor or any Subsidiary thereof, whether or not the liability secured thereby shall have been assumed; and
- (g) All guarantees and endorsements in respect of Indebtedness of others.

"INDEMNITEE" has the meaning provided in Section 9.2.

"INSURANCE AUTHORITIES" means collectively, in relation to any particular jurisdiction, the insurance regulatory authorities, commissions, agencies, departments, boards or other authorities of or in that jurisdiction.

"INSURANCE SUBSIDIARY" means each Subsidiary of the Borrower engaged primarily in the insurance business and licensed as an insurance company in one or more states, and shall in any event include (a) GAIC, (b) GALIC, (c) RICA, and (d) the successors and assigns of any of the foregoing permitted under this Agreement.

"INTEREST AND DIVIDEND CHARGES" means, for any period, the sum (without duplication) of:

(a) the aggregate amount of interest, including commitment fees, charges in the nature of interest under Capitalized Leases and net amounts due under Interest Rate Protection Agreements, accrued directly by the Holding Companies (whether such interest is reflected as an item of expense or capitalized) in accordance with GAAP,

PLUS (b) actual cash dividends (including liquidating distributions and dividends paid on Capital Trust Securities) paid by the Holding Companies (other than regular cash dividends paid on the Borrower's common stock in amounts consistent with past practice and other than dividends paid to any Holding Company) with respect to capital stock.

"INTEREST RATE PROTECTION AGREEMENT" means any interest rate swap, interest rate cap, interest rate bridge or other contractual arrangement protecting a Person against changes in interest rates on Financing Debt provided by any Lender (or an Affiliate of a Lender).

"INVESTMENT" means:

(a) any loan, advance or extension of credit (including any guarantees of the Indebtedness of) to any other Person;

(b) any contribution to the capital of any other Person or the purchase of any shares of capital stock, partnership or other equity interest; and

(c) any consideration (other than cash) received upon any sale of property;

PROVIDED, HOWEVER, that the term "Investment" shall not include (i) investments and reinvestments in portfolio securities in the ordinary course of business, (ii) sales or other transfers of portfolio assets among the Borrower and its Subsidiaries in the ordinary course of business, (iii) trade and customer accounts receivable for property leased, goods furnished or services rendered in the ordinary course of business and payable on a current basis in accordance with customary trade terms, (iv) deposits, advances or prepayments to suppliers for property leased or licensed, goods furnished and services rendered in the ordinary course of business, (v) advances to employees for relocation and travel expenses, drawing accounts and similar expenditures, (vi) stock or other securities acquired in connection with the satisfaction or enforcement of Indebtedness or claims due to any Person or as security for any such Indebtedness or claims or (vii) demand deposits in banks or similar financial institutions.

"IPC" means Infinity Property & Casualty Corporation, an Ohio corporation.

"LEGAL REQUIREMENT" means any requirement imposed upon any of the Lenders by any law of the United States of America or any jurisdiction in which any Eurodollar Office is located or by any regulation, order, interpretation, ruling or official directive of the Board of Governors of the Federal Reserve System or any other board or governmental or administrative agency of the United States of America, any central bank or of any jurisdiction in which any Eurodollar Office is located, or of any political subdivision of any of the foregoing. Any requirement imposed by any such regulation, order, interpretation, ruling or official directive not having the force of law shall

be deemed to be a Legal Requirement if any of the Lenders reasonably believes that compliance therewith is in the best interest of such Lender.

"LENDERS" means the Administrative Agent and the other banks and other Persons owning a Percentage Interest and their respective successors and assigns, including Assignees under Section 11.1.

"LIEN" means, with respect to any Person:

(a) Any encumbrance, mortgage, pledge, lien, charge or other security interest of any kind upon any property or assets of such Person, whether now owned or hereafter acquired, or upon the income or profits or proceeds therefrom;

(b) Any arrangement or agreement which prohibits such Person from creating encumbrances, mortgages, pledges, liens, charges or other security interests;

(c) The acquisition of, or the agreement or option to acquire, any property or assets upon conditional sale or subject to any other title retention agreement, device or arrangement (including a Capitalized Lease); and

(d) The sale, assignment, pledge or transfer for security of any accounts, general intangibles or chattel paper of such Person, with or without recourse.

"LINDNER FAMILY MEMBERS" means, collectively, Carl H. Lindner, Richard E. Lindner, Robert D. Lindner, Carl H. Lindner III, S. Craig Lindner and Keith E. Lindner, the respective estates, spouses, heirs, ancestors, lineal descendants, legatees and legal representatives of any of the foregoing and the trustee of any bona fide trust of which one or more of the foregoing are the sole beneficiaries or the grantors thereof.

"LOAN" has the meaning provided in Section 2.1.2.

"MARGIN STOCK" means "margin stock" within the meaning of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

"MATERIAL ADVERSE CHANGE" means, since December 31, 2002, a material adverse change in the business, assets, financial condition, income or prospects of the Borrower and its Subsidiaries (on a Consolidated basis), whether as a result of (a) general economic conditions affecting the industries in which such Persons or the businesses in which they have made their principal investments operate, (b) fire, flood or other natural calamities, (c) environmental pollution, (d) regulatory changes, judicial decisions, war or other governmental action or (e) any other event or development, whether or not related to those enumerated above.

"MULTIEMPLOYER PLAN" means any Plan which is a "multiemployer plan" as defined in section 4001(a)(3) of ERISA.

"NATIONAL INTERSTATE" means National Interstate Corporation, an Ohio corporation owned by GAIC.

"NET INCOME" means, for any period, the net income of the Borrower and its Subsidiaries on a Consolidated basis, determined in accordance with GAAP.

"NET WORTH" means, on any date, the sum of (a) the aggregate amount reported on the Consolidated balance sheet of the Borrower and its Subsidiaries under "Total Shareholders' Equity", but excluding (i) all amounts in respect of unrealized gains or losses, net of taxes, on fixed maturity securities and (ii) any redeemable capital stock (or redeemable shares of other beneficial interest) plus (b) to the extent not included in clause (a) above, Capital Trust Securities permitted by Section 6.12.1, in each case as determined in accordance with GAAP.

"NONPERFORMING LENDER" has the meaning provided in Section 10.4.3.

"PAYMENT DATE" means the first Banking Day of each January, April, July and October of each year.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor entity.

"PERCENTAGE INTEREST" means, with respect to any Lender, the Commitment of such Lender with respect to the respective portions of the Loan. For purposes of determining votes or consents by the Lenders, the Percentage Interest of any Lender shall be computed as follows: (a) at all times when no Event of Default under Section 8.1.1 and no Bankruptcy Default exists, the ratio that the respective Commitments of such Lender bears to the total Commitments of all Lenders as from time to time in effect and reflected in the Register, and (b) at all other times, the ratio that the respective amounts of the outstanding Loan owing to such Lender bear to the total outstanding Loan owing to all Lenders.

"PERFORMING LENDER" has the meaning provided in Section 10.4.3.

"PERSON" means any present or future natural person or any corporation, association, partnership, joint venture, limited liability company, business trust, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

"PLAN" means, at any time, any pension or other employee benefit plan subject to Title IV of ERISA maintained, or to which contributions have been made, by the Borrower or any of its Subsidiaries within six years prior to such time.

"QUALIFIED INSTITUTIONAL BUYER" means:

(a) A duly authorized domestic bank, savings and loan association, registered investment company, registered investment adviser or registered dealer, acting for its own account or the accounts of other Qualified Institutional Buyers, which in the aggregate owns and invests on a discretionary basis at least \$100 million in securities and (if a bank or savings and loan association) which has a net worth of at least \$100 million;

(b) A foreign bank or savings and loan association or equivalent institution, acting for its own account or the account of other Qualified Institutional Buyers, which in the aggregate owns and invests on a discretionary basis at least \$100 million in securities and has a net worth of at least \$100 million; or

(c) Any other entity which also constitutes a "qualified institutional buyer" as defined in Rule 144A under the Securities Act.

"REGISTER" has the meaning provided in Section 11.1.3.

"RELATED FUND" means, with respect to any Lender that is a fund that invests in senior bank loans, any other fund that invests in senior bank loans and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"REQUIRED MAJORITY LENDERS" means such Lenders as own at least 51% of the Percentage Interests.

"RESTATEMENT CLOSING DATE" means the initial date on which all the conditions set forth in Section 5.1 are satisfied or waived in accordance with the terms hereof.

"REVOLVING NOTES" has the meaning provided in Section 2.1.4.

"RICA" means Republic Indemnity Company of America, a California corporation.

"SPV" has the meaning provided in Section 11.3.

"SECURITIES ACT" means the federal Securities Act of 1933.

"SUBORDINATED DEBENTURES" means any subordinated debentures (which debentures shall be subordinated to the Credit Obligations on market terms) issued by the Borrower or any of its Subsidiaries on or prior to the date hereof (or, in the case only of GAFFR, after the date hereof as contemplated by Section 6.12.1(c)(ii)) to American Financial Capital Trust I or any other trust or similar entity controlled by the Borrower or any of its Subsidiaries.

"SUBORDINATION AGREEMENT" has the meaning provided in Section 5.1.2.

"SUBSIDIARY" means any Person of which the Borrower (or other specified Person) shall at the time, directly or indirectly through one or more of its Subsidiaries, (a) own more than 50% of the outstanding capital stock (or other shares of beneficial interest) or more than 50% of such stock (or other shares of beneficial interest) entitled to vote generally, (b) hold more than 50% of the partnership, joint venture or similar interests or (c) be a general partner or joint venturer.

"TAX" means any tax, levy, impost, duty, deduction, withholding or other charge of whatever nature at any time required by any Legal Requirement (a) to be paid by any Lender or (b) to be withheld or deducted from any payment otherwise required hereby to be made by the Borrower to any Lender, in each case on or with respect to (i) any Eurodollar deposit purchased in the inter-bank Eurodollar market which was used to fund any portion of the Loan subject to a Eurodollar Pricing Option, (ii) any portion of the Loan subject to a Eurodollar Pricing Option funded with the proceeds of any such Eurodollar deposit, (iii) the principal amount of or interest on any portion of the Loan, or (iv) funds transferred from a non-United States office or an international banking facility to a United States office of such Lender in order to fund a portion of the Loan subject to a Eurodollar Pricing Option; provided, however, that the term "Tax" shall not include (1) taxes imposed upon or measured by the net income or net worth of such Lender, (2)

taxes which would have been imposed even if there had been no provision for Eurodollar Pricing Options in this Agreement or (3) amounts required to be withheld by such Lender from payments of interest to Persons from whom Eurodollar deposits were purchased by such Lender.

"364-DAY REVOLVING LOANS" has the meaning provided in Section 2.1.1.

"364-DAY REVOLVING LOAN MAXIMUM AMOUNT OF CREDIT" has the meaning provided in Section 2.1.1.

"THREE-YEAR REVOLVING LOANS" has the meaning provided in Section 2.1.2.

"THREE-YEAR REVOLVING LOAN MAXIMUM AMOUNT OF CREDIT" has the meaning provided in Section 2.1.2.

"TOTAL CAPITALIZATION" means, on any date, the sum, without duplication, of (a) Total Financing Debt plus (b) Net Worth plus (c) all amounts appearing on the Consolidated balance sheet of the Borrower and its Subsidiaries in the line item "Minority Interest", all determined in accordance with GAAP.

"TOTAL FINANCING DEBT" means, on any date, the aggregate amount of all Financing Debt of the Borrower and its Subsidiaries on a Consolidated basis, including in any event any capital stock (or other shares of beneficial interest) which constitutes Financing Debt, all determined in accordance with GAAP, but excluding Indebtedness in respect of (a) the Capital Trust Securities permitted by Section 6.12.1 (including the Subordinated Debentures) and (b) any collateralized debt obligation fund managed by the Borrower which is listed on Exhibit 1 and which Indebtedness in this clause (b) is carried as "Long Term Debt - Variable Interest Entities" on the Borrower's balance sheet from time to time in accordance with GAAP.

"2002 FORM 10-K" has the meaning provided in Section 7.2.

"UNITED STATES FUNDS" means such coin or currency of the United States of America as at the time shall be legal tender therein for the payment of public and private debts.

## 2. THE CREDITS.

### 2.1. REVOLVING CREDITS.

2.1.1. 364-DAY REVOLVING LOAN. Subject to all the terms and conditions of this Agreement and so long as no Default exists, each Lender will severally lend to the Borrower loans (collectively, the "364-DAY REVOLVING LOAN") in an aggregate principal amount not to exceed at any time outstanding such Lender's Percentage Interest in an amount (the "364-DAY REVOLVING LOAN MAXIMUM AMOUNT OF CREDIT") equal to the lesser of:

- (a) \$93,333,333, or
- (b) such amount (in an integral multiple of \$1,000,000) specified by irrevocable notice from the Borrower to the Lenders.

2.1.2. THREE-YEAR REVOLVING LOAN. Subject to all the terms and conditions of this Agreement and so long as no Default exists, each Lender will severally lend to the Borrower loans (collectively, the "THREE-YEAR REVOLVING LOAN") in an aggregate principal amount not to exceed at any time outstanding such Lender's Percentage Interest in an amount (the "THREE-YEAR REVOLVING LOAN MAXIMUM AMOUNT OF CREDIT") equal to the lesser of:

- (a) \$186,666,667 or
- (b) such amount (in an integral multiple of \$1,000,000) specified by irrevocable notice from the Borrower to the Lenders.

The aggregate principal amount of the 364-Day Revolving Loan and the Three-Year Revolving Loan at any one time outstanding is referred to herein as the "Loan".

2.1.3. BORROWING REQUESTS. Revolving loans will be made to the Borrower by the Lenders under Sections 2.1.1 and 2.1.2 on any Banking Day on or after the initial Closing Date and prior to the Final Maturity Date for such loans. Not later than 11:00 AM (Boston time) on the Banking Day (or third Banking Day if any portion of such loan will be subject to a Eurodollar Pricing Option on the requested Closing Date) requested as the Closing Date for any such loan, the Borrower will give the Administrative Agent notice of its request (which may be given by a telephone call received by an Administrative Agent Officer and promptly confirmed in writing), specifying (a) the amount of the requested loan (not less than \$1,000,000 and an integral multiple of \$1,000,000), and (b) the requested Closing Date therefor. Each such loan will be made at the Boston Office by depositing the amount thereof to the general account of the Borrower with the Administrative Agent. In connection with each such loan, the Borrower shall furnish to the Administrative Agent a certificate dated the applicable Closing Date in substantially the form of Exhibit 5.2.1, together with any other documents required by Section 5.2.

2.1.4. REVOLVING NOTES. The Loan shall be evidenced by notes in substantially the form of (a) the 364-Day Revolving Note contained in Exhibit 2.1.4(a) and (b) the Three-Year Revolving Note contained in Exhibit 2.1.4(b) (collectively, the "REVOLVING NOTES") payable by the Borrower to the respective Lenders. Each Lender shall keep a record of the date and amount of (a) each loan made by such Lender pursuant to Section 2.1.1 or 2.1.2 and (b) each payment of principal made pursuant to Section 4. The record made by each Lender pursuant to this Section shall, in the absence of manifest error, be conclusive. Prior to the transfer of any Revolving Note, the Lender shall endorse on a schedule thereto appropriate notations evidencing such dates and amounts; PROVIDED, HOWEVER, that the failure of any Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower under this Agreement, the Revolving Notes or any other Credit Document.

2.2. APPLICATION OF PROCEEDS. The Borrower covenants that the proceeds of the Loan will be applied only for lawful corporate purposes of the Borrower, including acquisitions, increasing the statutory capital of Insurance Subsidiaries, making loans or advances to Subsidiaries for any of their lawful corporate purposes and for the repayment from

time to time of any Financing Debt of the Borrower and its Subsidiaries. The Borrower will not directly or indirectly apply any part of the proceeds of any extension of credit made pursuant to this Agreement to purchase or to carry Margin Stock or to refinance any loan incurred for such purpose or to any transaction prohibited by laws or regulations applicable to any of the Lenders.

- 2.3. NATURE OF OBLIGATIONS OF LENDERS TO EXTEND CREDIT. The Lenders' obligations under this Agreement to make the Loan are several and are not joint or joint and several. If any Lender shall fail to perform its obligations to extend such credit, the amount of the Commitment of the Lender so failing to perform may be assumed by the other Lenders, in their absolute discretion, in such proportions as such Lenders may agree among themselves, so that the aggregate amount of the Commitment to make the Loan provided for in this Section 2 shall not be reduced and the Percentage Interest of each other Lender shall be appropriately adjusted; PROVIDED, HOWEVER, that such assumption and adjustment shall not relieve the Lenders from any of their obligations to make such extension of credit or to repay any Delinquent Payment required by Section 10.4.3.
- 2.4. OPTION TO EXTEND MATURITY OF CREDIT. So long as no Default exists, the Borrower may request by written notice to the Administrative Agent, not more than 75 days nor less than 60 days prior to the Final Maturity Date for the 364-Day Revolving Loan, that the Final Maturity Date for the 364-Day Revolving Loan be extended for an additional 364 days. The Lenders shall consider such request in their sole discretion, and may propose additional terms, including changes in the interest rates, fees and covenants as a condition to any extension. Any decision to extend such Final Maturity Date must be unanimously agreed to in writing by all Lenders. The Administrative Agent on behalf of the Lenders shall provide a written response to the Borrower's request not later than 30 days following receipt of such request. In the event that all Lenders offer to extend such Final Maturity Date pursuant hereto, the Borrower may accept such offer by written notice received by the Administrative Agent not later than 15 days prior to such anniversary.
- 2.5. INCREMENTAL CREDIT INCREASE.
- 2.5.1. INCREMENTAL CREDIT INCREASE REQUESTS. At any time on or prior to December 31, 2003, so long as no Default exists, the Borrower may request, by written notice to the Administrative Agent (the "INCREMENTAL CREDIT INCREASE REQUEST"), an increase in the 364-Day Revolving Loan Maximum Amount of Credit and/or the Three-Year Revolving Loan Maximum Amount of Credit in a minimum aggregate amount of \$5,000,000, the aggregate amount of all such increases from time to time not to exceed \$20,000,000 (the "INCREMENTAL CREDIT INCREASE"). The Incremental Credit Increase will constitute a portion of the 364-Day Revolving Loans or the Three-Year Revolving Loans, as may be agreed among the Administrative Agent, the Borrower and those respective financial institutions (including any existing Lenders) that provide the Incremental Credit Increase. Upon receipt of any Incremental Credit Increase Request and any other information as the Administrative Agent may reasonably request in connection therewith, the Administrative Agent shall promptly notify the Lenders of such Incremental Credit Increase Request. No Lender shall be deemed to have committed to participate in the Incremental Credit Increase

as of the date hereof, nor shall any Lender have any obligation to participate in any Incremental Credit Increase.

2.5.2. INCREMENTAL CREDIT INCREASE CLOSING. Each financial institution (other than an existing Lender) participating in the Incremental Credit Increase, the Borrower and the Administrative Agent shall execute and deliver a joinder to the Credit Agreement to evidence that such financial institution has become party to the Credit Agreement as a Lender and its Commitment in the Incremental Credit Increase. Any existing Lender providing a Commitment in the Incremental Credit Increase shall execute and deliver to the Administrative Agent an appropriate agreement reflecting its increased Commitment. The Administrative Agent shall make the corresponding adjustments to the Lenders' respective Percentage Interests under Section 10.1 and the Register. The obligations of such new Lenders (and any existing Lenders) participating in the Incremental Credit Increase to make the extensions of credit pursuant to Section 2.1 shall also be subject to the satisfaction, on or before the funding of the Incremental Credit Increase, of such conditions as may be determined by the Administrative Agent, including the payment of any syndication or closing fees specified by the Administrative Agent in connection with such Incremental Credit Increase. Upon such event, the Lenders and the Borrower shall make any necessary arrangements among themselves so that, after giving effect to the Incremental Credit Increase, the 364-Day Revolving Loan and the Three-Year Revolving Loan are held by the Lenders in accordance with their Percentage Interests as then in effect.

3. INTEREST; EURODOLLAR PRICING OPTIONS; FEES.

3.1. INTEREST. The Loan shall accrue and bear daily interest at a rate per annum which shall at all times equal the Applicable Rate. Prior to any stated or accelerated maturity of the Loan, the Borrower will, on each Payment Date, beginning on the first Payment Date after the initial Closing Date, pay the accrued and unpaid interest on the portion of the Loan which was not subject to a Eurodollar Pricing Option. On the last day of each Eurodollar Interest Period or on any earlier termination of any Eurodollar Pricing Option, the Borrower will pay the accrued and unpaid interest on the portion of the Loan which was subject to the Eurodollar Pricing Option which expired or terminated on such date; PROVIDED, HOWEVER, that if any Eurodollar Interest Period is longer than three months, the Borrower will also pay the accrued and unpaid interest on the portion of the Loan subject to the Eurodollar Pricing Option having such Eurodollar Interest Period at three month intervals, the first such payment to be made on the last Banking Day of the three month period which begins on the first day of such Eurodollar Interest Period. On any stated or accelerated maturity of the Loan, the Borrower will pay all accrued and unpaid interest on the Loan, including any accrued and unpaid interest on such portion of the Loan which is subject to a Eurodollar Pricing Option. In addition, the Borrower will, on demand, pay daily interest on any overdue installments of principal and, to the extent not prohibited by applicable law, on any overdue installments of interest and fees owed under any Credit Document at a rate per annum which is at all times equal to the sum of 2% plus the highest Applicable Rate then in effect. All payments of interest hereunder shall be made to the Administrative Agent for the account of the Lenders in accordance with the Lenders' respective Percentage Interests.

3.2. EURODOLLAR PRICING OPTIONS.

3.2.1. EURODOLLAR PRICING OPTIONS. Subject to all the terms and conditions hereof and so long as no Default exists, the Borrower may from time to time, by irrevocable notice to the Administrative Agent received not less than three Banking Days prior to the commencement of the Eurodollar Interest Period selected in such notice, elect to have such portion of the Loan as the Borrower may specify in such notice accrue and bear daily interest during the Eurodollar Interest Period so selected at the Applicable Rate computed on the basis of the Eurodollar Rate. No such election shall become effective if, prior to the commencement of any such Eurodollar Interest Period, the Administrative Agent determines that (a) the selecting or granting of the Eurodollar Pricing Option in question would violate a Legal Requirement or (b) Eurodollar deposits in an amount equal to the portion of the Loan as to which such Eurodollar Pricing Option has been selected and which have a term corresponding to the proposed Eurodollar Interest Period are not readily available in the inter-bank Eurodollar market for delivery at any Eurodollar Office or, by reason of circumstances affecting such market, adequate and reasonable methods do not exist for ascertaining the interest rate applicable to such deposits for the proposed Eurodollar Interest Period.

3.2.2. NOTICE TO LENDERS AND THE BORROWER. The Administrative Agent will promptly inform each Lender (by telephone subsequently confirmed in writing or otherwise) of each notice received by it from the Borrower pursuant to Section 3.2.1, including the Eurodollar Interest Period specified in such notice. Upon determination by the Administrative Agent of the Eurodollar Rate for such Eurodollar Interest Period or in the event no such election shall become effective, the Administrative Agent will promptly notify the Borrower and each Lender (by telephone subsequently confirmed in writing or otherwise) of the Eurodollar Rate so determined or why such election did not become effective.

3.2.3. SELECTION OF EURODOLLAR INTEREST PERIODS. Eurodollar Interest Periods shall be selected so that:

(a) The minimum portion of the Loan subject to any Eurodollar Pricing Option shall be \$5,000,000 and an integral multiple of \$1,000,000;

(b) No more than 12 Eurodollar Pricing Options shall be outstanding at any one time; and

(c) No Eurodollar Interest Period with respect to any portion of the Loan subject to a Eurodollar Pricing Option shall expire later than the Final Maturity Date for such portion of the Loan.

3.2.4. ADDITIONAL COMPENSATION. If any portion of the Loan which is subject to a Eurodollar Pricing Option is repaid, or assigned pursuant to Sections 3.4.2 or 11.1, or any Eurodollar Pricing Option is terminated on a date which is prior to the last Banking Day of the Eurodollar Interest Period applicable to such Eurodollar Pricing Option, the Borrower will pay to the Administrative Agent for the account of each Lender, in accordance with

the Lenders' respective Percentage Interests, in addition to any amounts of interest otherwise payable hereunder, an amount equal to daily interest for the unexpired portion of such Eurodollar Interest Period on the portion of the Loan so repaid, or as to which a Eurodollar Pricing Option was so terminated, at a per annum rate equal to the excess, if any, of (a) the Eurodollar Rate calculated on the basis of the rate applicable to such Eurodollar Pricing Option MINUS (b) the rate of interest obtainable by the Administrative Agent upon the purchase of debt securities customarily issued by the Treasury of the United States of America which have a maturity date approximating the last Banking Day of such Eurodollar Interest Period. For purposes of this Section 3.2.4, if any portion of the Loan which was to have been subject to a Eurodollar Pricing Option is not outstanding on the first day of the Eurodollar Interest Period applicable to such Eurodollar Pricing Option, the Borrower shall be deemed to have terminated such Eurodollar Pricing Option with respect to such principal amount. The determination by the Administrative Agent of such amount of interest shall, in the absence of manifest error, be conclusive.

- 3.2.5. CHANGE IN APPLICABLE LAWS, REGULATIONS, ETC. If any Legal Requirement shall prevent any Lender from funding or maintaining through the purchase or holding of Eurodollar deposits any portion of the Loan subject to a Eurodollar Pricing Option or otherwise from giving effect to such Lender's obligations as contemplated hereby, (a) the Administrative Agent may (and, upon the request of the affected Lender, shall) by notice to the Borrower terminate all of the affected Eurodollar Pricing Options, (b) the portion of the Loan subject to such terminated Eurodollar Pricing Options shall immediately bear interest thereafter at the Applicable Rate computed on the basis of the Base Rate and (c) the Borrower shall make any payment required by Section 3.2.4.
- 3.2.6. FUNDING PROCEDURE. The Lenders may actually fund any portion of the Loan subject to a Eurodollar Pricing Option in any manner they may choose in their discretion. Regardless of the manner selected by any of the Lenders to fund any portion of the Loan subject to a Eurodollar Pricing Option, however, all amounts payable hereunder, including the interest rate applicable to any such portion of the Loan and the amounts payable under Sections 3.2.4, 3.4 and 3.5, shall be computed as if each Lender had actually funded such Lender's Percentage Interest in such portion of the Loan through the purchase of deposits in such amount with a maturity the same as the Eurodollar Interest Period relating thereto and through the transfer of such deposits from an office of the Lender having the same location as the applicable Eurodollar Office to one of such Lender's offices in the United States of America.
- 3.3. COMMITMENT FEES. In consideration of the Lenders' Commitments to make the extensions of credit provided for in Section 2, the Borrower will pay to the Administrative Agent for the account of the Lenders, in accordance with their respective Percentage Interests, an amount equal to the applicable Commitment Fee Rate on the amount, if any, by which (a) (i) the average daily 364-Day Revolving Loan Maximum Amount of Credit during the three-month period or portion thereof ending on such date exceeds (ii) the average daily 364-Day Revolving Loan and (b) (i) the average daily Three-Year Revolving Loan Maximum Amount of Credit during the three-month period or portion thereof ending on such date exceeds (ii) the average daily Three-Year Revolving Loan during such period. Such commitment fees shall be

payable quarterly in arrears on each Payment Date, and on the date of any termination of the Commitments prior to the Final Maturity Date.

3.4. CAPITAL ADEQUACY; REGULATORY CHANGES.

3.4.1. LENDER'S COMPENSATION. If any Lender shall have determined that (a) compliance by such Lender with any applicable law, governmental rule, regulation or order regarding capital adequacy of banks or bank holding companies, or any interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Lender with any request or directive regarding capital adequacy (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital as a consequence of such Lender's obligations hereunder to a level below that which such Lender could have achieved but for such adoption, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy immediately before such compliance and assuming that such Lender's capital was fully utilized prior to such compliance) by any amount deemed by such Lender to be material, or (b) any change in any Legal Requirement after the date hereof shall directly or indirectly (i) reduce the amount of any sum received or receivable by such Lender with respect to the Loan, (ii) impose a cost on such Lender that is attributable to the making or maintaining of, or such Lender's commitment to make, its portion of the Loan, or (iii) require such Lender to make any payment on or calculated by reference to the gross amount of any amount received by such Lender under any Credit Document, then, in the case of clause (a) or (b), upon demand by the Lender so affected, accompanied by the certificate referred to below, the Borrower shall pay to such Lender from time to time as specified by such Lender such additional amounts as such Lender determines will be sufficient to fully compensate such Lender for such reduced return, reduction, increased cost or payment, each such payment to be made within 90 days after delivery of such notice. A certificate of an officer of such Lender setting forth the amount to be paid to it and the basis for computation thereof hereunder shall, in the absence of manifest error, be conclusive. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

3.4.2. SUBSTITUTION OR REPLACEMENT OF LENDER. If any Lender shall demand compensation under Section 3.4.1, the Borrower shall not be obligated to make any payment under Section 3.4.1 if, within 90 days after delivery of such demand:

- (a) The Borrower shall have obtained a substitute Lender (which may be one or more of the Lenders and which shall be reasonably satisfactory to the Administrative Agent) to purchase the portion of the Loan then held by, and to assume the Commitment of, the Lender demanding compensation. Such substitution shall be consummated as an assignment, with the substitute Lender paying to the Lender being replaced the amount of principal, interest, commitment fees and facility fees hereunder owed to the Lender being replaced, accrued through the date of such assignment, and the Borrower paying to the Lender being replaced

all other Credit Obligations (including any amounts due under Section 3.2.4) owed to the Lender being replaced, accrued through the date of such assignment; or

- (b) The Borrower shall have (i) repaid to the Lender demanding compensation its Percentage Interest of the Loan, without premium (but including any repayments required by Section 3.2.4), (ii) repaid to such Lender all other amounts required by this Agreement, (iii) terminated the Commitment of such Lender and (iv) reduced the 364-Day Revolving Loan Maximum Amount of Credit and/or the Three-Year Revolving Loan Maximum Amount of Credit, as the case may be, then in effect by the amount of such Lender's Commitment, at which time the remaining Lenders' respective Percentage Interests shall be adjusted accordingly.

3.5. TAXES.

- (a) If (i) any Lender shall be subject to any Tax or (ii) the Borrower shall be required to withhold or deduct any Tax, the Borrower will on demand by the Administrative Agent (which demand shall be made by the Administrative Agent upon request by the affected Lender), accompanied by the certificate referred to below, pay to the Administrative Agent for such Lender's account such additional amount as is necessary to enable such Lender to receive on an after-Tax basis the full amount of all payments of principal, interest, fees, expenses, indemnities and other amounts payable to such Lender under any Credit Document. Whenever Taxes must be withheld by the Borrower with respect to any payments of the Credit Obligations, the Borrower shall promptly furnish to the Administrative Agent for the account of the applicable Lender official receipts (to the extent that the relevant governmental authority delivers such receipts) evidencing payment of any such Taxes so withheld. If the Borrower fails to pay any such Taxes when due or fails to remit to the Administrative Agent for the account of the applicable Lender the required receipts evidencing payment of any such Taxes so withheld or deducted, the Borrower shall indemnify the affected Lender for any incremental Taxes and interest or penalties that may become payable by such Lender as a result of any such failure. Each Lender agrees that if, after the payment by the Borrower of any such additional amount, any amount identifiable as a part thereof is subsequently recovered or used as a credit by such Lender, such Lender shall reimburse the Borrower to the extent of the amount so recovered or used. A certificate of an officer of such Lender setting forth the amount of such Tax or recovery or use and the basis therefor shall, in the absence of manifest error, be conclusive.
- (b) If any Lender is not created or organized in, or under the laws of, the United States of America or any state thereof, such Lender shall deliver to the Borrower and the Agent such duly executed forms and statements from time to time as may be necessary so that such Lender is entitled to receive payments of the Credit Obligations payable to it without deduction or withholding of any United States federal income taxes, to the extent such exemption is available to such Lender. If no such exemption is available at the time a Lender becomes party to

this Agreement or if at any time the Borrower and the Agent have not received all forms and statements (including any renewals thereof) required to be provided by any Lender pursuant to this paragraph (b), paragraph (a) above shall not apply with respect to any amount of United States federal income taxes required to be withheld from payments of the Credit Obligations to such Lender.

- 3.6. FEES DUE DATE. If any payment of fees with respect to the Loan shall become due on any day which is not a Banking Day, then such fees shall instead be payable on the next succeeding Banking Day.
- 3.7. COMPUTATIONS OF INTEREST. For purposes of this Agreement, interest (and any amount expressed as interest, including commitment fees under Section 3.3) shall be computed on a daily basis and (a) for any portion of the Loan subject to a Eurodollar Pricing Option, on the basis of a 360-day year and (b) for any other portion of the Loan, or for any other purpose, on the basis of a 365-day (or if applicable, a 366-day) year.
- 3.8. MAXIMUM LAWFUL INTEREST RATE. All Credit Documents are expressly limited so that in no event, including the acceleration of the maturity of the Credit Obligations, shall the amount paid or agreed to be paid in respect of interest on the Credit Obligations (or fees or other amounts deemed payment for the use of funds) exceed the maximum permissible amount under applicable law, as in effect on the date hereof and as subsequently amended or modified to allow a greater amount of interest (or fees or other amounts deemed payment for the use of funds) to be paid under the Credit Documents. If for any reason the amount in respect of interest (or fees or other amounts deemed payment for the use of funds) required by the Credit Documents exceeds such maximum permissible amount, the obligation to pay interest under the Credit Documents (or fees or other amounts deemed payment for the use of funds) shall be automatically reduced to such maximum permissible amount and any amounts in respect of interest (or fees or other amounts deemed payment for the use of funds) previously paid to the Lenders in excess of such maximum permissible amount shall be automatically applied to reduce the amount of the Loans.
4. PAYMENT.
- 4.1. PAYMENT AT MATURITY. On the stated or any accelerated maturity of the Revolving Notes, the Borrower will pay to the Administrative Agent for the account of each Lender an amount equal to the Loan then due, together with all accrued and unpaid interest thereon and all other Credit Obligations then outstanding.
- 4.2. MANDATORY PREPAYMENTS. If at any time the 364-Day Revolving Loan exceeds the 364-Day Revolving Loan Maximum Amount of Credit, the Borrower shall within one Banking Day pay the amount of such excess to the Administrative Agent as a prepayment of the 364-Day Revolving Loan. If at any time the Three-Year Revolving Loan exceeds the Three-Year Revolving Loan Maximum Amount of Credit, the Borrower shall within one Banking Day pay the amount of such excess to the Administrative Agent as a prepayment of the Three-Year Revolving Loan.

- 4.3. VOLUNTARY PREPAYMENTS OF LOAN. In addition to the prepayments required by Section 4.2, the Borrower may from time to time prepay all or any portion of the Loan (in a minimum amount of \$1,000,000 and an integral multiple of \$1,000,000), without premium (except as provided in Section 3.2.4 with respect to Eurodollar Pricing Options). The Borrower shall give the Administrative Agent at least one Banking Day's prior notice of its intention to prepay (three Banking Days' notice if any such portion of the Loan to be prepaid is subject to a Eurodollar Pricing Option), specifying the date of payment, the total principal amount of the Loan to be paid on such date, the portion of the Loan to be paid (364-Day Revolving Loan or Three-Year Revolving Loan) and the amount of interest to be paid with such prepayment.
- 4.4. REBORROWING. The amounts of the Loan prepaid pursuant to Section 4.3 may be reborrowed from time to time prior to the Final Maturity Date in accordance with Section 2.1.
- 4.5. APPLICATION OF PAYMENTS. Any prepayment of the Loan shall be applied (pro rata in accordance with the Lenders' respective Percentage Interests) first to the portion of the Loan not then subject to Eurodollar Pricing Options, then the balance of any such prepayment shall be applied to the portion of the Loan then subject to Eurodollar Pricing Options, beginning with the Eurodollar Interest Period with the earliest expiration date and proceeding thereafter in chronological order of the expiration dates of the respective Eurodollar Interest Periods, together with any payments required by Section 3.2.4. All payments of principal hereunder shall be made to the Administrative Agent for the account of each Lender, in accordance with the Lenders' respective Percentage Interests.
- 4.6. PAYMENT. Notice of prepayment having been given in accordance with Section 4.3, and whether or not notice is given of prepayments pursuant to Section 4.2, the amount specified to be prepaid shall become due and payable on the date specified for prepayment.
5. CONDITIONS TO EXTENDING CREDIT.
- 5.1. CONDITIONS ON RESTATEMENT CLOSING DATE. The obligations of the Lenders to make any extension of credit pursuant to Section 2.1 shall be subject to the satisfaction, on or before the Restatement Closing Date, of the conditions set forth in this Section 5.1, as well as the further conditions in Section 5.2:
- 5.1.1. REVOLVING NOTES. The Borrower shall have executed the Revolving Notes and delivered them to the Administrative Agent.
- 5.1.2. SUBORDINATION AGREEMENT. Each of the Borrower's Subsidiaries and Affiliates to which the Borrower has any Indebtedness in excess of \$5,000,000 shall have duly authorized, executed and delivered to the Administrative Agent an agreement (as from time to time in effect, the "SUBORDINATION AGREEMENT") in the form of Exhibit 5.1.2, pursuant to which each such Subsidiary or Affiliate shall unconditionally subordinate any Indebtedness owed to it by the Borrower to the prior payment in full of the Credit Obligations.

- 5.1.3. MERGER INTO BORROWER. All conditions precedent to the effectiveness of the Amended and Restated Merger Agreement dated as of October 1, 2003 between AFC, AFC Holding and the Borrower, which provides for AFC and AFC Holding to merge with and into the Borrower on terms and in a manner reasonably satisfactory to the Required Lenders, shall have been satisfied and AFC and AFC Holding shall have merged into the Borrower on such terms.
- 5.1.4. PAYMENT OF FEES. The Borrower shall have paid to (a) the Administrative Agent the fees contemplated by the separate agreement between the Borrower and the Administrative Agent dated on or prior to the date hereof, and (b) the Administrative Agent for the account of the Lenders, in accordance with their respective Percentage Interests, a closing fee in the amounts previously agreed to among the Borrower and the Lenders.
- 5.1.5. PRO FORMA COVENANT COMPLIANCE. The Administrative Agent shall be satisfied, in its reasonable discretion, that the Borrower is in compliance with the covenants contained in Sections 6.6 and 6.7.1 on the Restatement Closing Date, based upon the Borrower's financial statements as of September 30, 2003.
- 5.1.6. LEGAL OPINIONS. The Lenders shall have received from the following counsel, hereby authorized and directed by the Borrower with respect to their counsel, their respective opinions with respect to the transactions contemplated by the Credit Documents, which opinions shall be in form and substance satisfactory to the Lenders:
- (a) Keating, Muething & Klekamp, counsel for the Borrower; and
  - (b) Ropes & Gray, special counsel for the Administrative Agent.
- 5.2. CONDITIONS TO EACH EXTENSION OF CREDIT. The obligations of the Lenders to make any extension of credit pursuant to Section 2 shall be subject to the satisfaction, on or before the Closing Date for such extension of credit, of the conditions set forth in this Section 5.2.
- 5.2.1. OFFICER'S CERTIFICATE. The representations and warranties of the Borrower contained in Section 7 shall be true and correct on and as of each Closing Date with the same force and effect as though originally made on and as of such date; no Default shall exist on such Closing Date or will exist after giving effect to the requested extension of credit; as of such Closing Date, no Material Adverse Change shall have occurred; and the Borrower shall have furnished to the Administrative Agent on such Closing Date a certificate to these effects, in substantially the form of Exhibit 5.2.1, signed by a Financial Officer of the Borrower.
- 5.2.2. LEGALITY, ETC. The making of the requested extension of credit shall not (a) subject any Lender to any penalty or special tax (other than a Tax for which the Borrower has reimbursed the Lenders under Section 3.5), (b) be prohibited by any law or governmental order or regulation applicable to any Lender or (c) violate any voluntary credit restraint program of the executive branch of the government of the United States of America, the Board of Governors of the Federal Reserve System or any other

governmental or administrative agency so long as any Lender reasonably believes that compliance therewith is in the best interests of such Lender.

5.2.3. GENERAL. All legal and corporate proceedings in connection with the transactions contemplated by this Agreement and each other Credit Document shall be satisfactory in form and substance to the Administrative Agent, and the Lenders shall have received copies of all documents, including records of corporate proceedings and opinions of counsel, which any Lender may have reasonably requested in connection therewith, such documents where appropriate to be certified by proper corporate or governmental authorities.

6. GENERAL COVENANTS. The Borrower covenants that, until all of the Credit Obligations shall have been paid in full and until the Lenders' Commitments to extend credit under this Agreement and any other Credit Document shall have been irrevocably terminated, the Borrower and its Subsidiaries will comply with the following provisions:

6.1. TAXES AND OTHER CHARGES; ACCOUNTS PAYABLE.

6.1.1. TAXES AND OTHER CHARGES. The Borrower and its Subsidiaries will duly pay and discharge, or cause to be paid and discharged, before the same shall become in arrears, all taxes, assessments and other governmental charges imposed upon such Person and its properties, sales or activities, or upon the income or profits therefrom, as well as all claims for labor, materials or supplies which if unpaid might by law become a Lien upon any of its property; PROVIDED, HOWEVER, that any such tax, assessment, charge or claim need not be paid if the validity or amount thereof shall at the time be contested in good faith by appropriate proceedings and if such Person shall, in accordance with GAAP, have set aside on its books adequate reserves with respect thereto; and PROVIDED, FURTHER, that the Borrower and each of its Subsidiaries will pay or bond all such taxes, assessments, charges or other governmental claims immediately upon the commencement of proceedings to foreclose any Lien which may have attached as security therefor (except to the extent such proceedings have been dismissed or stayed).

6.1.2. ACCOUNTS PAYABLE. Each of the Borrower and its Subsidiaries will promptly pay when due, or in conformity with customary trade terms, all other Indebtedness incident to the operations of such Person; PROVIDED, HOWEVER, that any such Indebtedness need not be paid if the validity or amount thereof shall at the time be contested in good faith by appropriate proceedings and if such Person shall, in accordance with GAAP, have set aside on its books adequate reserves with respect thereto.

6.2. CONDUCT OF BUSINESS, ETC.

6.2.1. TYPES OF BUSINESS. The Borrower and its Subsidiaries will engage in no businesses other than the businesses now conducted by the Borrower and its Subsidiaries and Affiliates as described in the Annual Report of the Borrower on Form 10-K for the fiscal year ended December 31, 2002 and businesses reasonably related thereto.

6.2.2. MAINTENANCE OF PROPERTIES. Each of the Borrower and its Subsidiaries:

- (a) will keep its properties in such repair, working order and condition, and will from time to time make such repairs, replacements, additions and improvements thereto for the efficient operation of its businesses and will comply at all times in all material respects with all franchises, licenses, leases and other material agreements to which it is party so as to prevent any loss or forfeiture thereof or thereunder, unless compliance is at the time being contested in good faith by appropriate proceedings or unless such losses or forfeitures have not resulted, or do not pose a material risk of resulting, in the aggregate in any Material Adverse Change; and
- (b) except to the extent permitted under Section 6.12, will do all things necessary to preserve, renew and keep in full force and effect and in good standing its legal existence and authority necessary to continue its business.

6.2.3. STATUTORY COMPLIANCE. Each of the Borrower and its Subsidiaries will comply in all material respects with all valid and applicable statutes, laws, ordinances, zoning and building codes and other rules and regulations of the United States of America, of the states and territories thereof and their counties, municipalities and other subdivisions and of any foreign country or other jurisdictions applicable to such Person, except where compliance therewith shall at the time be contested in good faith by appropriate proceedings or where failure so to comply has not resulted, or does not pose a material risk of resulting, in the aggregate in any Material Adverse Change.

6.3. TRANSACTIONS WITH AFFILIATES. Except as set forth on Exhibit 6.3, neither the Borrower nor any of its Subsidiaries shall effect any transaction with any Affiliate (other than the Borrower or any of its Subsidiaries) on a basis less favorable to the Borrower or any such Subsidiary than would be the case if such transaction had been effected with a non-Affiliate, other than transactions not involving more than \$10,000,000 per year in the aggregate.

6.4. INSURANCE. Each of the Borrower and its Subsidiaries will maintain with financially sound and reputable insurers, insurance against hazards and risks and liability to persons and property to the extent and in the manner customary for companies in similar businesses similarly situated; provided, however, that it may effect worker's compensation insurance or similar coverage with respect to operations in any particular state or other jurisdiction through an insurance fund operated by such state or jurisdiction or by meeting the self-insurance requirements of such state or jurisdiction.

6.5. FINANCIAL STATEMENTS AND REPORTS. Each of the Borrower and its Subsidiaries will maintain a system of accounting in which full and correct (in all material respects) entries will be made of all transactions in relation to their business and affairs in accordance with GAAP. The fiscal year of the Borrower and its Subsidiaries will end on December 31 in each year.

6.5.1. ANNUAL REPORTS. The Borrower will furnish to the Lenders as soon as available, and in any event within 120 days after the end of each fiscal year:

- (a) The Annual Report of the Borrower as required by the Exchange Act on Form 10-K for such fiscal year.
- (b) The audited Consolidated financial statements of the Borrower and its Subsidiaries as at the end of such fiscal year (all in reasonable detail), together with comparative figures for the preceding fiscal year.
- (c) Unqualified reports of the present independent auditors of the Borrower and its Subsidiaries (or other independent auditors reasonably satisfactory to the Administrative Agent), containing no material uncertainty, to the effect that they have audited such Consolidated financial statements in accordance with generally accepted auditing standards and that such Consolidated financial statements present fairly, in all material respects, the financial position of the Borrower and its Subsidiaries at the dates thereof and the results of their operations for the periods covered thereby in conformity with GAAP.
- (d) The statement of such accountants that they have caused this Agreement to be reviewed and that in the course of their audit of the Borrower and its Subsidiaries no facts have come to their attention that cause them to believe that any Default exists and in particular that they have no knowledge of any Default under Sections 6.6 through 6.14 or, if such is not the case, specifying such Default and the nature thereof, it being understood that the examination by such accountants cannot be relied upon to give such accountants knowledge of any such Default except as it relates to accounting or auditing matters within the scope of their audit.
- (e) The internally prepared Consolidating balance sheet of the Borrower and its Subsidiaries and the Consolidating statement of earnings of the Borrower and its Subsidiaries for such fiscal year (all in reasonable detail).
- (f) A certificate of a Financial Officer of the Borrower to the effect that such officer has caused this Agreement to be reviewed and has no knowledge of any Default, or if such officer has such knowledge, specifying such Default and the nature thereof, and what action the Borrower has taken, is taking or proposes to take with respect thereto, and stating what changes, if any, have occurred in GAAP since the date of the financial statements described in Section 7.2(a).
- (g) Computations by the Borrower demonstrating or specifying, as the case may be, as of the close of such fiscal year, compliance with Sections 6.6, 6.7.1, 6.8.2, 6.8.3 and 6.11.4.
- (h) Supplements to Exhibits 7.1, 7.11 and 7.13 showing any changes in the information set forth in such Exhibits during the last quarter of such fiscal year, each of which changes must be reasonably satisfactory to the Administrative Agent, as well as any changes in the Charter, By-laws or incumbency of officers of the Borrower or any of its Subsidiaries from those previously certified to the Administrative Agent.

6.5.2. QUARTERLY REPORTS. The Borrower will furnish to the Lenders as soon as available and, in any event, within 60 days after the end of each of the first three fiscal quarters of the Borrower in each fiscal year:

- (a) The Quarterly Reports of the Borrower as required by the Exchange Act on Form 10-Q for such fiscal quarter.
- (b) The internally prepared Consolidated financial statements of the Borrower and its Subsidiaries as of the end of such fiscal quarter and for the portion of the fiscal year then ending (all in reasonable detail), together with comparative figures for the same period in the preceding fiscal year.
- (c) The internally prepared Consolidating balance sheet of the Borrower and its Subsidiaries and the Consolidating statement of earnings of the Borrower and its Subsidiaries for such fiscal quarter and for such portion of the fiscal year (all in reasonable detail).
- (d) A certificate of a Financial Officer of the Borrower to the effect that (i) such officer has caused this Agreement to be reviewed and has no knowledge of any Default, or if such officer has such knowledge, specifying such Default and the nature thereof and what action the Borrower has taken, is taking or proposes to take with respect thereto and (ii) such financial statements have been prepared in accordance with GAAP (subject to year-end audit adjustments and the addition of footnotes for interim statements) and present fairly, in all material respects, the financial position of the Borrower and its Subsidiaries, covered thereby at the dates thereof and the results of their operations for the periods covered thereby.
- (e) Computations by the Borrower demonstrating or specifying, as the case may be, as of the close of such quarter, compliance with Sections 6.6, 6.7.1, 6.8.2, 6.8.3 and 6.11.4.
- (f) Supplements to Exhibits 7.1, 7.11 and 7.13 showing any changes in the information set forth in such Exhibits during such fiscal quarter, each of which changes must be reasonably satisfactory to the Administrative Agent, as well as any changes in the Charter, By-laws or incumbency of officers of any of the Borrower and its Subsidiaries from those previously certified to the Administrative Agent.

6.5.3. OTHER REPORTS. The Borrower will furnish to the Lenders as soon as available copies of:

- (a) cash flow work sheets for the portion of the fiscal year then ended or for such fiscal year, as the case may be (including inter-company transactions involving cash and marketable securities) for the Borrower (all in reasonable detail); provided, however, that such work sheets shall in any event be furnished to the Lenders within 90 days after the end of each of the first three fiscal quarters and 150 days after the end of each fiscal year of the Borrower;

- (b) all quarterly and annual statutory financial statements, including all exhibits and schedules thereto, registration statements and other reports of the Insurance Subsidiaries and IPC and its Subsidiaries; and
- (c) all registration statements, proxy statements, financial statements and reports, including reports on Form 8-K, as may be filed with the Securities and Exchange Commission by the Borrower, as the Administrative Agent may request from time to time.

6.5.4. NOTICE OF MATERIAL LITIGATION; NOTICE OF DEFAULTS. The Borrower will promptly furnish to the Lenders notice of the occurrence of any litigation or any administrative or arbitration proceeding to which the Borrower or any of its Subsidiaries may hereafter become a party which may involve any material risk of resulting in a Material Adverse Change or which questions the validity or enforceability of any Credit Document. Promptly upon acquiring knowledge thereof, the Borrower will notify the Lenders of the existence of any Default, specifying the nature thereof and what action the Borrower has taken, is taking or proposes to take with respect thereto.

6.5.5. ERISA REPORTS. The Borrower will:

- (a) Furnish the Lenders with a copy of any request for a waiver of the funding standards or an extension of the amortization period required by sections 303 and 304 of ERISA or section 412 of the Code, promptly after any ERISA Group Member submits such request to the Department of Labor or the Internal Revenue Service.
- (b) Notify the Lenders of any reportable event (as defined in section 4043 of ERISA), unless the notice requirement with respect thereto has been waived by regulation, promptly after any ERISA Group Member learns of such reportable event; and furnish the Lenders with a copy of the notice of such reportable event required to be filed with the PBGC, promptly after such notice is required to be given.
- (c) Furnish the Lenders with a copy of any notice received by any ERISA Group Member that the PBGC has instituted or intends to institute proceedings under section 4042 of ERISA to terminate any Plan, or that any Multiemployer Plan is insolvent or in reorganization status under Title IV of ERISA, promptly after receipt of such notice.
- (d) Notify the Lenders of the possibility of the termination of any Plan by its administrator pursuant to section 4041 of ERISA, as soon as any ERISA Group Member learns of such possibility and in any event prior to such termination; and furnish the Lenders with a copy of any notice to the PBGC that a Plan is to be terminated, promptly after any ERISA Group Member files a copy of such notice.
- (e) Notify the Lenders of the intention of any ERISA Group Member to withdraw, in whole or in part, from any Multiemployer Plan which may result in

the incurrence by the Borrower or any of its Subsidiaries of withdrawal liability in excess of \$10,000,000 under Subtitle E of Title IV of ERISA, or of the termination, insolvency or reorganization status of any Multiemployer Plan under such Subtitle E which may result in liability to the Borrower or any of its Subsidiaries in excess of \$10,000,000 and, upon any Lender's request from time to time, of the extent of the liability, if any, of such Person as a result of such withdrawal, to the best of such Person's knowledge at such time.

6.5.6. OTHER INFORMATION. From time to time upon request of any authorized officer of any Lender, the Borrower will furnish to such Lender such other information regarding the business, affairs and financial condition of the Borrower or any of its Subsidiaries as such officer may reasonably request. The Administrative Agent's authorized officers and representatives shall have the right during normal business hours to examine the books and records of the Borrower or any of its Subsidiaries, to make copies, notes and abstracts therefrom and to make an independent examination of its books and records, for the purpose of verifying the accuracy of the reports delivered by the Borrower or any of its Subsidiaries pursuant to this Section 6.5 or otherwise and ascertaining compliance with this Agreement.

6.6. CERTAIN FINANCIAL TESTS.

6.6.1. NET WORTH. On the last day of each fiscal quarter, Net Worth shall be equal to or greater than \$1,336,063,000; PROVIDED, HOWEVER, that such minimum dollar amount shall be increased by an amount equal to 50% of all deferred tax liabilities recovered by the Borrower to the extent such deferred tax liabilities recovered have not otherwise increased the Net Income of the Borrower; and PROVIDED, FURTHER, that on the first day of each fiscal quarter of the Borrower after the date hereof, such minimum dollar amount then in effect shall be increased by an amount equal to the excess, if any, of (a) 50% of Net Income for the fiscal quarter of the Borrower then most recently ended MINUS (b) cash dividends actually paid by the Borrower during such fiscal quarter.

6.6.2. GAIC STATUTORY SURPLUS. On the last day of each fiscal quarter, the Borrower will cause GAIC to maintain its "surplus as regards policyholders" (currently line 35, page 3 in the National Association of Insurance Commissioners form of statutory annual financial statement) (as computed by the applicable Insurance Authorities in Ohio) in an amount equal to or greater than \$904,058,000; PROVIDED, HOWEVER, that on the first day of each fiscal quarter of the Borrower after the date hereof, such minimum dollar amount then in effect shall be increased by an amount equal to the excess, if any, of (a) 50% of "statutory net income" (currently line 20, page 4 in the National Association of Insurance Commissioners form of statutory annual financial statement) (as computed by the applicable Insurance Authorities in Ohio) of GAIC MINUS (b) dividends actually paid by GAIC (other than dividends constituting additional capital stock of GAIC) during such fiscal quarter.

6.6.3. MINIMUM GAIC RISK BASED CAPITAL RATIO. On the last day of each fiscal quarter, the Borrower will cause GAIC to maintain a "risk based capital ratio" (as defined

by the National Association of Insurance Commissioners) (as computed by the applicable Insurance Authorities in Ohio) equal to or greater than 275%.

6.6.4. MAXIMUM DIVIDENDS TO INTEREST AND DIVIDEND CHARGES. For each period of four consecutive fiscal quarters of the Borrower:

(a) the greatest of:

(i) 10% of "surplus as regards policyholders" (currently line 35, page 3 in the National Association of Insurance Commissioners form of statutory annual financial statement)(as computed by the applicable Insurance Authorities) of the Insurance Subsidiaries owned directly by any Holding Company as of the end of the then most recently completed fiscal year of the Borrower,

(ii) 100% of the "statutory net income" (currently line 20, page 4 in the National Association of Insurance Commissioners form of statutory annual financial statement) (as computed by the applicable Insurance Authorities) of the Insurance Subsidiaries owned directly by any Holding Company for the then most recently completed fiscal year of the Borrower or

(iii) the amount of cash dividends actually paid by the Insurance Subsidiaries and received by any Holding Company during such period of four consecutive fiscal quarters, shall exceed

(b) 200% of Interest and Dividend Charges for such period of four consecutive fiscal quarters.

6.6.5. RATIO OF EARNINGS TO FIXED CHARGES. For each period of four consecutive fiscal quarters of the Borrower, the Borrower's "earnings" (as computed in accordance with section 503(d) of Regulation SK under the Securities Act and as applied in Item 6 - "Selected Financial Data (excluding annuity benefits)" of the Borrower's 2002 Form 10-K) shall equal or exceed 150% of the Borrower's "fixed charges" (as computed in accordance with section 503(d) of Regulation SK under the Securities Act and as applied in Item 6 - "Selected Financial Data (excluding annuity benefits)" of the Borrower's 2002 Form 10-K).

6.7. RESTRICTIONS ON INDEBTEDNESS.

6.7.1. INDEBTEDNESS. On the last day of each fiscal quarter, Total Financing Debt shall not exceed 36% of Total Capitalization.

6.7.2. ADDITIONAL DEBT SUBORDINATION. The Borrower shall not create, incur, suffer or permit to exist any Indebtedness of the Borrower to any Affiliate of the Borrower except (a) Indebtedness which is subordinated on terms substantially similar to the manner in which the Borrower's Indebtedness to its Affiliates is subordinated under the Subordination Agreement, (b) public Indebtedness held from time to time by an Affiliate,

and (c) Indebtedness evidenced by the Subordinated Debentures and the Capital Trust Securities.

- 6.8. RESTRICTIONS ON LIENS. Neither the Borrower nor any of its Subsidiaries shall create, incur or enter into, or suffer to be created or incurred or to exist, any Lien except the following:
- 6.8.1. Any Liens from time to time securing the Credit Obligations.
- 6.8.2. Liens on assets of the Borrower and its Subsidiaries (other than the stock of GAIC), so long as no Default exists either before or immediately after giving effect to the creation of such security interests; PROVIDED, HOWEVER, that the aggregate amount of Indebtedness of the Borrower at any one time outstanding which is secured by the Liens permitted under Sections 6.8.2 and 6.8.3 shall not exceed \$25,000,000.
- 6.8.3. Purchase money Liens (including mortgages, conditional sales, Capitalized Leases and any other title retention or deferred purchase devices) on property of the Borrower or any of its Subsidiaries existing or created at the time of acquisition thereof, and the extension and refunding of any such Lien in an amount not exceeding the amount thereof remaining unpaid immediately prior to such extension or refunding; PROVIDED, HOWEVER, that (a) the principal amount of Indebtedness (including Indebtedness in respect of Capitalized Lease Obligations) secured by each such security interest in each item of property shall not exceed the fair market value (including all such Indebtedness secured thereby, whether or not assumed) of the item subject thereto and (b) the aggregate amount of Indebtedness of the Borrower and its Subsidiaries at any one time outstanding which is secured by the Liens permitted under Sections 6.8.2 and 6.8.3 shall not exceed \$25,000,000.
- 6.9. RESTRICTIONS ON DISTRIBUTIONS. Neither the Borrower nor any of its Subsidiaries shall make any Distribution unless no Default exists both before and immediately after giving effect to such Distribution on a pro forma basis. Notwithstanding the foregoing, regardless of whether a Default then exists, (a) Subsidiaries of the Borrower may make Distributions to the Borrower and (b) any Subsidiary of the Borrower may make Distributions to any other Subsidiaries of the Borrower.
- 6.10. RESTRICTIONS ON INVESTMENTS. Neither the Borrower nor any of its Subsidiaries shall make any Investment unless no Default exists both before and immediately after giving effect to such Investment on a pro forma basis. Notwithstanding the foregoing, if a Default shall exist (a) any Subsidiary of the Borrower may make Investments in the Borrower, (b) any Subsidiary of the Borrower may make Investments in any other Subsidiary of the Borrower and (c) the Borrower may make Investments in any of its Subsidiaries, provided that such Subsidiary shall not then have outstanding any Financing Debt.
- 6.11. MERGER, CONSOLIDATION AND SALE OF ASSETS. None of the Borrower or any of its Subsidiaries will become party to any merger or consolidation or sell, sell and lease back, lease, sublease or otherwise dispose of any assets, except that, so long as immediately before and after giving effect thereto no Default shall exist:

- 6.11.1. The Borrower may become party to any merger or consolidation of which the Borrower is the surviving or resulting Person if, after giving effect thereto:
- (a) the Borrower continues to own directly or indirectly 100% of the voting common stock of GAIC, and
  - (b) the Borrower demonstrates to the Administrative Agent, on a pro forma basis immediately after giving effect to the consummation of such transaction, compliance with Sections 6.6 and 6.7.
- 6.11.2. Any Subsidiary of the Borrower may be merged into or consolidated with, or may sell, lease or otherwise dispose of any of its assets to, the Borrower or any of its Subsidiaries; PROVIDED, HOWEVER, that:
- (a) in any such merger or consolidation involving the Borrower, the Borrower shall be the surviving or resulting Person and the Borrower and its Subsidiaries shall execute and deliver such documents and take such other action as the Administrative Agent may reasonably request;
  - (b) in any such merger or consolidation involving GAIC, GAIC shall be the surviving or resulting Person and
  - (c) in any such merger or consolidation involving the combination of one Insurance Subsidiary with any other Insurance Subsidiary, the maximum amount of statutory dividends payable by the surviving or resulting Person in the year following completion of such merger or consolidation shall be at least 90% of the amount of statutory dividends payable by such constituent Persons in the year immediately prior to such merger or consolidation.
- 6.11.3. The Borrower and its Subsidiaries may dispose of assets in the ordinary course of business that are no longer used or useful in such business.
- 6.11.4. The Borrower and its Subsidiaries may from time to time sell or dispose of assets (other than stock of GAIC) on arm's length terms; PROVIDED, HOWEVER, that:
- (a) the net book value, determined in accordance with GAAP, of the assets sold pursuant to this Section 6.11.4 shall not exceed on a cumulative basis 15% of the net book value of all assets of the Borrower and its Subsidiaries as of December 31, 2002 (excluding IPC on a pro forma basis), provided that, for purposes of this clause (a), the net book value of assets sold shall not include (i) sales and dispositions of assets among the Borrower and its Subsidiaries, (ii) sales and dispositions of portfolio assets among the Borrower and its Subsidiaries, and (iii) sales and dispositions of portfolio assets of the Borrower and its Subsidiaries in the ordinary course of business and
  - (b) the assets sold pursuant to this Section 6.11.4 shall not have contributed revenue, determined in accordance with GAAP, over the period of four fiscal quarters prior to the respective sales exceeding 15% of the revenue of the

Borrower and its Subsidiaries for the four fiscal quarters ended December 31, 2002 (excluding IPC on a pro forma basis).

- 6.12. ISSUANCE OF EQUITY BY SUBSIDIARIES; SUBSIDIARY DISTRIBUTIONS.
- 6.12.1. ISSUANCE OF EQUITY BY SUBSIDIARIES. The Subsidiaries of the Borrower shall not issue or sell any shares of their capital stock or other evidence of equity or beneficial ownership other than (a) shares issued to the Borrower or any wholly owned Subsidiary of the Borrower; (b) shares issued by GAFR or National Interstate for fair value in compliance with applicable securities laws so long as the issuer in question remains a Subsidiary following such issuance; and (c) Capital Trust Securities (i) issued to refinance Capital Trust Securities outstanding as of the date hereof or (ii) issued by American Financial Capital Trust I or any other trust or similar entity, the proceeds of which are invested by such Person in an equivalent amount of Subordinated Debentures issued by GAFR.
- 6.12.2. NO RESTRICTIONS ON SUBSIDIARY DISTRIBUTIONS. Except for this Agreement and the other Credit Documents, neither the Borrower nor any of its Subsidiaries shall enter into or be bound by any agreement (including covenants requiring the maintenance of specified amounts of net worth or working capital) restricting the right of any Subsidiary to make Distributions or extensions of credit to the Borrower (directly or indirectly through another Subsidiary).
- 6.13. NEGATIVE PLEDGE CLAUSES. Neither the Borrower nor any of its Subsidiaries shall enter into any agreement, instrument, deed or lease which prohibits or limits the ability of the Borrower or any of its Subsidiaries to create, incur, assume or suffer to exist any Lien upon any of their respective properties, assets or revenues, whether now owned or hereafter acquired, or which requires the grant of any collateral for such obligation if collateral is granted for another obligation, except the following:
- 6.13.1. This Agreement and the other Credit Documents.
- 6.13.2. Covenants in documents creating Liens permitted by Sections 6.8.2 and 6.8.3 prohibiting further Liens on the assets encumbered thereby.
- 6.14. COMPLIANCE WITH ERISA. The Borrower will cause all ERISA Group Members to meet all minimum funding requirements applicable to them with respect to any Plan pursuant to section 302 of ERISA or section 412 of the Code, without giving effect to any waivers of such requirements or extensions of the related amortization periods which may be granted. Each Plan maintained from time to time will be a qualified plan under section 401(a) of the Code and will comply in all material respects with the provisions of ERISA and the Code applicable to each Plan. At no time shall the Accumulated Benefit Obligations under any Plan that is not a Multiemployer Plan exceed the fair market value of the assets of such Plan allocable to such benefits by more than \$10,000,000.
- 6.15. COMPLIANCE WITH ENVIRONMENTAL LAWS. The Borrower will, and will cause each of its Subsidiaries to, use and operate all of its facilities and properties in material compliance with all Environmental Laws, keep all necessary permits, approvals, certificates,

licenses and other authorizations relating to environmental matters in effect and remain in material compliance therewith.

7. REPRESENTATIONS AND WARRANTIES. In order to induce the Lenders to extend credit to the Borrower hereunder, the Borrower represents and warrants that:

7.1. ORGANIZATION AND BUSINESS.

7.1.1. THE BORROWER. The Borrower is a duly organized and validly existing corporation, in good standing under the laws of the State of Ohio, with all power and authority, corporate or otherwise, necessary to (a) enter into and perform this Agreement and each other Credit Document to which it is party and to make any borrowings hereunder and (b) own its properties and carry on the business now conducted or proposed to be conducted by it. The Borrower has taken all corporate action required to execute, deliver and perform this Agreement and each other Credit Document to which it is party and to make any borrowings hereunder. Certified copies of the Charter and By-laws of the Borrower have been previously delivered to the Administrative Agent and are correct and complete.

7.1.2. SUBSIDIARIES. Exhibit 7.1, as supplemented from time to time in accordance with Sections 6.5.1 and 6.5.2, sets forth the name, jurisdiction of organization and ownership of each of the Borrower's Subsidiaries whose total assets (after intercompany eliminations) exceed 10% of the total assets of the Borrower and its Subsidiaries Consolidated as of the end of the most recently completed fiscal year. Each such Subsidiary is a duly organized and validly existing corporation, in good standing under the laws of the jurisdiction of its incorporation, with all power and authority, corporate or otherwise, necessary to own its properties and carry on the business now conducted or proposed to be conducted by it.

7.1.3. QUALIFICATION. Except as set forth on Exhibit 7.1, as supplemented from time to time in accordance with Sections 6.5.1 and 6.5.2, the Borrower and each of its Subsidiaries is duly and legally qualified to do business as a foreign corporation and is in good standing in each state or jurisdiction in which such qualification is required and is duly authorized, qualified and licensed under all laws, regulations, ordinances or orders of public authorities, or otherwise, to carry on its business in the places and in the manner in which it is conducted, except for failures to be so qualified, authorized or licensed which would not in the aggregate result, or create a material risk of resulting, in any Material Adverse Change.

7.2. FINANCIAL STATEMENTS AND OTHER INFORMATION. The Borrower has previously furnished to the Lenders copies of the following:

(a) The audited Consolidated financial statements of the Borrower and AFC and their respective Subsidiaries as at December 31, 2001 and December 31, 2002, accompanied by reports of each of the Borrower's and AFC's independent auditors;

- (b) The Annual Reports of the Borrower and AFC on Form 10-K for the fiscal year ended December 31, 2002 (the "2002 FORM 10-K");
- (c) The Quarterly Reports of the Borrower and AFC on Form 10-Q for the fiscal quarters ended March 31, 2003 and June 30, 2003; and
- (d) The March 31, 2003 and June 30, 2003 statutory financial statements of GAIC, GALIC and RICA.

The financial statements (including the notes thereto) referred to in clauses (a), (b) and (c) above have been prepared in accordance with GAAP, and the financial statements (including the notes thereto) referred to in clause (d) above have been prepared in accordance with applicable statutory accounting principles (in each case, subject to year-end audit adjustments and the absence of footnotes for interim statements) and the financial statements (including the notes thereto) referred to in clauses (a), (b) and (c) above fairly present the financial condition of the Persons covered thereby at the dates thereof and the results of their operations for the periods covered thereby, and the financial statements (including the notes thereto) referred to in clause (d) above present the financial condition of the Persons covered thereby at the dates thereof and the results of their operations for the periods covered thereby in compliance with applicable statutory regulations and guidelines. Neither the Borrower nor any of its Subsidiaries has any known material contingent liabilities which are not referred to in said financial statements or in the notes thereto.

The 2002 Form 10-K (including all of the financial statements and schedules included therein) contains all information which is required to be stated therein in accordance with the Exchange Act, and conforms in all material respects to the requirements thereof; and the 2002 Form 10-K did not when filed include any untrue statement of a material fact or omit to state a material fact which was required to be stated therein or was necessary to make the statements therein not misleading in the light of the circumstances in which they were made.

- 7.3. LICENSES, ETC. Each of the Borrower and its Subsidiaries has all trademarks, trademark rights, trade names, trade name rights, service marks, service mark rights, copyrights, licenses, permits, authorizations and other rights, as are necessary for the conduct of their respective businesses. All of the foregoing are in full force and effect, and the Borrower and each of its Subsidiaries are in substantial compliance without any known conflict with the valid rights of or by others which could result in a Material Adverse Change.
- 7.4. CHANGES IN CONDITION. Since December 31, 2002, no Material Adverse Change has occurred, and, except as previously disclosed to the Lenders, neither the Borrower nor any of its Subsidiaries has entered into any material transaction outside the ordinary course of business.
- 7.5. TITLE TO ASSETS. Each of the Borrower and its Subsidiaries has good and marketable title to all assets necessary for or used in the operations of their businesses as now conducted or proposed to be conducted by them and reflected in the most recent balance sheet referred to in Section 7.2 (or the balance sheet most recently furnished to the Lenders pursuant

to Section 6.5.1 or 6.5.2), and to all assets acquired subsequent to the date of such balance sheet, subject to no Liens except for those permitted by Section 6.8.

- 7.6. LITIGATION. Except for the GREEN asbestosis litigation to the extent described in the 2002 Form 10-K and subsequent Form 10-Q reports referred to in Section 7.2, no litigation, at law or in equity, or any proceeding before any federal, state, provincial or municipal court, board or other governmental or administrative agency or any arbitrator is pending or to the knowledge of the Borrower threatened which may involve any material risk of any final judgment or liability not adequately covered by insurance or which may otherwise result in any Material Adverse Change, or which questions the validity or enforceability of any Credit Document. No judgment, decree, or order of any federal, state, provincial or municipal court, board or other governmental or administrative agency or arbitrator has been issued against the Borrower or any of its Subsidiaries which has resulted, or creates a material risk of resulting in, any Material Adverse Change.
- 7.7. TAX RETURNS. Each of the Borrower and its Subsidiaries has filed all tax returns which are required to be filed and have paid, or made adequate provision for the payment of, all taxes which have or may become due pursuant to said returns or to assessments received. The federal tax returns of the Borrower for which the applicable period of limitations have not expired have not been audited by the Internal Revenue Service. The Borrower does not know of any material additional assessments or basis therefor. The Borrower has made adequate provision for all current taxes, and in the opinion of the Borrower there will not be any material additional assessments for any fiscal periods prior to and including the fiscal year ended December 31, 2002 in excess of the amounts reserved therefor in the balance sheet as at such date.
- 7.8. ENFORCEABILITY; NO LEGAL OBSTACLE TO AGREEMENTS. Each of this Agreement, the Revolving Notes and each other Credit Document to which the Borrower or any of its Subsidiaries is party is the legal, valid and binding obligation of such Person, enforceable against it in accordance with its terms. Neither the execution and delivery of this Agreement or any other Credit Document, nor, in the case of the Borrower, the making of any borrowings hereunder, nor the consummation of any transaction referred to in or contemplated by this Agreement or any other Credit Document, nor the fulfillment of the terms hereof or thereof or of any other agreement, instrument, deed or lease referred to in this Agreement or any other Credit Document, has constituted or resulted, or will constitute or result in:
- (a) any breach or termination of the provisions of any agreement, instrument, deed or lease to which the Borrower or any of its Subsidiaries is a party or by which it is bound resulting or creating a material risk of resulting in any Material Adverse Change or challenge to the validity or enforceability of any Credit Document, or any breach of the Charter or By-laws of the Borrower or any of its Subsidiaries;
  - (b) the violation of any law, statute, judgment, decree or governmental order, rule or regulation applicable to the Borrower or any of its Subsidiaries resulting or creating a material risk of resulting in any Material Adverse Change or challenging the validity or enforceability of any Credit Document;

- (c) the creation under any agreement, instrument, deed or lease of any Lien (other than Liens permitted by the Credit Documents) upon any of the assets of the Borrower or any of its Subsidiaries; or
- (d) any redemption, retirement or other repurchase obligation of any of the Borrower or any of its Subsidiaries under any Charter, By-law, agreement, instrument, deed or lease.

No approval, authorization or other action by, or declaration to or filing with, any governmental or administrative authority or any other Person (including Insurance Authorities) is required to be obtained or made by the Borrower or any of its Subsidiaries in connection with the execution, delivery and performance of this Agreement or any other Credit Document, the transactions contemplated hereby or thereby, in the case of the Borrower, the making of any borrowing hereunder or thereunder, or the validity or enforceability of any Credit Document.

- 7.9. DEFAULTS. Neither the Borrower nor any of its Subsidiaries is in default under any provision of its Charter or By-laws or of this Agreement or any other Credit Document. Neither the Borrower nor any of its Subsidiaries is in default under any provision of any agreement, instrument, deed or lease to which it is party or by which it or its property is bound, or has violated any law, judgment, decree or governmental order, rule or regulation, so as to result, or pose a material risk of resulting, in any Material Adverse Change.
- 7.10. BURDENSOME OBLIGATIONS. Neither the Borrower nor any of its Subsidiaries is party to or bound by any agreement, instrument, deed or lease or is subject to any Charter, By-law or other restriction which, in the opinion of the Borrower's management, is so unusual or burdensome as in the foreseeable future to result, or pose a material risk of resulting, in a Material Adverse Change. Except for the Green asbestosis litigation to the extent described in the 2002 Form 10-K and subsequent Form 10-Q reports referred to in Section 7.2, the Borrower does not presently anticipate that future expenditures of the Borrower and its Subsidiaries needed to meet the provisions of any federal or state statutes, orders, rules or regulations will be so burdensome as to result, or pose a material risk of resulting, in a Material Adverse Change.
- 7.11. PENSION PLANS. Each Plan maintained by the Borrower or any ERISA Group Member is in material compliance with the applicable provisions of ERISA and the Code. Except as set forth on Exhibit 7.11, neither the Borrower nor any ERISA Group Member maintains, contributes to, or participates in any Plan that is a "defined benefit plan" as defined in ERISA, or is a Multiemployer Plan. Each of the Borrower and each ERISA Group Member has met all of the funding standards applicable to such Plans, and no event or condition exists which would permit the institution of proceedings to terminate any Plan under section 4042 of ERISA. The current value of the Accumulated Benefit Obligations under each of the Plans does not exceed the current value of such Plans' assets allocable to such benefits by more than \$1,000,000.
- 7.12. GOVERNMENT REGULATION. Neither the Borrower nor any of its Subsidiaries, nor any Person controlling the Borrower or any of its Subsidiaries or under common control with the Borrower or any of its Subsidiaries is subject to regulation under the Public Utility

Holding Company Act of 1935, the Federal Power Act of 1935, the Investment Company Act of 1940, the Interstate Commerce Act or any statute or regulation which regulates the incurring by the Borrower or any of its Subsidiaries of Financing Debt as contemplated by this Agreement and the other Credit Documents. Various aspects of the business conducted by the Borrower and its Subsidiaries, including the nature of the services required to be furnished and the rates that may be charged therefor, are subject to regulation by the Superintendent of Insurance of the State of Ohio and by similar authorities in other jurisdictions in which the Borrower and its Subsidiaries conduct business.

- 7.13. ENVIRONMENTAL REGULATION. Except as set forth in Exhibit 7.13 and to the best of the Borrower's knowledge, there have been no past, and there are no pending or threatened (a) claims, complaints, notices or requests for information received by the Borrower or any of its Subsidiaries with respect to any alleged violation of any Environmental Law that, singly or in the aggregate, have resulted in, or may reasonably be expected to result in, any Material Adverse Change, or (b) complaints, notices or inquiries to the Borrower or any of its Subsidiaries regarding potential liability under any Environmental Law that, singly or in the aggregate, have resulted in, or may reasonably be expected to result in, any Material Adverse Change.
- 7.14. DISCLOSURE. Neither this Agreement nor any other Credit Document to be furnished to the Lenders by or on behalf of the Borrower or any of its Subsidiaries in connection with the transactions contemplated hereby or by such Credit Document contains any untrue statement of material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. No fact is actually known to the Borrower which has resulted, or in the future (so far as the Borrower can reasonably foresee) will result, or creates a material risk of resulting, in any Material Adverse Change, except to the extent that present or future general economic conditions may result in a Material Adverse Change.
8. DEFAULTS.
- 8.1. EVENTS OF DEFAULT. The following events are herein referred to as "EVENTS OF DEFAULT":
- 8.1.1. PAYMENT. The Borrower shall fail to make any payment in respect of: (a) interest on any of the Credit Obligations as the same shall become due and payable and such failure shall continue for a period of five Banking Days, (b) any fee or any expense or indemnity in respect of any of the Credit Obligations as the same shall become due and payable and such failure shall continue for a period of five Banking Days after notice thereof by the Administrative Agent to the Borrower (which notice shall be given upon the request of the Required Majority Lenders), or (c) principal of any of the Credit Obligations as the same shall become due, whether at maturity or by acceleration or otherwise.
- 8.1.2. DESIGNATED COVENANTS. The Borrower or any of its Subsidiaries shall fail to perform or observe any of the provisions of Sections 6.6 through 6.15 to be performed or observed by such Person.

- 8.1.3. GENERAL COVENANTS. The Borrower or any of its Subsidiaries shall fail to perform or observe any other covenant, agreement or provision to be performed or observed by such Person under this Agreement or any other Credit Document, and such failure shall not be rectified or cured to the written satisfaction of the Required Majority Lenders within 20 days after notice thereof by the Administrative Agent to the Borrower (which notice shall be given upon the request of the Required Majority Lenders).
- 8.1.4. MISREPRESENTATIONS. Any representation or warranty of or with respect to the Borrower or any of its Subsidiaries in connection with this Agreement, any other Credit Document or any financial statements, reports, notices, assignments or certificates delivered to any of the Lenders by the Borrower or any of its Subsidiaries, or any other Person as a guarantor, pledgor or other obligor in connection with this Agreement shall be materially false or materially misleading on the date as of which it was made.
- 8.1.5. CROSS DEFAULTS, ETC.
- (a) The Borrower or any of its Subsidiaries shall fail to make any payment when due (after giving effect to any applicable grace periods) in respect of any Financing Debt (other than the Credit Obligations) outstanding in an aggregate amount of principal and accrued and unpaid interest exceeding \$5,000,000.
  - (b) The Borrower or any of its Subsidiaries shall fail to perform or observe the terms of any agreement or guarantee relating to such Financing Debt, and such failure or condition shall continue, without having been duly cured, waived or consented to, beyond the period of grace, if any, specified in such agreement, and such failure or condition shall permit the acceleration of such Financing Debt.
  - (c) Any such Financing Debt of the Borrower or any of its Subsidiaries shall be accelerated or become due or payable prior to its stated maturity for any reason whatsoever (other than voluntary prepayments thereof).
  - (d) Any Lien on any property of the Borrower or any of its Subsidiaries securing any such Financing Debt shall be enforced by foreclosure or similar action.
  - (e) Any holder of any such Financing Debt shall exercise any right of rescission with respect to the issuance thereof.
- 8.1.6. CHANGE OF CONTROL OF THE BORROWER. Either (a) Lindner Family Members or direct or indirect Subsidiaries of Lindner Family Members or their nominees shall cease to own, in the aggregate, beneficially (i) at least 25% of the outstanding voting common stock of the Borrower (or any successor permitted under Section 6.11) and (ii) a sufficient number of shares of such voting common stock of the Borrower so that such Lindner Family Members, in the aggregate, shall own more shares of such voting common stock than any other Person or group of Persons by a margin of at least 10% of the total number of shares of such voting common stock of the Borrower then outstanding, or (b) a majority of the members of

the Board of Directors of the Borrower shall not actually consist of Lindner Family Members, their nominees or representatives or independent directors within the meaning of applicable Securities and Exchange Commission and stock exchange regulations.

- 8.1.7. CHANGE OF CONTROL IN GAIC. The Borrower (or any of its successors permitted under Section 6.11) shall cease to own directly 100% of the voting common stock of GAIC.
- 8.1.8. EFFECTIVENESS OF CREDIT DOCUMENTS. Any Credit Document shall cease, for any reason to be in full force and effect, or the Borrower or any of its Subsidiaries shall so assert.
- 8.1.9. JUDGMENTS, ETC. A final judgment (a) which, with other outstanding final judgments against the Borrower or any of its Subsidiaries, exceeds an aggregate of \$5,000,000 shall be rendered against the Borrower or any of its Subsidiaries, or (b) which grants injunctive relief that results, or creates a material risk of resulting, in a Material Adverse Change, and (c) which, within 60 days after entry thereof, has not been discharged or execution thereof stayed pending appeal, or if, within 60 days after the expiration of any such stay, such judgment shall not have been discharged.
- 8.1.10. ERISA MATTERS. The Borrower or any ERISA Group Member shall fail to pay when due amounts aggregating in excess of \$10,000,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan shall be filed under Title IV of ERISA by the Borrower or any ERISA Group Member or any administrator; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Plan or a proceeding shall be instituted by a fiduciary of any Plan against the Borrower or any ERISA Group Member to enforce section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or a Lien shall be imposed under section 302(f) of ERISA; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Plan must be terminated.
- 8.1.11. INSURANCE SUBSIDIARIES MATTERS. Any of the Insurance Subsidiaries shall, at any time after the date hereof, be prohibited by law from engaging in the business of effecting and carrying out contracts of insurance, and such prohibition would result in a Material Adverse Change.
- 8.1.12. TERMINATION OF INSURANCE BUSINESS. Any court or any Insurance Authority or any other governmental or regulatory authority, agency or official of competent jurisdiction shall issue an order or decree which shall require any of the Insurance Subsidiaries to reduce or to terminate all or any substantial part of its insurance business, and such reduction or termination would result in a Material Adverse Change.
- 8.1.13. BANKRUPTCY, ETC. The Borrower or any of its Subsidiaries shall:
- (a) Commence a voluntary case under the Bankruptcy Code or authorize, by appropriate proceedings of its board of directors or other governing body, the commencement of such a voluntary case;

- (b) Have filed against it a petition commencing an involuntary case under the Bankruptcy Code which shall not have been dismissed within 60 days after the date on which such petition is filed; or file an answer or other pleading within such 60-day period admitting or failing to deny the material allegations of such a petition or seeking, consenting to or acquiescing in the relief therein provided;
- (c) Have entered against it an order for relief in any involuntary case commenced under the Bankruptcy Code;
- (d) Seek relief as a debtor under any applicable law, other than the Bankruptcy Code, of any jurisdiction relating to the liquidation or reorganization of debtors or to the modification or alteration of the rights of creditors, or consent to or acquiesce in such relief;
- (e) Have entered against it an order by a court of competent jurisdiction (i) finding it to be bankrupt or insolvent, (ii) ordering or approving its liquidation, reorganization or any modification or alteration of the rights of its creditors or (iii) assuming custody of, or appointing a receiver or other custodian for, all or a substantial portion of its property;
- (f) Make an assignment for the benefit of, or enter into a composition with, its creditors, or appoint, or consent to the appointment of, or suffer to exist a receiver or other custodian for, all or a substantial portion of its property; or
- (g) Become insolvent or generally fail to pay, or admit in writing its inability or unwillingness to pay, debts as they become due; or

8.1.14. **INSURANCE REGULATORY ACTION.** Any applicable insurance regulatory authority shall take action to intervene into the management or business affairs of any of the Insurance Subsidiaries and such action would result in a Material Adverse Change.

8.2. **CERTAIN ACTIONS FOLLOWING AN EVENT OF DEFAULT.** If any one or more Events of Default shall occur, then in each and every such case:

8.2.1. **NO OBLIGATION TO EXTEND CREDIT.** Upon notice by the Administrative Agent to the Borrower, upon the written request of the Required Majority Lenders, the obligations of the Lenders to make any further extensions of credit hereunder shall automatically terminate; provided, however, that if a Bankruptcy Default shall have occurred, the Commitments (if not theretofore terminated) shall automatically terminate.

8.2.2. **EXERCISE OF RIGHTS.** Upon the written request of the Required Majority Lenders, the Administrative Agent shall proceed to protect and enforce the Lenders' rights by suit in equity, action at law and/or other appropriate proceeding, either for specific performance of any covenant or condition contained in this Agreement or any other Credit Document or in any instrument or assignment delivered to the Lenders pursuant to this Agreement or any other Credit Document, or in aid of the exercise of any power granted in this Agreement or any other Credit Document or any such instrument or assignment.

- 8.2.3. ACCELERATION. Upon the written request of the Required Majority Lenders, the Administrative Agent on behalf of the Lenders shall by notice in writing to the Borrower declare all or any part of the unpaid balance of the Credit Obligations then outstanding to be immediately due and payable, and thereupon such unpaid balance or part thereof shall become so due and payable without presentment, protest or further demand or notice of any kind, all of which are hereby expressly waived; provided, however, that if a Bankruptcy Default shall have occurred, the unpaid balance of the Credit Obligations shall automatically become immediately due and payable without presentment, protest, or other demand or notice of any kind, all of which are expressly waived.
- 8.2.4. SETOFF. If all or any part of the unpaid balance of the Credit Obligations shall have become due and payable pursuant to Section 8.2.3, each Lender may offset and apply toward the payment of such balance or part thereof (and/or toward the curing of any Event of Default) any Indebtedness from such Lender to the Borrower, including any Indebtedness represented by deposits in any account maintained with such Lender, regardless of the adequacy of any security for the Credit Obligations, and no Lender shall have any duty to determine the adequacy of any such security in connection with any such offset.
- 8.2.5. CUMULATIVE REMEDIES. To the extent not prohibited by applicable law which cannot be waived, all of the Lenders' rights hereunder and under each other Credit Document shall be cumulative.
- 8.3. ANNULMENT OF DEFAULTS. Any Default or Event of Default shall be deemed not to exist or to have occurred for any purpose of this Agreement if the required holders of the Credit Obligations in accordance with Section 10.6 or the Administrative Agent (with any consent of holders of Credit Obligations required by Section 10.6) shall have waived such Default or Event of Default in writing, stated in writing that the same has been cured to such Lenders' reasonable satisfaction or entered into an amendment to this Agreement which by its express terms cures such Default or Event of Default. No such action by the Lenders or the Administrative Agent shall extend to or affect any subsequent Default or Event of Default or impair any rights of the Lenders upon the occurrence thereof. The making of any extension of credit during the existence of any Default or Event of Default shall not constitute a waiver thereof.
- 8.4. WAIVERS. The Borrower hereby waives to the extent not prohibited by applicable law:
- (a) All presentments, demands for performance, notices of nonperformance (except to the extent required by the provisions of this Agreement or any other Credit Document), protests, notices of protest and notices of dishonor;
  - (b) Any requirement of diligence or promptness on the part of any Lender in the enforcement of its rights under this Agreement, the Revolving Notes or any other Credit Document;

- (c) Any and all notices of every kind and description which may be required to be given by any statute or rule of law; and
- (d) Any defense of any kind (other than indefeasible payment in full) which it may now or hereafter have with respect to its liability under this Agreement, the Revolving Notes or any other Credit Document or with respect to the Credit Obligations.

9. EXPENSES; INDEMNITY.

9.1. EXPENSES. The Borrower will bear:

- (a) All reasonable expenses of the Administrative Agent (including the reasonable fees and disbursements of the special counsel to the Administrative Agent, but excluding fees and expenses of counsel to the other Lenders) in connection with the preparation and duplication of this Agreement, each other Credit Document (including any amendment to or waiver under any Credit Document), the transactions contemplated hereby and thereby and operations hereunder and thereunder;
- (b) All recording and filing fees and transfer and documentary stamp and similar taxes at any time payable in respect of this Agreement, any other Credit Document or the incurrence of the Credit Obligations; and
- (c) To the extent not prohibited by applicable law that cannot be waived, all other reasonable expenses incurred by the Lenders or the holder of any Credit Obligation in connection with the enforcement of any rights hereunder or under any other Credit Document (including, during the existence of a Default, the Administrative Agent's examination rights provided in Section 6.5.6), including costs of collection and reasonable attorneys' fees (including a reasonable allowance for the hourly cost of attorneys employed by the Administrative Agent on a salaried basis) and expenses.

9.2. GENERAL INDEMNITY. The Borrower will indemnify the Administrative Agent and each Lender, and each of the Administrative Agent and the Lenders' respective directors, officers, employees, agents, counsel and accountants and each Person, if any, who controls the Administrative Agent or any Lender (the Administrative Agent and each Lender and each of their respective directors, officers, employees, agents, counsel and accountants and control Persons is referred to as an "INDEMNITEE") and hold each of them harmless from and against any and all claims, damages, liabilities and reasonable expenses (including reasonable fees and disbursements of counsel with whom any Indemnitee may consult in connection therewith and all expenses of litigation or preparation therefor) which any Indemnitee may incur or which may be asserted against any Indemnitee in connection with any litigation or investigation involving the Borrower or any of its Subsidiaries, or any officer, director, employee, agent, counsel or accountant thereof (including the Administrative Agent's or Lenders' compliance with or contest of any subpoena or other process issued against it in any proceeding involving the Borrower or any of its Subsidiaries), whether or not such Indemnities are parties thereto,

or any penalties or other matters involving the transactions contemplated hereby, other than litigation commenced by the Borrower against the Lenders or the Administrative Agent which seeks enforcement of any of the rights of the Borrower hereunder or under any other Credit Document and is finally determined adversely to the Lenders or the Administrative Agent and except to the extent such claims, damages, liabilities and expenses result from the Administrative Agent's or a Lender's gross negligence or willful misconduct.

10. OPERATIONS; AGENT.

- 10.1. INTERESTS IN CREDITS. The Percentage Interest of each Lender in the respective portions of the Loan, and the related Commitments, shall be computed based on the maximum principal amount for each Lender as set forth in the Register, as from time to time in effect. The current Percentage Interests are set forth in Exhibit 10.1, which may be updated by the Administrative Agent from time to time to conform to the Register.
- 10.2. ADMINISTRATIVE AGENT'S AUTHORITY TO ACT, ETC. Each of the Lenders hereby appoints and authorizes the Administrative Agent to act for the Lenders as the Lenders' Administrative Agent in connection with the transactions contemplated by this Agreement and the other Credit Documents on the terms set forth herein. In acting hereunder, the Administrative Agent is acting for its own account to the extent of its Percentage Interest and for the accounts of the other Lenders to the extent of the Lenders' respective Percentage Interests, and all action in connection with the enforcement of, or the exercise of any remedies (other than each Lender's rights of set-off as provided in Section 8.2.4 or in any Credit Document) in respect of the Credit Obligations and Credit Documents shall be taken by the Administrative Agent, as provided for in this Agreement. Neither the syndication agent, the documentation agent nor any other agent or arranger named hereunder (other than the Administrative Agent) shall have any duties or obligations under the Credit Documents.
- 10.3. BORROWER TO PAY ADMINISTRATIVE AGENT, ETC. The Borrower shall be fully protected in making all payments and providing all notices in respect of the Credit Obligations to the Administrative Agent, in relying upon consents, modifications and amendments executed by the Administrative Agent purportedly on the Lenders' behalf, and in dealing with the Administrative Agent as herein provided. The Administrative Agent shall charge the account of the Borrower, on the dates when the amounts thereof become due and payable, with the amounts of the principal of and interest on the Loan, the commitment fees and all other fees and amounts owing under any Credit Document.
- 10.4. LENDER OPERATIONS FOR ADVANCES, ETC.
- 10.4.1. ADVANCES. Upon receipt of a borrowing request by the Administrative Agent under Section 2.1, the Administrative Agent shall promptly notify each of the Lenders (by telephone confirmed in writing or otherwise). On each Closing Date, each Lender shall advance to the Administrative Agent in immediately available funds such Lender's Percentage Interest in the portion of the Loan to be advanced on such Closing Date prior to 10:00 a.m. (Boston time). If such funds are not received from any Lender at such time, but all the conditions set forth in Section 5.2 have been satisfied, such Lender hereby authorizes and requests the Administrative Agent to advance for such Lender's

account, pursuant to the terms hereof, such Lender's respective Percentage Interest in such portion of the Loan and agrees to reimburse the Administrative Agent in immediately available funds for the amount thereof prior to 2:00 p.m. (Boston time) on the day any such portion of the Loan is advanced hereunder.

10.4.2. ADMINISTRATIVE AGENT TO ALLOCATE PAYMENTS. Subject to Section 10.4.3, all payments of principal and interest in respect of the extensions of credit made pursuant to this Agreement and commitment fees and other fees under this Agreement shall, as a matter of convenience, be made by the Borrower to the Administrative Agent in immediately available funds, and the share of each Lender shall be credited to such Lender by the Administrative Agent in immediately available funds in such manner that the principal amount, interest and fees in respect of the Credit Obligations to be paid shall be paid proportionately in accordance with the Lenders' respective Percentage Interests.

10.4.3. NONPERFORMING LENDERS. In the event that any Lender fails to reimburse the Administrative Agent pursuant to Sections 10.4.1 for the Percentage Interest of such lender (a "NONPERFORMING LENDER") in any credit advanced by the Administrative Agent pursuant hereto, overdue amounts (the "DELINQUENT PAYMENT") due from the Nonperforming Lender to the Administrative Agent shall bear interest, payable by the Nonperforming Lender on demand, at a per annum rate equal to (a) the Federal Funds Rate for the first three days overdue and (b) the sum of 2% PLUS the Federal Funds Rate for any longer period. Such interest shall be payable to the Administrative Agent for its own account for the period commencing on the date of the Delinquent Payment and ending on the date the Nonperforming Lender reimburses the Administrative Agent on account of the Delinquent Payment (to the extent not paid by the Borrower as provided below) and the accrued interest thereon (the "DELINQUENCY PERIOD"), whether pursuant to the assignments referred to below or otherwise. Upon notice by the Administrative Agent, the Borrower will pay to the Administrative Agent the principal (but not the interest) portion of the Delinquent Payment. During the Delinquency Period, in order to make reimbursements for the Delinquent Payment and accrued interest thereon, the Nonperforming Lender shall be deemed to have assigned to the Administrative Agent all interest, commitment fees and other payments made by the Borrower under Section 3 that would have thereafter otherwise been payable under the Credit Documents to the Nonperforming Lender. During any period in which any Nonperforming Lender is not performing its obligations to extend credit under Section 2, the Nonperforming Lender shall be deemed to have assigned to each Lender that is not a Nonperforming Lender (a "PERFORMING LENDER") all principal and other payments made by the Borrower under Section 4 that would have thereafter otherwise been payable under the Credit Documents to the Nonperforming Lender. The Administrative Agent shall credit a portion of such payments to each Performing Lender in an amount equal to the Percentage Interest of such Performing Lender divided by one minus the Percentage Interest of the Nonperforming Lender until the respective portions of the Loan owed to all the Lenders are the same as the Percentage Interests of the Lenders immediately prior to the failure of the Nonperforming Lender to perform its obligations under Section 2. The foregoing provisions shall be in addition to any other remedies the Administrative Agent, the Performing Lenders or the Borrower may have under law or equity against the Nonperforming Lender as a result of the Delinquent Payment or as a result of its failure to perform its obligations under Section 2.

10.5. ADMINISTRATIVE AGENT'S RESIGNATION. The Administrative Agent may resign at any time by giving at least 60 days' prior written notice of its intention to do so to each Lender and to the Borrower and upon the appointment by the Required Majority Lenders of a successor Administrative Agent satisfactory to the Borrower. If no successor Administrative Agent shall have been so appointed and shall have accepted such appointment within 45 days after the retiring Administrative Agent's giving of such notice of resignation, then the retiring Administrative Agent may, with the consent of the Borrower, which consent shall not be unreasonably withheld, appoint a successor Administrative Agent which shall be a bank or a trust company organized under the laws of the United States of America or any state thereof and having a combined capital, surplus and undivided profit of at least \$500,000,000 and a tier one ratio of equity to risk-weighted assets ranking in the top half of all domestic banks having greater than \$1,000,000,000 in assets pursuant to regulations issued by the federal Comptroller of the Currency, the Board of Governors of the Federal Reserve System or other applicable federal bank regulatory agencies; PROVIDED, HOWEVER, that any successor Administrative Agent appointed under this sentence may be removed upon the written request of the Required Majority Lenders, which request shall also appoint a successor Administrative Agent satisfactory to the Borrower. Upon the appointment of a new Administrative Agent hereunder, the term "ADMINISTRATIVE AGENT" shall for all purposes of this Agreement thereafter mean such successor. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, or the removal hereunder of any successor Administrative Agent, the provisions of this Agreement shall continue to inure to the benefit of the Administrative Agent as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

10.6. CONCERNING THE ADMINISTRATIVE AGENT.

10.6.1. ACTION IN GOOD FAITH, ETC. The Administrative Agent and its officers, directors, employees and agents shall be under no liability to any of the Lenders or to any future holder of any interest in the Credit Obligations for any action or failure to act taken or suffered in good faith, and any action or failure to act in accordance with an opinion of its counsel shall conclusively be deemed to be in good faith. The Administrative Agent shall in all cases be entitled to rely, and shall be fully protected in relying, on instructions given to the Administrative Agent by the required holders of Credit Obligations as provided in this Agreement.

10.6.2. NO IMPLIED DUTIES, ETC. The Administrative Agent shall have and may exercise such powers as are specifically delegated to the Administrative Agent under this Agreement or any other Credit Document, together with all other powers incidental thereto. The Administrative Agent shall have no implied duties to any Person or any obligation to take any action under this Agreement or any other Credit Document except for action specifically provided for in this Agreement or any other Credit Document to be taken by the Administrative Agent. Before taking any action under this Agreement or any other Credit Document, the Administrative Agent may request an appropriate specific indemnity satisfactory to it from each Lender in addition to the general indemnity provided for in Section 10.9, and until the Administrative Agent has received such specific indemnity, the Administrative Agent shall not be obligated to take (although it may in its sole discretion take) any such action under this Agreement or any other Credit Document;

provided, however, that no such indemnity shall extend to actions or omissions which are taken by the Administrative Agent with gross negligence or willful misconduct.

- 10.6.3. **VALIDITY, ETC.** Subject to Section 10.6.1, the Administrative Agent shall not be responsible to any Lender or any future holder of any interest in the Credit Obligations (a) for the legality, validity, enforceability or effectiveness of this Agreement or any other Credit Document, (b) for any recitals, reports, representations, warranties or statements contained in or made in connection with this Agreement or any other Credit Document, (c) for the existence or value of any assets included in any security for the Credit Obligations, (d) for the perfection or effectiveness of any Lien purported to be included in such security or (e) for the specification or failure to specify any particular assets to be included in such security.
- 10.6.4. **COMPLIANCE.** The Administrative Agent shall not be obligated to ascertain or inquire as to the performance or observance of any of the terms of this Agreement or any other Credit Document. In connection with any extension of credit under this Agreement or any other Credit Document, the Administrative Agent shall be fully protected in relying on a certificate of the Borrower as to the fulfillment by the Borrower of any conditions to such extension of credit.
- 10.6.5. **EMPLOYMENT OF AGENTS AND COUNSEL.** The Administrative Agent may execute any of its duties as Administrative Agent under this Agreement or any other Credit Document by or through employees, agents and attorneys-in-fact and shall not be responsible to any of the Lenders, the Borrower or any of its Subsidiaries (except as to money or securities received by the Administrative Agent or the Administrative Agent's authorized agents) for the default or misconduct of any such agents or attorneys-in-fact selected by the Administrative Agent, except where the Administrative Agent has acted with gross negligence or willful misconduct. The Administrative Agent shall be entitled to advice of counsel concerning all matters pertaining to the agencies hereby created and its respective duties hereunder or under any other Credit Document.
- 10.6.6. **RELIANCE ON DOCUMENTS AND COUNSEL.** The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any affidavit, certificate, cablegram, consent, instrument, letter, notice, order, document, statement, telecopy, telegram, telex or teletype message or writing reasonably believed in good faith by the Administrative Agent to be genuine and correct and to have been signed, sent or made by the Person in question, including without limitation any telephonic or oral statement made by such Person, and, with respect to legal matters, upon the opinion of counsel selected by the Administrative Agent.
- 10.6.7. **ADMINISTRATIVE AGENT'S REIMBURSEMENT.** Each of the Lenders severally agrees to reimburse the Administrative Agent, in the amount of such Lender's Percentage Interest, for any expenses not reimbursed by the Borrower (without limiting the obligation of the Borrower to make such reimbursement): (a) for which the Administrative Agent is entitled to reimbursement by the Borrower under this Agreement or any other Credit Document, and (b) after the occurrence of a Default, for any other expenses incurred by the Administrative Agent on the Lenders' behalf in connection with the enforcement of the

Lenders' rights under this Agreement or any other Credit Document; provided, however, that no such reimbursement shall apply to actions or omissions which are taken by the Administrative Agent with gross negligence or willful misconduct.

- 10.7. RIGHTS AS A LENDER. With respect to any credit extended by it hereunder, the Administrative Agent shall have the same rights, obligations and powers hereunder as any other Lenders and may exercise such rights and powers as though it was not the Administrative Agent, and unless the context otherwise specifies, the Administrative Agent shall be treated in its respective individual capacity as though it were not the Administrative Agent hereunder. Without limiting the generality of the foregoing, the Percentage Interest of the Administrative Agent shall be included in any computations of Percentage Interests. The Administrative Agent and its Affiliates may accept deposits from, lend money to, act as trustee for and generally engage in any kind of banking or trust business with the Borrower or any of its Subsidiaries or any other Person, including any Person who may do business with or own an equity interest in the Borrower or any of its Subsidiaries, all as if such bank was not the Administrative Agent and without any duty to account therefor to the other Lenders.
- 10.8. INDEPENDENT CREDIT DECISION. Each of the Lenders acknowledges that it has independently and without reliance upon the Administrative Agent, based on the financial statements and other documents referred to in Section 7.2, on the other representations and warranties contained herein and on such other information with respect to the Borrower and its Subsidiaries as such Lender deemed appropriate, made such Lender's own credit analysis and decision to enter into this Agreement and to make the extensions of credit provided for hereunder. Each Lender represents to the Administrative Agent that such Lender will continue to make its own independent credit and other decisions in taking or not taking action under this Agreement or any other Credit Document. Each Lender expressly acknowledges that neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to such Lender, and no act by the Administrative Agent taken under this Agreement or any other Credit Document, including any review of the affairs of the Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by the Administrative Agent. Except for notices, reports and other documents expressly required to be furnished to each Lender by the Administrative Agent under this Agreement or any other Credit Document, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition, financial or otherwise, or credit worthiness of the Borrower or any of its Subsidiaries which may come into the possession of such the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.
- 10.9. INDEMNIFICATION. The holders of the Credit Obligations hereby agree to indemnify the Administrative Agent and its officers, directors, employees, agents, attorneys, accountants, consultants and controlling Persons (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), pro rata according to their respective Percentage Interests, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time be imposed on, incurred by or asserted against the Administrative Agent relating to or arising out of this Agreement, any other Credit Document,

the transactions contemplated hereby or thereby, or any action taken or omitted by the Administrative Agent in connection with any of the foregoing; provided, however, that the foregoing shall not extend to actions or omissions which are determined in a final, nonappealable judgment by a court of competent jurisdiction to have been taken by the Administrative Agent with gross negligence or willful misconduct.

11. SUCCESSORS AND ASSIGNS; LENDER ASSIGNMENTS AND PARTICIPATIONS. Any reference in this Agreement or any other Credit Document to any of the parties hereto shall be deemed to include the successors and assigns of such party, and all covenants and agreements by or on behalf of the Borrower, the Administrative Agent or the Lenders that are contained in this Agreement or any other Credit Document shall bind and inure to the benefit of their respective successors and assigns; provided, however, that (a) the Borrower and its Subsidiaries may not assign their rights or obligations under this Agreement or any other Credit Document except for mergers or liquidations permitted by Section 6.11, and (b) the Lenders shall be not entitled to assign their respective Percentage Interests in the credits extended hereunder or their Commitments except as set forth below in this Section 11.

11.1. ASSIGNMENTS BY LENDERS.

11.1.1. ASSIGNEES AND ASSIGNMENT PROCEDURES. Each Lender may, in compliance with applicable laws in connection with such assignment, assign to one or more Eligible Assignees (each, an "ASSIGNEE") all or a portion of its interests, rights and obligations under this Agreement and the other Credit Documents, including all or a portion, which need not be pro rata between the 364-Day Revolving Loan and the Three-Year Revolving Loan, of its Commitment, the portion of the 364-Day Revolving Loan or the Three-Year Revolving Loan at the time owing to it and any Revolving Notes held by it; provided, however, that:

- (a) the aggregate amount of the Commitment of the assigning Lender subject to each such assignment to any Assignee other than another Lender, a Related Fund, any Eligible Assignee that acquires all or a substantial portion of the assets of a Lender or an Affiliate of a Lender (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall be not less than \$5,000,000 and in increments of \$1,000,000 (or, if less, the entire remaining amount of the assigning Lender's Commitment); and
- (b) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance (the "Assignment and Acceptance") substantially in the form of Exhibit 11.1.1, together with the Note subject to such assignment and, except in the event of a transfer pursuant to Sections 11.3 or 11.4 or to another Lender, a Related Fund, any Eligible Assignee that acquires all or a substantial portion of the assets of a Lender or an Affiliate of a Lender, a processing fee of \$3,500 payable to the Administrative Agent by the assigning Lender (or as the assigning Lender and the Assignee may otherwise agree between themselves).

Upon acceptance and recording pursuant to Section 11.1.4, from and after the effective date specified in each Assignment and Acceptance (which effective date shall be at least five Banking Days after the execution thereof unless waived by the Administrative Agent):

- (i) the Assignee shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and
- (ii) the assigning Lender shall, to the extent provided in such assignment, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 3.2.4, 3.4, 3.5 and 9, as well as to any fees accrued for its account hereunder and not yet paid).

11.1.2. Terms of Assignment and Acceptance. By executing and delivering an Assignment and Acceptance, the assigning Lender and the Assignee shall be deemed to confirm to and agree with each other and the other parties hereto as follows:

- (a) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Credit Document or any other instrument or document furnished pursuant hereto;
- (b) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower and its Subsidiaries or the performance or observance by the Borrower or any of its Subsidiaries of any of its obligations under this Agreement, any other Credit Document or any other instrument or document furnished pursuant hereto;
- (c) such Assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 7.2 or Section 6.5 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;
- (d) such Assignee will independently and without reliance upon the Administrative Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement;

- (e) such Assignee appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and
- (f) such Assignee agrees that it will perform in accordance with the terms of this Agreement all the obligations which are required to be performed by it as a Lender.

11.1.3. REGISTER. The Administrative Agent shall maintain at the Boston Office (solely for the limited purpose set forth in this Section 11.1.3, as the agent of the Borrower) a register (the "REGISTER") for the recordation of (a) the names and addresses of the Lenders and the Assignees which assume rights and obligations pursuant to an assignment under Section 11.1.1, (b) the Percentage Interest of each such Lender as set forth in Exhibit 10.1 and (c) the amount of the Loan owing to each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is registered therein for all purposes as a party to this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

11.1.4. ACCEPTANCE OF ASSIGNMENT AND ASSUMPTION. Upon its receipt of a completed Assignment and Acceptance executed by an assigning Lender and an Assignee (and any necessary consent of the Administrative Agent and the Borrower) together with the processing and recordation fee referred to in Section 11.1.1 and, to the extent necessary, the Revolving Note being assigned, the Administrative Agent shall (a) accept such Assignment and Acceptance, (b) record the information contained therein in the Register and (c) give prompt notice thereof to the Borrower. Within five Banking Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent (in exchange for the surrendered Revolving Note if such Revolving Note must be surrendered or reissued as a result of such assignment) a new Revolving Note to the order of such Assignee in a principal amount equal to the applicable Commitment and Loan assumed by it pursuant to such Assignment and Acceptance. If the assigning Lender has retained a Commitment and Loan, its Revolving Note shall be deemed to be then outstanding in a principal amount equal to the applicable Commitment and Loan retained by it.

11.1.5. FEDERAL RESERVE BANK. Notwithstanding the foregoing provisions of this Section 11 (without the consent of or notice to the Administrative Agent or the Borrower), any Lender may at any time pledge all or any portion of such Lender's rights under this Agreement and the other Credit Documents to a Federal Reserve Bank or, in the case of any Lender that is a fund, to the trustee of such fund to support the fund's obligations to such trustee; PROVIDED, HOWEVER, that no such pledge or assignment shall release such Lender from such Lender's obligations hereunder or under any other Credit Document.

11.1.6. FURTHER ASSURANCES. The Borrower and its Subsidiaries shall sign such documents and take such other actions from time to time reasonably requested by an Assignee to enable it to share in the benefits of the rights created by the Credit Documents.

11.2. CREDIT PARTICIPANTS. Each Lender may, without the consent of the Borrower or the Administrative Agent, in compliance with applicable laws in connection with such participation, sell to one or more commercial banks, other financial institutions or funds in the business of making or purchasing loans similar to the Credit Obligations (each a "CREDIT PARTICIPANT") participations in all or a portion of its interests, rights and obligations under this Agreement and the other Credit Documents (including all or a portion of its Commitment, the Loan and the Revolving Notes held by it); PROVIDED, HOWEVER, that:

- (a) such Lender's obligations under this Agreement shall remain unchanged;
- (b) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations;
- (c) the Credit Participant shall be entitled to the benefit of the cost protection provisions contained in Sections 3.2.4, 3.4, 3.5 and 9, but shall not be entitled to receive any greater payment thereunder than the selling Lender would have been entitled to receive with respect to the interest so sold if such interest had not been sold; and
- (d) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and, under any agreements between such Lender and such Credit Participant, such Lender shall retain the sole right as one of the Lenders to vote (and to determine how to vote) with respect to the enforcement of the obligations of the Borrower relating to the Loan and the approval of any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications, consents or waivers described in clause (b) of the proviso to Section 15.1, with respect to which the Credit Participant may determine how to vote).

The Borrower agrees, to the fullest extent permitted by applicable law, that any Credit Participant and any Lender purchasing a participation from another Lender pursuant to Section 10.5 may exercise all rights of payment (including the right of set-off), with respect to its participation as fully as if such Credit Participant or such Lender were the direct creditor of the Borrower and a Lender hereunder in the amount of such participation.

11.3. SPECIAL PURPOSE FUNDING VEHICLES. Notwithstanding anything to the contrary contained herein, any Lender (a "GRANTING LENDER") may grant to a special purpose funding vehicle identified in writing by the Granting Lender to the Administrative Agent and the Borrower from time to time (an "SPV") the option to provide to the Borrower all or part of any extension of credit that such Granting Lender would otherwise be obligated to make to the Borrower pursuant hereto; PROVIDED, HOWEVER, that (a) nothing herein shall constitute a

commitment by any SPV to make any extension of credit, (b) if an SPV elects not to exercise such option or otherwise fails to provide all or any part of such extension of credit, the Granting Lender shall be obligated to make such extension of credit pursuant to the terms hereof and (c) the Granting Lender shall remain for all purposes the Lender of record under the Credit Documents, including for the purposes of approving amendments, waivers and other modifications of the Credit Documents. The making of an extension of credit by an SPV hereunder shall utilize the Commitment of the Granting Lender to the same extent as if such extension of credit had been made by such Granting Lender. No SPV shall be liable for any indemnity or similar payment obligation under the Credit Documents (all liability for which shall remain with the Granting Lender). Prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPV, no party hereto will institute against, or join any other Person in instituting against, such SPV any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings. In addition, notwithstanding anything to the contrary contained herein, any SPV may (i) with notice to, but without the prior consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Credit Obligations to the Granting Lender or to any financial institutions (consented to in writing by the Borrower and Administrative Agent) providing liquidity or credit support to such SPV to support the funding or maintenance of extensions of credit and (ii) disclose on a confidential basis any non-public information relating to its extensions of credit to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPV. This Section shall survive the termination of this Agreement and may not be amended without the written consent of each SPV to which a grant has been made pursuant to this Section.

12. CONFIDENTIALITY. Each Lender agrees that it will make no disclosure of any information furnished to it by the Borrower or any of its Affiliates unless such information shall have become public, except:

- (a) In connection with operations under or the enforcement of this Agreement or any other Credit Document;
- (b) To any proposed Assignee or Credit Participant who agrees (subject to the exceptions provided in this Agreement) to preserve the confidentiality of any confidential information relating to the Borrower or any of its Affiliates received from such Lender;
- (c) To the applicable bank regulatory or other governmental agencies relating to such Lender or pursuant to any statutory or regulatory requirement or any mandatory court order, subpoena or other legal process;
- (d) To any parent or corporate Affiliate of such Lender; provided, however, that any such Person shall also agree to comply with the restrictions set forth in this Section 12 with respect to such information;
- (e) To its independent counsel, auditors and other professional advisors with an instruction to such Person to keep such information confidential;

- (f) In connection with any litigation or arbitration proceedings to which such Lender is a party; and
- (g) With the prior written consent of the Borrower, to any other Person.

Notwithstanding the foregoing, this Section shall not apply to information which is obtained or was previously obtained by a Lender from a third person who, insofar as is known to such Lender, is not subject to a duty of confidentiality. In addition, the Lenders and their Affiliates may include references to the Borrower and its Affiliates, the credit facility provided hereby and, with the consent of the Borrower, which consent shall not be unreasonably withheld, their trade names, trademarks and logos in connection with any advertising or marketing undertaken by any such Lender or its Affiliates.

Notwithstanding the foregoing, the Administrative Agent and the Lenders (and each employee, representative, agent or advisor of the Administrative Agent or the Lenders) may disclose to any and all Persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of this transaction and all materials of any kind (including opinions or other tax analyses) that are provided to the Administrative Agent or the Lenders relating to such tax treatment and tax structure.

13. NOTICES. Except as otherwise specified in this Agreement, any notice required to be given pursuant to this Agreement shall be given in writing. Any notice, demand or other communication in connection with this Agreement shall be deemed to be given if given in writing (including telex, telecopy (confirmed by telephone or writing) or similar teletransmission) addressed as provided below (or to the addressee at such other address as the addressee shall have specified by notice actually received by the addressor), and if either (a) actually delivered in fully legible form to such address (evidenced in the case of a telex by receipt of the correct answerback) or (b) in the case of a letter, five days shall have elapsed after the same shall have been deposited in the United States mails, with first-class postage prepaid and registered or certified.

If to the Borrower, to it at the following address:

One East Fourth Street  
Cincinnati, Ohio 45202  
ATTENTION: Fred J. Runk  
James Kennedy

With a copy to:

Keating, Muething & Klekamp  
1800 Provident Tower  
One East Fourth Street  
Cincinnati, Ohio 45202  
ATTENTION: Paul V. Muething

If to the Administrative Agent or any Lender, to it at its address set forth on the signature pages of this Agreement, to the attention of the account officer specified on the signature page, with a copy to the Administrative Agent.

14. AMENDMENTS, CONSENTS, WAIVERS, ETC.

14.1. LENDER CONSENTS FOR AMENDMENTS. Except as otherwise set forth herein, the Administrative Agent may (and upon the written request of the Required Majority Lenders the Administrative Agent shall) take or refrain from taking any action under this Agreement or any other Credit Document, including giving its written consent to any modification of or amendment to and waiving in writing compliance with any covenant or condition in this Agreement or any other Credit Document (other than an Interest Rate Protection Agreement) or any Default or Event of Default, all of which actions shall be binding upon all of the Lenders; PROVIDED, HOWEVER, that:

- (a) Except as provided below, without the written consent of the Lenders owning at least a majority of the Percentage Interests (disregarding the Percentage Interest of any Nonperforming Lender so long as such Lender is treated equally with the other Lenders with respect to any actions enumerated below), no written modification of, amendment to, consent with respect to, waiver of compliance with or waiver of a Default under, any of the Credit Documents (other than an Interest Rate Protection Agreement) shall be made.
- (b) Without the written consent of such Lenders as own 100% of the Percentage Interests (disregarding the Percentage Interest of any Nonperforming Lender so long as such Lender is treated equally with the other Lenders with respect to any actions enumerated below):
  - (i) None of the conditions specified in Section 5 shall be amended, waived or modified.
  - (ii) No incurrence or existence of any Lien on all or substantially all of the assets of the Borrower and its Subsidiaries shall be permitted (other than any Liens from time to time securing the Credit Obligations).
  - (iii) No contractual subordination of the Loans or any other portion of the Credit Obligations to any other Indebtedness shall be permitted.
  - (iv) No alteration shall be made of the Lenders' rights of set-off contained in Section 8.2.4.
  - (v) No amendment to or modification of this Section 14.1 or the definition of "Required Majority Lenders" shall be made.
- (c) Without the written consent of each Lender that is directly affected thereby (disregarding the Percentage Interest of Nonperforming Lender so long as

such Lender is treated equally with the other Lenders with respect to any actions enumerated below):

- (i) No reduction shall be made in (A) the amount of principal of the Loan owing to such Lender or (B) the interest rate on the portion of the Loan owing to such Lender (other than amendments and waivers approved by the Required Majority Lenders that modify defined terms used in calculating the Applicable Eurodollar Margin or that waive an increase in the Applicable Rate as a result of an Event of Default) or (C) the commitment fees owing to such Lender under Section 3.3.
- (ii) No change shall be made in the stated, scheduled time of payment of any portion of the Loan owing to such Lender or interest thereon or fees relating to any of the foregoing payable to such Lender and no waiver shall be made of any Default under Section 8.1.1 with respect to such Lender.
- (iii) No increase shall be made in the amount, or extension of the term, of the stated Commitments of such Lender beyond that provided for under Section 2.
- (d) Without the written consent of such Lenders owning at least a majority of the Percentage Interests of either of the 364-Day Revolving Loan or the Three-Year Revolving Loan, as applicable, (disregarding the Percentage Interest of any Nonperforming Lender so long as such Lender is treated equally with the other Lenders with respect to any actions enumerated below) voting as a separate class, no change may be made in the allocation of mandatory prepayments under Section 4.2 between the 364-Day Revolving Loan and the Three-Year Revolving Loan.
- (e) Without the written consent of the Administrative Agent, no amendment or modification of any Credit Document shall affect the rights or duties of the Administrative Agent under the Credit Documents.

14.2. COURSE OF DEALING, AMENDMENTS AND WAIVERS. No course of dealing between any Lender and the Borrower or any of its Subsidiaries shall operate as a waiver of any of the Lenders' rights under this Agreement or any other Credit Document or with respect to the Credit Obligations. The Borrower acknowledges that if the Lenders, without being required to do so by this Agreement or any other Credit Document, give any notice or information to any of the Borrower and its Subsidiaries, or obtain any consent from any of them, the Lenders shall not by implication have amended, waived or modified any provision of this Agreement or any other Credit Document, or created any duty to give any such notice or information or to secure any such consent on any future occasion. No delay or omission in exercising any right, or any partial exercise of any right, on the part of any Lender under this Agreement or any other Credit Document or with respect to the Credit Obligations shall operate as a waiver of such right or any other right, or preclude the further exercise of such right or any other right, hereunder or thereunder. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. No waiver,

consent or amendment with respect to this Agreement or any other Credit Document shall be binding unless it is in writing and signed by the Administrative Agent or the holders of the required Credit Obligations.

15. DEFEASANCE. When all Credit Obligations have been paid, performed and reasonably determined by the Lenders to have been indefeasibly discharged in full, and if at the time no Lender continues to be committed to extend any credit to the Borrower hereunder or under any other Credit Document, this Agreement and each other Credit Document shall terminate; provided, however, that Sections 3.2.4, 3.4, 3.5, 9, 10.6.7, 10.9, 12, 16, 17 and 19 shall survive the termination of this Agreement. Thereupon, on the Borrower's demand and at its cost and expense, the Administrative Agent shall execute proper instruments, acknowledging satisfaction of and discharging this Agreement and each other Credit Document.
16. VENUE; SERVICE OF PROCESS; CERTAIN WAIVERS. The Borrower by its execution hereof:
- (a) Irrevocably submits to the nonexclusive jurisdiction of the state courts of The Commonwealth of Massachusetts and to the nonexclusive jurisdiction of the United States District Court for the District of Massachusetts for the purpose of any suit, action or other proceeding arising out of or based upon this Agreement or any other Credit Document or the subject matter hereof or thereof; and
  - (b) Waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such proceeding brought in any of the above-named courts, any claim that it is not subject personally to the jurisdiction of such court, that its property is exempt or immune from attachment or execution, that such proceeding is brought in an inconvenient forum, that the venue of such proceeding is improper, or that this Agreement or any other Credit Document, or the subject matter hereof or thereof, may not be enforced in or by such court.
  - (c) Consents to service of process in any such proceeding in any manner permitted by Chapter 223A of the General Laws of The Commonwealth of Massachusetts and agrees that service of process by registered or certified mail, return receipt requested, at the address specified in or pursuant to Section 13 is reasonably calculated to give actual notice.
  - (d) Waives to the extent not prohibited by applicable law that cannot be waived any right it may have to claim or recover in any such proceeding any special exemplary, punitive or consequential damages.
17. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, EACH OF THE Borrower AND THE LENDERS HEREBY WAIVES, AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND OR ACTION ARISING OUT OF THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT OR THE SUBJECT MATTER

HEREOF OR THEREOF OR ANY CREDIT OBLIGATION OR IN ANY WAY CONNECTED WITH THE DEALINGS OF THE LENDERS OR THE BORROWER IN CONNECTION WITH ANY OF THE ABOVE, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER IN CONTRACT OR TORT OR OTHERWISE. The Borrower acknowledges that it has been informed by the Lenders that the provisions of this Section 17 constitute a material inducement upon which each of the Lenders has relied, is relying and will rely in entering into this Agreement and any other Credit Document, and that it has reviewed the provisions of this Section 17 with its counsel. Any of the Lenders or the Borrower may file an original counterpart or a copy of this Section 17 with any court as written evidence of the consent of such Lender and the Borrower to the waiver of their rights to trial by jury.

18. ACKNOWLEDGMENTS. The Borrower acknowledges:

- (a) It has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Credit Documents;
- (b) No Lender has a fiduciary relationship to the Borrower by reason of this Agreement or the other Credit Documents, and the relationship between any Lender, on the one hand, and the Borrower on the other hand, arising from the Credit Documents is solely that of debtor and creditor; and
- (c) No joint venture exists between the Borrower and any Lender.

The parties have participated jointly in the negotiation and drafting of this Agreement and the other Credit Documents with counsel sophisticated in financing transactions. In the event an ambiguity or question of intent or interpretation arises, this Agreement and the other Credit Documents shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement and the other Credit Documents.

19. GENERAL. All covenants, agreements, representations and warranties made in this Agreement or any other Credit Document or in certificates delivered pursuant hereto or thereto shall be deemed to have been material and relied on by each Lender, notwithstanding any investigation made by any Lender on its behalf, and shall survive the execution and delivery to the Lenders hereof and thereof. The invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of any other term or provision hereof. The table of contents and headings in this Agreement are for convenience of reference only and shall not limit, alter or otherwise affect the meaning hereof. This Agreement and the other Credit Documents constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral with respect to such subject matter. This Agreement may be executed in any number of counterparts which together shall constitute one instrument. This Agreement, and any issue, claim or proceeding arising out of or relating to this Agreement or any other Credit Document or the conduct of the parties hereto, whether now existing or hereafter arising and whether in contract, tort or otherwise, shall be governed by and construed in accordance with the laws (other than the conflict of laws rules) of the Commonwealth of Massachusetts.

[the remainder of this page is intentionally blank]

Each of the undersigned has caused this Agreement to be executed and delivered by its duly authorized officer as an agreement under seal as of the date first above written.

AMERICAN FINANCIAL GROUP, INC.

By: s:/Fred J. Runk

-----  
Name: Fred J. Runk  
Title: Senior V.P. & Treasurer

FLEET NATIONAL BANK

By: s:/Elizabeth A. Paluck

-----  
Name: Elizabeth A. Paluck  
Title: Senior Associate

Financial Institutions Division  
Mail Stop 01-10  
100 Federal Street  
Boston, Massachusetts 02110  
Attention: Elizabeth A. Paluck  
Telecopy: (617) 434-9740

BANK OF AMERICA, N.A.

By: s:/J. Miller

-----  
Name: J. Miller  
Title:

Bank of America Plaza  
901 Main Street  
Dallas, Texas 75202  
Attention: Joan D'Amico  
Telecopy: (214) 209-0604

KEYBANK NATIONAL ASSOCIATION

By: s:/Mary K. Young

-----  
Name: Mary K. Young  
Title: Vice President

127 Public Square OH-01-27-0606  
Cleveland, Ohio 44114  
Attention: Mary Young  
Telecopy: (216) 689-4981

US BANK, NATIONAL ASSOCIATION

By: s:/Derek S. Roudebush

-----  
Name: Derek S. Roudebush  
Title: Vice President

US Bank Tower  
425 Walnut Street, 8th floor  
Cincinnati, Ohio 45202  
Attention: Derek Roudebush  
Telecopy: (920) 426-7993

CREDIT SUISSE FIRST BOSTON,  
CAYMAN ISLANDS BRANCH

By: s:/Jay Chall

-----  
Name: Jay Chall  
Title: Director

By: s:/Barbara Wong

-----  
Name: Barbara Wong  
Title: Associate

Eleven Madison Avenue  
New York, New York 10010  
Attention: Jay Chall  
Telecopy: (212) 325-8230

RIGGS BANK, N.A.

By: s:/Robert A. Incorvati

-----  
Name: Robert A. Incorvati  
Title: Vice President

808 17th Street, N.W., 17th floor  
Washington, D.C. 20006  
Attention: Robert Incorvati  
Telecopy: (202) 835-5977

PNC BANK, NATIONAL ASSOCIATION

By: s:/C. Joseph Richardson

-----  
Name: C. Joseph Richardson  
Title: Senior Vice President

201 East Fifth Street  
Cincinnati, Ohio 45202  
Attention: Joe Richardson  
Telecopy: (513) 651-8951

THE HUNTINGTON NATIONAL BANK

By: s:/Chris Henn

-----  
Name: Chris Henn  
Title: Senior Vice President

105 East 4th Street -- Suite 200A  
Cincinnati, Ohio 45202  
Attention: Teresa Bley  
Telecopy: 513-762-1838

THE BANK OF NEW YORK

By: s:/J. David Parker, Jr.

-----  
Name: J. David Parker, Jr.  
Title: Vice President

Insurance Division  
One Wall Street, 17th Floor  
New York, New York 10288

LaSalle Bank national association

By: s:/Brandon S. Allison

-----  
Name: Brandon S. Allison  
Title: Commercial Banking Officer

135 South LaSalle Street, Suite 209  
Chicago, IL 60603  
Attention: Brandon S. Allison  
Telecopy: 312-904-6189

JPMORGAN CHASE BANK

By: s:/Helen L. Newcomb

-----  
Name: Helen L. Newcomb  
Title: Vice President

270 Park Avenue  
4th Floor  
New York, NY 10017  
Attention: Helen Newcomb  
Telecopy: 212-270-1511

EXHIBIT 1

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CDO VARIABLE INTEREST ENTITIES

1. AMMC CDO I, launched on November 26, 1999.
2. AMMC CDO II, launched on November 27, 2000.

FORM OF 364-Day REVOLVING NOTE

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FOR VALUE RECEIVED, the undersigned, AMERICAN FINANCIAL GROUP, INC., an Ohio corporation (the "Borrower"), hereby promises to pay [Insert Lender] (the "LENDER") or order, on the Final Maturity Date applicable to the 364-Day Revolving Loans, the aggregate unpaid principal amount of the loans made by the Lender to the Borrower pursuant to the Credit Agreement referred to below. The Borrower promises to pay daily interest from the date hereof, computed as provided in such Credit Agreement, on the aggregate principal amount of such loans from time to time unpaid at the per annum rate applicable to such unpaid principal amount as provided in such Credit Agreement and to pay interest on overdue principal and, to the extent not prohibited by applicable law, on overdue installments of interest and principal and fees at the rate specified in such Credit Agreement, all such interest being payable at the times specified in such Credit Agreement, except that all accrued interest shall be paid at the stated or accelerated maturity hereof or upon the prepayment in full hereof.

Payments hereunder shall be made to Fleet National Bank, as Administrative Agent for the payee hereof, at 100 Federal Street, Boston, Massachusetts 02110.

All loans made by the Lender pursuant to the Credit Agreement referred to below and all repayments of the principal thereof shall be recorded by the Lender and, prior to any transfer hereof, appropriate notations to evidence the foregoing information with respect to each such loan then outstanding shall be endorsed by the Lender on the schedule attached hereto or on a continuation of such schedule attached to and made a part hereof; PROVIDED, HOWEVER, that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower under this Note, such Credit Agreement or under any other Credit Document.

This Note evidences borrowings under, and is entitled to the benefits and security of, and is subject to the provisions of, the Amended and Restated Credit Agreement dated as of November , 2003, as from time to time in effect (the "CREDIT AGREEMENT"), among the maker, certain of its affiliates, the payee hereof, the Administrative Agent and certain other lenders. The principal of this Note is prepayable in the amounts and under the circumstances set forth in the Credit Agreement, and may be prepaid in whole or from time to time in part, all as set forth in the Credit Agreement. Terms defined in the Credit Agreement and not otherwise defined herein are used herein with the meanings so defined.

In case an Event of Default shall occur, the entire principal of this Note may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

This Note, and any issue, claim or proceeding arising out of or relating to this Note or the conduct of the parties hereto, whether now existing or hereafter arising and whether in contract,

tort or otherwise, shall be governed by and construed in accordance with the laws (other than the conflict of laws rules) of The Commonwealth of Massachusetts.

The parties hereto, including the Borrower and all guarantors and endorsers, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note, except as specifically otherwise provided in the Credit Agreement, and assent to extensions of time of payment, or forbearance or other indulgence without notice.

AMERICAN FINANCIAL GROUP, INC.

By \_\_\_\_\_  
Title:



EXHIBIT 2.1.4(b)

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FORM OF THREE-YEAR REVOLVING NOTE

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FOR VALUE RECEIVED, the undersigned, AMERICAN FINANCIAL GROUP, INC., an Ohio corporation (the "Borrower"), hereby promises to pay [Insert Lender] (the "LENDER") or order, on the Final Maturity Date applicable to the Three-Year Revolving Loans, the aggregate unpaid principal amount of the loans made by the Lender to the Borrower pursuant to the Credit Agreement referred to below. The Borrower promises to pay daily interest from the date hereof, computed as provided in such Credit Agreement, on the aggregate principal amount of such loans from time to time unpaid at the per annum rate applicable to such unpaid principal amount as provided in such Credit Agreement and to pay interest on overdue principal and, to the extent not prohibited by applicable law, on overdue installments of interest and principal and fees at the rate specified in such Credit Agreement, all such interest being payable at the times specified in such Credit Agreement, except that all accrued interest shall be paid at the stated or accelerated maturity hereof or upon the prepayment in full hereof.

Payments hereunder shall be made to Fleet National Bank, as Administrative Agent for the payee hereof, at 100 Federal Street, Boston, Massachusetts 02110.

All loans made by the Lender pursuant to the Credit Agreement referred to below and all repayments of the principal thereof shall be recorded by the Lender and, prior to any transfer hereof, appropriate notations to evidence the foregoing information with respect to each such loan then outstanding shall be endorsed by the Lender on the schedule attached hereto or on a continuation of such schedule attached to and made a part hereof; PROVIDED, HOWEVER, that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower under this Note, such Credit Agreement or under any other Credit Document.

This Note evidences borrowings under, and is entitled to the benefits and security of, and is subject to the provisions of, the Amended and Restated Credit Agreement dated as of November , 2003, as from time to time in effect (the "CREDIT AGREEMENT"), among the maker, certain of its affiliates, the payee hereof, the Administrative Agent and certain other lenders. The principal of this Note is prepayable in the amounts and under the circumstances set forth in the Credit Agreement, and may be prepaid in whole or from time to time in part, all as set forth in the Credit Agreement. Terms defined in the Credit Agreement and not otherwise defined herein are used herein with the meanings so defined.

In case an Event of Default shall occur, the entire principal of this Note may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

This Note, and any issue, claim or proceeding arising out of or relating to this Note or the conduct of the parties hereto, whether now existing or hereafter arising and whether in contract, tort or otherwise, shall be governed by and construed in accordance with the laws (other than the conflict of laws rules) of The Commonwealth of Massachusetts.

The parties hereto, including the Borrower and all guarantors and endorsers, hereby waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note, except as specifically otherwise provided in the Credit Agreement, and assent to extensions of time of payment, or forbearance or other indulgence without notice.

AMERICAN FINANCIAL GROUP, INC.

By \_\_\_\_\_  
Title:



EXHIBIT 5.2.1

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FORM OF OFFICER'S CERTIFICATE

Pursuant to Section 2.1.3 of the Amended and Restated Credit Agreement dated as of November , 2003, as now in effect (the "CREDIT AGREEMENT"), among the undersigned American Financial Group, Inc. (the "BORROWER"), Fleet National Bank, for itself and as Administrative Agent, and certain other Lenders, the Borrower requests that a loan be made on the date specified below (the "CLOSING DATE") in the following amount:

Closing Date:

Total amount of loan requested: \$ -----

In connection with the foregoing request, the Borrower represents and warrants that the representations and warranties contained in Section 7 of the Credit Agreement are true and correct on and as of the date hereof with the same force and effect as though originally made on and as of the date hereof; no Default exists on the date hereof or will exist after giving effect to the extension of credit requested hereby; and no Material Adverse Change has occurred.

The foregoing representations and warranties shall be deemed made by the Borrower on the requested Closing Date unless the Borrower shall have notified the Administrative Agent in writing to the contrary prior to such Closing Date.

Terms defined in the Credit Agreement and not otherwise defined herein are used herein with the meanings so defined.

This certificate has been executed by a duly authorized Financial Officer of the Borrower this            day of            , 200    .

AMERICAN FINANCIAL GROUP, INC.

By -----  
Title:

EXHIBIT 6.3

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Transactions with Affiliates

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None.

EXHIBIT 7.1

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Name -----	Jurisdiction of Incorporation -----	Ownership -----
Great American Insurance Company	Ohio	100%
Great American Financial Resources, Inc.	Delaware	83%
Great American Life Insurance Company	Ohio	100%
American Premier Underwriters, Inc.	Pennsylvania	100%
National Interstate Corporation	Ohio	68%

EXHIBIT 7.11

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DEFINED BENEFIT PLANS

None.

EXHIBIT 7.13

ENVIRONMENTAL DISCLOSURE  
As of 11/17/03

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Site Description  
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BUCKEYE PIPE LINE  
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In connection with the Company's sale of Buckeye Pipe Line Company ("Buckeye") to a limited partnership in 1986, Buckeye obtained an Administrative Consent Order ("ACO") from the New Jersey Department of Environmental Protection ("NJDEP") under the New Jersey Environmental Cleanup Responsibility Act of 1983 ("ECRA") for all six of Buckeye's facilities in New Jersey. The primary contaminant at these sites is petroleum hydrocarbons. The ACO required Buckeye to conduct a sampling plan for environmental contamination at the New Jersey facilities and to implement any required remediation. As part of the terms of the 1986 sale, the Company agreed to pay for the costs of complying with the ACO. The Company remains responsible for pre-1987 contamination under the terms of the Share Purchase Agreement dated January 5, 1996.

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UNION ROAD  
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This site was owned and operated by the New York Central Railroad from 1920 to 1959. Since that time the property has changed hands among several corporations controlled by financier L. E. Wolfson. NYDEC threatened AP, as successor to the prior owner, with a lawsuit if AP does not agree to implement the remedial design for the site. By agreeing to do so the Company has reduced the ultimate cost of remediation and avoided the negative publicity of litigation. Remediation was completed in 1996. Monitoring will be required prospectively.

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ALTOONA  
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The Pennsylvania Department of Environmental Resources ("PADER") has notified AP that PADER believes AP to be a responsible party liable for remediation of hazardous substances, including petroleum hydrocarbons and other constituents. AP and the other PRPs have entered into a Consent Decree with PADER for the remediation of the site. The Company is continuing to implement the remedy required by the Consent Decree.

-----  
ELKHART/PAOLI/TOLEDO J.W.  
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During the third quarter of 1994, the Special Court ruled that neither the settlement of the Valuation Case, the conveyance of property "as is" nor the constitution bars the U.S. government and other parties from pursuing AP for the cost of environmental cleanup at these sites. Consequently, it became probable in the third quarter of 1994 that the Company will incur some liability at each site. The primary contaminants are petroleum hydrocarbons, creosote and PCBs. The Company continues to attempt to negotiate agreements and/or workplans with the government and other PRPs. An agreement has been reached with Conrail in connection with Elkhart and Toledo J.W. with respect to remediation costs.

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BERKS  
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In October 1992 the original defendants in a case captioned UNITED STATES OF AMERICA V. BERKS ASSOCIATES filed a third-party complaint against APU and approximately 165 other companies. The complaint alleges that APU generated waste oil, which was sent to this superfund site in Berks County, Pennsylvania. AP immediately began investigating documents in possession of the original defendant, the government and old PCTC/PRR records to determine what waste

BERKS (CONT'D)

oil, if any, its railroad predecessor sent to the site. Given the fact that records were incomplete and sometimes conflicting, estimates of probable liability and the amount of loss, if any, could not be reasonably estimated for many months after October 1992. Under "Settlement Track Procedures" established by the Court, the United States and the PRPs retained TLI, Inc. ("TLI"), a technical consultant, to assist them in determining the amount, type and extent of waste materials or other products which each PRP shipped to the site for processing. On May 3, 1993 TLI issued a generator transaction summary attributing to AP 4,266,845 "delivered gallons" of waste oil which is approximately 3% of total waste into the site. AP challenged the total number of gallons attributed to it as well as the classification of the oil. AP argued that the total waste-in figure of 4,266,845 gallons attributed to it should be readjusted downward to 908,258 gallons. In September 1999, the EPA formally amended the Record of Decision (ROD) to change the remedy from on-site incineration to stabilization. The state has not yet concurred. The amendment reduced APU's estimated share of the remediation costs by approximately 50 percent. On January 19, 2001, the United States Department of Justice lodged a proposed Remedial Design/Remedial Action ("RD/RA") Consent Decree in the United States District Court that would settle its claims with the Company and numerous other Potentially Responsible Parties ("PRPs") concerning the design and construction of a stabilization remedy at the Berks site. This Consent Decree would also address the past cost claims of the U.S. Environmental Protection Agency ("EPA") and the PRP's contribution claims against the United States for wastes sent to the site by various Federal agencies. Under the terms of the Decree, entered in March 2001, and a Cost Sharing Agreement among ten other private PRPs and the United States, the Company contributed \$4,242,286.71 to satisfy its obligations under the Decree with respect to the former Penn Central Transportation Company ("PCTC") and Lehigh Valley Railroad ("LVRR"). In October 2001, a supplemental assessment of \$898,610 was made against APU and \$164,840 against Lehigh Valley. APU/LVRR agreed to settle past costs with the DEP in the amount of \$254,044 and \$46,602, respectively. In September 2002, APU and LVRR paid a Third Supplemental Assessment in the amount of \$777,236.07 and \$142,576.05, respectively. The Company expects to receive a full refund of the Third Supplemental Assessment in 2003.

FOX POINT

This site was sold by PCTC to the State of Delaware in 1975. During the fourth quarter of 1993, AP received a letter from the Delaware Department of Natural Resources and Environmental Control ("DNREC") notifying AP of its alleged liability for the Fox Point site. Contamination in this case arises from fill allegedly brought to the site in the 1960's in order to prepare the site for development of an industrial park. APU executed a Consent Order with DNREC in 1996 for the Remediation Investigation and Feasibility Study for the property. This site is now undergoing remediation. The State of Delaware has remediated approximately half of the site, which is forty acres in size, at a cost of \$1.75 million.

CONRAIL ENVIRONMENTAL CLAIMS

Pursuant to the Rail Reorganization Act, Conrail, on June 1, 1996, became owner and operator of the rail lines and assets previously operated by the Company's rail predecessors.

In December 1994, Conrail threatened to assert several environmental claims against the Company. Subsequent thereto, Conrail filed actions against American Premier in connection with four environmental sites.

AMTRAK REFUELING FACILITY

The site was owned and operated by PCTC and its predecessors. Evidence suggests fuel oil contamination caused by PCTC and its predecessors, as well as Amtrak. In August 1995 the Delaware Department of Natural Resources ("DNREC") notified APU that it is a potentially responsible party ("PRP"). In August 1998 DNREC notified APU that DNREC analyzed split samples of fish tissue and sediments taken in connection with the ongoing study of oil contamination. DNREC reported these fish and sediment samples contained elevated levels of polychlorinated biphenyls ("PCB's"). Based on this information, DNREC has demanded that APU and Amtrak conduct a Phase 2 Remedial Investigation/Feasibility Study of potential PCB contamination at the former Wilmington Refueling Facility and in the nearby rivers. DNREC's suggested excavation and removal remedy is estimated at \$7 million. APU and Amtrak will carefully review remedial alternatives in light of the results of the Phase 2 Study which is due to be completed in 2004. This Study will impact future remediation estimates at the site.

SUNNYSIDE YARD

In 1997 the New York Department of Conservation ("NYDEC") notified APU that Penn Central and its predecessors are responsible parties based on past ownership and operation of the site located in Queens, NY. Amtrak is demanding that APU pay 37.5 percent of past and future response costs at the site. Amtrak and New Jersey Transit Corporation claim to have incurred \$4.5 million in past costs and estimate an additional \$6 million for investigation and cleanup of the site. The Company is evaluating several defenses at this site, including a release from Amtrak executed in October of 1978, that may be applicable to this site. In the interim the Company has agreed to participate in joint funding of the Remedial Investigation/Feasibility Study at a cost to APU of approximately \$200,000.

SOUTH AMBOY

In 1998 the New Jersey Department of Environmental Protection ("NJDEP") alleged that APU, and predecessor of PCTC, has significant liability for PCB contamination at the site based on the 40-year period in which the Penn Central Railroad and Penn Central Transit Company allegedly operated the site. New Jersey Transit ("NJT") claims that PCTC used PCB transformers for many more years than NJT and should, therefore, pay most of the cleanup costs. NJT asked NJDEP to issue a directive under the Spill Act that would subject APU to a treble damage claim.

CABLE COMPANY ENVIRONMENTAL LIABILITIES

When the Company disposed of its interest in the General Cable Corporation in 1994, it was paid approximately \$20,000,000 to assume liability for environmental remediation at certain sites:

1. an operating steel mill and fabrication plant in Longview, Texas, known as LeTourneau, Inc.;
2. a fabrication plant for drilling rigs in Vicksburg, Mississippi, also operated by LeTourneau, Inc. and
3. a steel wire and spring manufacturing concern in Muncie, Indiana, known as Indiana Steel and Wire.

In 1996 the Company completed a transaction whereby it "put" the liabilities for the Longview and Vicksburg sites to Rowan Companies, Inc.

Soil and groundwater investigation and remediation are ongoing at the Muncie site. In September 2002, the Texas Natural Resource Conservation Commission ("TNRCC") issued a Certificate of Completion in connection with the remediation conducted at another former General Cable site--922 Holmes Road--in Texas.

LEHIGH VALLEY RAILROAD DERAILMENT, LEROY, NY

-----  
In 1991 Lehigh Valley Railroad was notified by the New York Department of Environmental Conservation ("NYDEC") that it is a PRP in connection with the derailment at the Gulf Road Crossing in LeRoy, NY, resulting in TCE contaminated soil and groundwater. The Record of Decision ("ROD") was issued March 1997 and includes construction of a waterline extension to connect all impacted residents to a potable water supply, excavation of TCE contaminated soil, installation of a bedrock vapor extraction system and long term monitoring.

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MORSE'S POND, WELLESLEY, MA

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By letter dated September 6, 2000, the United States EPA notified APU that it has been identified as a PRP in connection with the Morse's Pond site in Wellesley, Massachusetts. The U.S. EPA believes APU is a successor to a former owner/operator of the site. The site is adjacent to property currently owned by the Massachusetts Bay Transit Authority. The EPA estimates cleanup costs to be approximately \$3,600,000. APU's share, if any, cannot reasonably be determined at this time.

-----  
MAGNOLIA COMMERCE PARK

-----  
This matter is pending in Alabama District Court. Plaintiff alleges fraud and breach of contract in connection with the sale of the property. APU has filed a Motion for Summary Judgment with respect to the fraud allegations in the Complaint. Until the Court rules, APU's liability, if any, cannot reasonably be determined. During the first half of 2003, APU received a demand of \$15M to settle the case.

EXHIBIT 10.1

INTERESTS IN CREDITS

364 DAY REVOLVING LOANS

Lender	Commitment Amount	Percentage Interest
Fleet National Bank	\$16,666,666.67	17.8571%
Bank of America, N.A.	\$16,666,666.67	17.8571%
KeyBank National Association	\$11,666,666.67	12.5001%
US Bank National Association	\$8,333,333.33	8.9286%
Credit Suisse First Boston, Cayman Islands Branch	\$8,333,333.33	8.9286%
Riggs Bank, N.A.	\$8,333,333.33	8.9286%
The Huntington National Bank	\$6,666,666.67	7.1429%
PNC Bank, National Association	\$5,000,000.00	5.3571%
The Bank of New York	\$3,333,333.33	3.5714%
JP Morgan Chase Bank	\$3,333,333.00	3.5714%
LaSalle Bank National Association	\$5,000,000.00	5.3571%
<b>TOTAL</b>	<b>\$93,333,333.00</b>	<b>100%</b>

THREE YEAR REVOLVING LOANS

Lender	Commitment Amount	Percentage Interest
Fleet National Bank	\$33,333,333.33	17.8571%
Bank of America, N.A.	\$33,333,333.33	17.8571%
KeyBank National Association	\$23,333,333.33	12.5001%
US Bank National Association	\$16,666,666.67	8.9286%
Credit Suisse First Boston, Cayman Islands Branch	\$16,666,666.67	8.9286%
Riggs Bank, N.A.	\$16,666,666.67	8.9286%
The Huntington National Bank	\$13,333,333.33	7.1429%
PNC Bank, National Association	\$10,000,000.00	5.3571%
The Bank of New York	\$ 6,666,666.67	3.5714%
JP Morgan Chase Bank	\$ 6,666,667.00	3.5714%
LaSalle Bank National Association	\$10,000,000.00	5.3571%
<b>TOTAL</b>	<b>\$186,666,667.00</b>	<b>100%</b>

EXHIBIT 11.1.1

-----

ASSIGNMENT AND ACCEPTANCE

This Agreement, dated as of \_\_\_\_\_, 2000, is between \_\_\_\_\_, a Lender under the Credit Agreement referred to below (the "ASSIGNOR"), and \_\_\_\_\_ (the "ASSIGNEE").

For valuable consideration, the receipt of which is hereby acknowledged, the Assignor agrees with the Assignee as follows:

1. REFERENCE TO CREDIT AGREEMENT; DEFINITIONS. Reference is made to the Amended and Restated Credit Agreement dated as of November \_\_, 2003, as from time to time in effect (the "CREDIT AGREEMENT"), among American Financial Group, Inc. an Ohio corporation, certain of its affiliates, certain lenders (the "LENDERS"), and Fleet National Bank, as administrative agent (the "ADMINISTRATIVE AGENT"). Terms defined in the Credit Agreement and not otherwise defined herein are used herein with the meanings so defined.

2. ASSIGNMENT AND ASSUMPTION. Without recourse, representation or warranty of any kind (other than as set forth in Section 3 below), the Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, the interests set forth in EXHIBIT A hereto (the "ASSIGNED INTERESTS") in and to the Assignor's rights and obligations under the Credit Agreement and the other Credit Documents (other than Interest Rate Protection Agreements) as of the Assignment Date (as defined in Exhibit A hereto).

3. REPRESENTATIONS, WARRANTIES, ETC.

3.1. ASSIGNOR'S REPRESENTATIONS AND WARRANTIES. The Assignor:

(a) represents that as of the date hereof, it owns the Assigned Interests beneficially and of record, free of any Liens or adverse claims.

(b) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any other Credit Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other Credit Document or any other instrument or document furnished pursuant thereto, other than that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; and

(c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower and its Subsidiaries or the performance by the Borrower and its Subsidiaries of their obligations under the Credit Agreement, any other Credit Document or any other instrument or document furnished pursuant hereto or thereto.

3.2. ASSIGNEE'S REPRESENTATIONS, WARRANTIES AND AGREEMENTS. The Assignee:

(a) represents and warrants that it is legally authorized to enter into this Agreement;

(b) represents and warrants that (i) it is incorporated or organized under the laws of the United States of America or a state thereof or (ii) it will perform all of the obligations relating to United States income tax withholding under Section 3.5 of the Credit Agreement;

(c) confirms that it has received a copy of the Credit Agreement and any other Credit Document which it has requested, together with copies of the most recent financial statements delivered pursuant to Section 6.4 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement;

(d) agrees that it will, independently and without reliance upon the Assignor or any other Person which has become a Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement and the other Credit Documents; and

(e) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with their terms all the obligations which by the terms of the Credit Agreement and the other Credit Documents are required to be performed by it as a Lender.

4. ASSIGNEE PARTY TO CREDIT AGREEMENT; ASSIGNOR RELEASE OF OBLIGATIONS.

From and after the Assignment Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Agreement, have the rights and obligations of a Lender thereunder and under the other Credit Documents and (b) the Assignor shall, to the extent provided in this Agreement, relinquish its rights and be released from its obligations under the Credit Agreement and the other Credit Documents.

5. NOTICES. All notices and other communications required to be given or made to the Assignee under this Agreement, the Credit Agreement or any other Credit Document shall be given or made at the address of the Assignee set forth on Exhibit A hereto or at such other address as the Assignee shall have specified to the Assignor, the Borrower and the Agent in writing.

6. FURTHER ASSURANCES. The parties hereto agree to execute and deliver such other instruments and documents and to take such other actions as any party hereto may reasonably request in connection with the transactions contemplated by this Agreement.

7. GENERAL. This Agreement, the Credit Agreement and the other Credit Documents constitute the entire agreement of the parties hereto with respect to the subject matter hereof and supersede all current and prior agreements and understandings, whether written or oral, with respect to such subject matter. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. The invalidity or unenforceability

of any provision hereof shall not affect the validity or enforceability of any other provision hereof, and any invalid or unenforceable provision shall be modified so as to be enforced to the maximum extent of its validity or enforceability. This Agreement may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties hereto and their respective successors and assigns, including as such successors and assigns all holders of any Credit Obligation. This Agreement shall be governed by and construed in accordance with the laws (other than the conflict of laws rules) of The Commonwealth of Massachusetts.

Each of the Assignor and the Assignee has caused this Agreement to be executed and delivered by its duly authorized officer as an agreement under seal as of the date first above written.

ASSIGNOR

-----

By

-----  
Title:

ASSIGNEE

-----

By

-----  
Title:

The foregoing is approved:

AMERICAN FINANCIAL GROUP, INC.

By

-----  
Title:

FLEET NATIONAL BANK,  
as Administrative Agent under the Credit Agreement

By

-----  
Title:

AMERICAN FINANCIAL GROUP, INC.

EXHIBIT A  
TO  
ASSIGNMENT AND ACCEPTANCE  
-----

1. PARTIES

Assignor: -----

Assignee: -----

Assignee Address: -----

-----

-----

Assignee Telecopy: -----

2. ASSIGNMENT DATE: -----

3. ASSIGNED INTERESTS

Outstanding 364-Day Revolving Loan: \$ -----

Outstanding Three-Year Revolving Loan: \$ -----

Over-all Revolving Loan Commitment: \$ -----

(sum of assigned unfunded commitment  
plus amounts set forth above)

Unpaid interest and commitment fees with respect to the assigned credits described above, accrued through the Assignment Date, are for the account of the Assignor unless set forth to the contrary herein.

4. ASSIGNOR'S POST ASSIGNMENT INTERESTS

After giving effect to this assignment, the Assignor represents that its interests in the following credits are summarized as follows:

364-Day Revolving Loan Commitment: \$ -----

Three-Year Revolving Loan Commitment: \$ -----

5. ASSIGNEE'S POST ASSIGNMENT INTERESTS

After giving effect to this assignment, the Assignee represents that its interests in the following credits are summarized as follows:

364-Day Revolving Loan Commitment:	\$	-----
Three-Year Revolving Loan Commitment:	\$	-----

AUXILIARY RASP PLAN

AMENDED AND RESTATED

AS OF JULY 1, 2003

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AMERICAN FINANCIAL GROUP, INC.

AUXILIARY RASP PLAN

AMENDED AND RESTATED

As of July 1, 2003

ARTICLE 1. ESTABLISHMENT AND PURPOSE

-----

The American Financial Group, Inc, Auxiliary RASP Plan ("Plan") was established as of January 1, 1997. It was amended and restated as of January 1, 1998 and is again amended and restated as of July 1, 2003. The purpose of the Plan is to enable eligible Employees of American Financial Group, Inc. ("AFG"), and certain of its subsidiaries and affiliates (collectively "Employers" and singularly "Employer"), who are eligible to participate in the Retirement Contribution portion of the American Financial Group Retirement and Savings Plan (the "RASP") or any other defined contribution plan sponsored by an AFG subsidiary to have an additional benefit to the RASP or such other plan. In addition, the American Premier Benefit Equalization Plan is merged with the Plan effective as of July 1, 2003.

The Plan was established by AFG and the other Employers for the benefit of their respective eligible Employees who are not eligible for another nonqualified Plan of AFG or any other Employer. With respect to Employees not directly employed by AFG, such Employers shall annually forward the amount necessary to fund the contributions for the Account of each eligible Employee as determined pursuant to Section 4.2 and thereafter the Account (the investment return as determined pursuant to Section 4.4) of each Employee is the obligation of AFG.

ARTICLE 2. DEFINITIONS

-----

2.1 "ACCOUNT"

Account means the account established by the Administrator pursuant to Section 3.1. For purposes of benefits from the APU BEP, the Account shall include amounts attributable to the BEP Retirement Benefit and the BEP Savings Benefit.

2.2 "ADMINISTRATOR"

Administrator means the Director of Human Resources responsible for employee benefits unless otherwise specified by the board of directors of AFG who shall be responsible for the administration of the Plan.

2.3 "AFG"

AFG means American Financial Group.

2.4 "AFG RASP"

AFG RASP means the American Financial Group Retirement and Savings Plan.

2.5 "AGREEMENT"

Agreement means the written election of a Participant to participate in the Plan in the form attached hereto as Appendix I.

2.6 "AMERICAN FINANCIAL GROUP"

American Financial Group means American Financial Group, Inc., an Ohio corporation, its successors and assigns.

2.7 "APU BEP"

APU BEP means the American Premier Benefit Equalization Plan which was merged with the Plan as of July 1, 2003.

2.8 "APU RETIREMENT BENEFIT"

APU Retirement Benefit means the portion of the Participant's Account determined in accordance with the terms of the APU BEP which is attached hereto as Appendix II for the purpose of determining the APU Retirement Benefit.

2.9 "APU Savings Benefit"

APU Savings Benefit means the portion of the Participant's Account determined in accordance with the terms of the APU BEP which is attached hereto as Appendix II for the purpose of determining the APU Savings Benefit.

2.10 "CODE"

Code means the Internal Revenue Code of 1986, as amended.

2.11 "EMPLOYEE"

Employee means all common law employees of an Employer as further described in the AFG RASP.

2.12 "EMPLOYER"

Employer means AFG and certain of its subsidiaries and affiliates who have adopted the Plan.

2.13 "ERISA"

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

2.14 "EXPIRATION DATE"

Expiration Date means (a) the date on which a Participant incurs five consecutive One Year Periods of Severance, or (b) July 1, 2003 for Participants who terminated service prior to July 1, 2003 but had not reached an Expiration Date. After 2003, an Expiration Date shall no longer be required for a Participant to receive a distribution pursuant to Section 5.1(a).

2.15 "PARTICIPANT"

Participant means an Employee who becomes eligible pursuant to Article 3.

2.16 "PLAN YEAR"

Plan Year means the 12-month period beginning each January 1 and ending December 31 on which the records of the Plan are kept.

2.17 "RASP"

RASP means the AFG RASP.

2.18 "RETIREMENT CONTRIBUTION"

Retirement Contribution means the employer retirement contribution made by an Employer pursuant to the terms of the AFG RASP.

2.19 "RETIREMENT CONTRIBUTIONS ACCOUNT"

Retirement Contributions Account means the Retirement Contributions Account as defined in the RASP.

2.20 "TERMINATION OF EMPLOYMENT"

Termination of Employment means ceasing to be an Employee of an Employer to be determined in the sole discretion of the Administrator taking into account such factors as substantial diminution in compensation or responsibilities or both.

ARTICLE 3. PARTICIPATION  
-----

3.1 ELIGIBILITY.

The Employees who are eligible to become a Participant in the Plan are those officers and other key employees of an Employer who receive Covered Compensation, as defined in the AFG RASP, from an Employer in excess of the Compensation Limit provided in Section 401(a)(17) of the Code unless not permitted to participate by the Administrator. In addition, Participants in the APU BEP shall be eligible to participate in this Plan to the extent of their benefit in the APU BEP and any other benefit that the Participants from the APU BEP may be eligible for pursuant to the terms of the Plan.

3.2 PARTICIPATION IN THE PLAN.

A Participant shall automatically become a Participant in the Plan as described in Section 3.1 unless otherwise specified by the Administrator. Participation in the Plan will continue until an Employee terminates employment as provided for in Section 4.3 or for as long as the Employee has an interest in the Plan that has not been distributed to the Employee or for the Employee's benefit.

3.3 VESTING.

Effective as of July 1, 2003, all Participants shall be fully vested immediately upon becoming a Participant in the Plan. All Participants who were Employees as of July 1, 2003 and who were previously subject to a vesting schedule shall also be fully vested as of July 1, 2003. In addition, any forfeitures remaining from a Participants' non-vested rights to an Account shall be forfeited immediately.

ARTICLE 4. COMPENSATION ALLOCATED  
-----

4.1 AFG AUXILIARY RASP ACCOUNT.

An Account will be established for each Employee who elects to participate in the Plan. The Account will be maintained by the Administrator. The Account shall include all allocations on behalf of an Employee, all increases or decreases in the Account due to the investment return as described in Section 4.4, and the Participant's APU Savings Benefit and APU Retirement Benefit, if any.

4.2 AMOUNT OF ALLOCATION.

(a) The amount allocated to an Employee's Account for each Plan Year shall be deferred and shall be the same percentage of an Employee's gross income (as defined in Section 61(a) of the Code) that would have been paid by an Employer under the allocation formula in the AFG RASP in excess of the amount of the contribution actually allocated to the Employee's Retirement Contributions Account in the AFG RASP (or any other defined contribution plan sponsored by an AFG subsidiary) provided there was no Compensation Limit, as defined in the RASP, imposed by the Code. AFG may impose a limit on the amount of income that will be considered for purposes of an allocation under this Plan from time to time; provided, however, the maximum amount of this contribution when added to the contribution allocated to the Employee's Retirement Contributions Account each Plan Year shall not exceed the dollar amount provided by Section 415 of the Code as the limitation for defined contribution plans.

(b) Allocations under this Plan for any Plan Year shall be deemed to be credited to an Employee's Account as of December 31 of such Plan Year.

(c) A Participant's Accounts shall also include amounts previously credited under the AFC Auxiliary ESORP, if any.

(d) A Participant's Accounts shall also include amounts from the APU BEP, as provided above, if any.

#### 4.3 TERM OF DEFERRAL.

The Agreement shall provide that all amounts posted to the Account may be paid upon the earlier of (1) Termination of Employment, (2) death, or (3) Total Disability. Accounts not paid as of July 1, 2003 because the Participant has not reached an Expiration Date shall be paid in accordance with the provisions of Section 5.1(a) as if the Expiration Date was reached on July 1, 2003.

#### 4.4 INVESTMENT RETURN.

(a) The Participant's Account shall be credited (or charged) with earnings or losses at the same rate as earned on the Retirement Contributions Account under the RASP (investment income plus or minus "investment performance" under the Retirement Contributions Account of the RASP) as of each December 31 or more frequently as determined by the Administrator, except for amounts from the APU BEP which are credited with earnings or losses, as provided in paragraph (b) below. If a Participant has diversified his or her Retirement Contributions Account under the RASP prior to October 1, 2003, the Participant may make a one time election prior to October 1, 2003 to either diversify his or her Account to the same extent his or her Retirement Contributions Account is diversified in the RASP or not to have his or her Account diversified to the same extent. If the Participant does not make an election, the Participant will be deemed to have elected not to have his or her Account diversified to the same extent as his or her Retirement Contributions Account prior to October 1, 2003. Thereafter, if a Participant elects to diversify his or her Retirement Contributions Account under the RASP, only the portion of the Participant's Account that is eligible for diversification that has not been diversified by a prior election shall be diversified by the same percentage as elected for the Retirement Contributions Account. If the Participant does not have a Retirement Contributions Account in the RASP, the Participant may make a one time election prior to October 1, 2003 to either diversify 75% of the Participant's Account or not to have the Participant's Account diversified. If the Participant makes the election to diversify, the full amount of 75% must be diversified. If no election is made, the Participant will be deemed to have elected not to diversify the Participant's Account. Thereafter, a Participant without a Retirement Contributions Account in the RASP shall not have the right to diversify any part of his or her account. A Participant's Account that is diversified shall be credited with earnings or losses on the Account for the percentage of the Retirement Contributions Account invested in AFG Securities as described above, and the percentage of the Account equal to the percentage of the Retirement Contributions Account diversified shall be credited with earnings or losses based on the same rate of return provided under the American Financial Group, Inc. Deferred Compensation Plan under the Interest Election as announced by the Board of Directors of AFG, regardless of whether the Participant is a participant in such deferred compensation plan or has elected the Interest Election under such deferred compensation plan. Such determination shall be final, binding and conclusive on all parties. The Administrator may adopt rules related to the administration of this provision as needed from time to time.

(b) The Participant's Account for amounts from the APU BEP shall be credited with earnings or losses, as provided in the APU BEP attached hereto as Appendix II.

4.5 STATEMENT OF ACCOUNT.

A statement of Account will be sent to each Participant annually or more frequently as determined by the Administrator.

ARTICLE 5. PAYMENT OF ACCOUNT  
-----

5.1 PAYMENT AFTER TERMINATION, DEATH OR DISABILITY.

(a) Within 90 days following the end of the year in which Termination of Employment, death or disability occurs, the Participant, or in the event of death, the Beneficiary, may choose payment or distribution of the Account under one of the following payment options:

(1) The Account may be applied to the purchase of an immediate or deferred life annuity contract, on the sole life of the Participant, or jointly on the lives of the Participant and a beneficiary named by the Participant. The annuity contract shall be purchased from an insurance company to be determined at the sole discretion of AFG provided that such insurance company shall have a current rating of A (Excellent) or better from Bests' Insurance Reports.

(2) The Account may be paid out as if the Participant purchased an immediate or deferred life annuity contract, on the sole life of the Participant, or jointly on the lives of the Participant and the beneficiary named by the Participant. Such payment of the Account shall be as if AFG purchased an annuity contract from an insurance company to be determined at the sole discretion of AFG provided that such insurance company shall have a rating of A (Excellent) or better from Bests' Insurance Reports and using as the interest rate assumption, the same interest rate as such insurance company would provide.

(3) The Account may be paid in a lump sum in cash.

(4) For those Participants as of July 1, 2003 who have not reached an Expiration Date, the payment shall be made within 90 days following the end of the 2003 year under one of the payment options described above.

The Employer may take into consideration, but is not bound by, the Employee's preference as to the payment options.

The annuity contract provided for in paragraph 5.1(a)(1) shall provide for, and payments provided for in paragraph 5.1(a)(2) shall be made, in equal installments over the expected life span of Participant which shall be determined by standard actuarial tables then in existence.

(b) Within 30 days of AFG's choice of payment option, AFG will purchase such annuity, begin to make payments or make the lump sum payment.

(c) Notwithstanding the payment option chosen by AFG, after the commencement of payments from the Account, the Administrator, at his sole discretion, may accelerate payment of any amount remaining in the Account to the extent that the amounts being paid are not sufficiently large to warrant the administrative expense then being incurred to administer such payments.

(d) Any applicable federal, state and local taxes will be withheld from the gross amounts paid. Neither the Participant nor any designated beneficiary shall have any right, directly or indirectly, to alienate, assign, pledge or in any way encumber any amount that is payable from the Account.

(e) Notwithstanding the above, the Participant, or in the event of death, the Beneficiary, may choose to defer payment or distribution of the Account to a time not later than the first calendar quarter of the year following the year in which the Participant attains age 65, or in the event of death, would have attained age 65.

(f) Benefits under the APU BEP shall be paid in accordance with the terms of the APU BEP attached hereto as Appendix II.

## 5.2 HARDSHIP DISTRIBUTION.

Distribution of payments from a Participant's Account prior to the Expiration Date shall be made only if the Administrator, after consideration of an application by the Participant, determines that the Participant has sustained financial hardship caused by events beyond the Participant's control. In such event, the Administrator may, at his sole discretion, direct that all or a portion of the Account be paid to the Participant in such manner, and at such times as determined by the Administrator. Hardship distributions of amounts from the APU BEP shall be made in accordance with the terms of the APU BEP attached hereto as Appendix II.

## 5.3 BENEFICIARY DESIGNATION AND PAYMENT.

(a) The Participant shall have the right to designate a beneficiary hereunder and to change any beneficiary previously designated. Such designation shall be made by the Participant delivering to the Administrator a writing setting forth the name and address of the person or persons so designated with a statement by the Participant of the intention that the person or persons so designated be the beneficiary or beneficiaries hereunder. The last-dated and filed beneficiary designation shall cancel all earlier filed designations. (Appendix I provides the acceptable form of beneficiary designation.) Any beneficiary designated by Participants from the APU BEP shall be valid except to the extent a later-dated and filed beneficiary designation is made after July 1, 2003 which shall operate to cancel an earlier designation.

(b) In the event of the Participant's death before or after the commencement of payments from the Account, then the amount otherwise payable to the Participant shall be paid to the designated beneficiary or, if none, to the estate, which beneficiary or estate shall have all the rights conferred by Section 5.1 above.

ARTICLE 6. GENERAL PROVISIONS  
-----

6.1 EMPLOYEE'S RIGHTS UNSECURED.

The right of any Employee to receive payments under the provisions of the Plan shall be an unsecured claim against the general assets of the Employers. It is not required or intended that the amounts credited to the Employee's Account be segregated on the books of AFG or be held by the Employers in trust for the Employee. All credits to the Account are for bookkeeping purposes only.

6.2 NON-ASSIGNABILITY.

The right to receive payments hereunder shall not be transferable or assignable by an Employee, except all or any portion of payments hereunder may be transferable or assignable by will, by the laws of descent and distribution, or by a domestic relations order approved by the Administrator. Any other attempted assignment or alienation of payments hereunder shall be void and of no force or effect.

6.3 ADMINISTRATION.

The Administrator shall have the authority to adopt rules, regulations and interpret, construe and implement the provisions of the Plan according to the laws of the State of Ohio, to the extent not preempted by ERISA.

6.4 AMENDMENT AND TERMINATION.

The Plan may at any time or from time to time be amended or terminated by AFG. No amendment, modification or termination shall adversely affect the Employee's accrued rights under the Plan. Any such amendment, modification or termination shall be in a writing signed by an officer of AFG and approved by the Board of Directors of AFG.

6.5 CONSTRUCTION.

The masculine gender, where appearing in this Plan, shall be deemed to also include the feminine and neuter genders. The singular shall also include the plural, and the plural, the singular, where appropriate.

6.6 LIMITATIONS.

The Plan does not constitute a contract of employment, and participation in the Plan will not give any Employee the right to be retained in the employ of an Employer or any right or claim to any benefit under the terms of the Plan, unless such right or claim has specifically accrued pursuant to the provisions of his Agreement with the Employer. This Plan does not confer the right for an Employee to receive a bonus.

6.7 SUBSIDIARIES.

Each subsidiary of AFG who employs an Employee shall be obligated to make payments to AFG to fund each eligible Employee's Account. The amount paid to AFG shall be in the proportion that such subsidiary's compensation paid to an Employee bears to an Employee's gross income determined under Section 4.2.

6.8 TRANSFER BY AFG.

The Administrator shall have the authority, in its sole and absolute discretion, to transfer its obligation to pay the benefits of an Employee to a successor employer if such transfer is agreed to in writing by the successor employer. The transfer of the benefit shall fulfill AFG's obligation to pay any such Employee pursuant to Section 5.1.

AMERICAN FINANCIAL GROUP, INC.

BY: s:/James C. Kennedy  
-----

Its: Vice President  
-----

APPENDIX I

AMERICAN FINANCIAL GROUP, INC.  
AUXILIARY RASP

DESIGNATION OF BENEFICIARY

-----  
TO: The Board of Directors  
American Financial Group, Inc.

I hereby direct that upon my death all or any payments to be made or remaining to be paid in accordance with rights granted to me under the Auxiliary RASP Plan shall be paid as follows:

(A) PRIMARY BENEFICIARY  
Name or Names of Persons or Trust

-----  
-----

Address:

-----  
-----  
-----

Date of Birth or of Trust:

-----

Name of Trustee if applicable:

-----

Telephone Number:

-----

Social Security No. or T.I.N.:

-----

(B) ALTERNATE BENEFICIARY (in the event of the death or non-existence of the Primary Beneficiary listed above):

Name:

-----

Address:

-----  
-----  
-----

Date of Birth or of Trust:

-----

Name of Trustee if applicable:

-----

Telephone Number:

-----

Social Security No. or T.I.N.:

-----

The undersigned hereby reserves the right to change the beneficiary or beneficiaries designated herein at any time by filing in writing a new Designation of Beneficiary form with the Plan Administrator.

WITNESS:

-----  
EMPLOYEE:

Date:

-----

ACKNOWLEDGMENT

AMERICAN FINANCIAL GROUP, INC.

Date:

By:

-----

## EXHIBIT 23 - CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements and related prospectuses of American Financial Group, Inc. of our report dated February 12, 2004, with respect to the consolidated financial statements and schedules of American Financial Group, Inc. included in the Annual Report on Form 10-K for the year ended December 31, 2003.

<u>Form</u>	<u>Registration Number</u>	<u>Description</u>
S-8	33-58825	Stock Option Plan
S-8	33-58827	Employee Stock Purchase Plan
S-3	333-102567	Dividend Reinvestment Plan
S-8	333-10853	Nonemployee Directors' Compensation Plan
S-8	333-14935	Retirement and Savings Plan
S-8	333-91945	Deferred Compensation Plan
S-8	333-74282	GAFRI Retirement and Savings Plan
S-3	333-106657	\$600 million of Debt and Equity Securities
S-3	333-106659	AFG Convertible Notes due 2033

**ERNST & YOUNG LLP**

Cincinnati, Ohio  
March 9, 2004

## EXHIBIT 31(a)

## SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, Carl H. Lindner, certify that:

1. I have reviewed this annual report on Form 10-K 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 officer 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)) 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) 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
  - c) 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 officer 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.

March 12, 2004

BY: /s/Carl H. Lindner  
Carl H. Lindner  
Chairman of the Board and  
Chief Executive Officer  
(principal executive officer)

## EXHIBIT 31(b)

## SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS - CONTINUED

I, Fred J. Runk, certify that:

1. I have reviewed this annual report on Form 10-K 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 officer 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)) 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) 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
  - c) 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 officer 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.

March 12, 2004

BY: /s/Fred J. Runk  
Fred J. Runk  
Senior Vice President and Treasurer  
(principal financial officer)

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER 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 Annual Report of American Financial Group, Inc. (the "Company") on Form 10-K for the period ended December 31, 2003 (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.

March 12, 2004  
Date

BY: s/Carl H. Lindner  
Carl H. Lindner  
Chairman of the Board and  
Chief Executive Officer

March 12, 2004  
Date

BY: s/Fred J. Runk  
Fred J. Runk  
Senior Vice President and Treasurer

**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.**