

2006  
ANNUAL REPORT



Property & Casualty –  
Specialty Commercial Insurance

Annuities and  
Supplemental Insurance



*American Financial Group, Inc. is engaged in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of traditional fixed, indexed and variable annuities and a variety of supplemental insurance products.*

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

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

#### SELECTED FINANCIAL DATA

As of December 31 (in millions)	2006	2005	2004
Total Revenues	\$ 4,250	\$ 3,984	\$ 3,868
Net Earnings	453.4	206.6	359.9
Diluted Earnings Per Share	3.75	1.75	3.21
Shareholders' Equity*	2,955	2,442	2,249
Book Value Per Share*	24.77	20.85	19.57

\*Excludes unrealized gains and losses on fixed income securities.

All stock price and per share information shown in this document is adjusted to reflect a 3-for-2 stock split, effective December 2006.



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

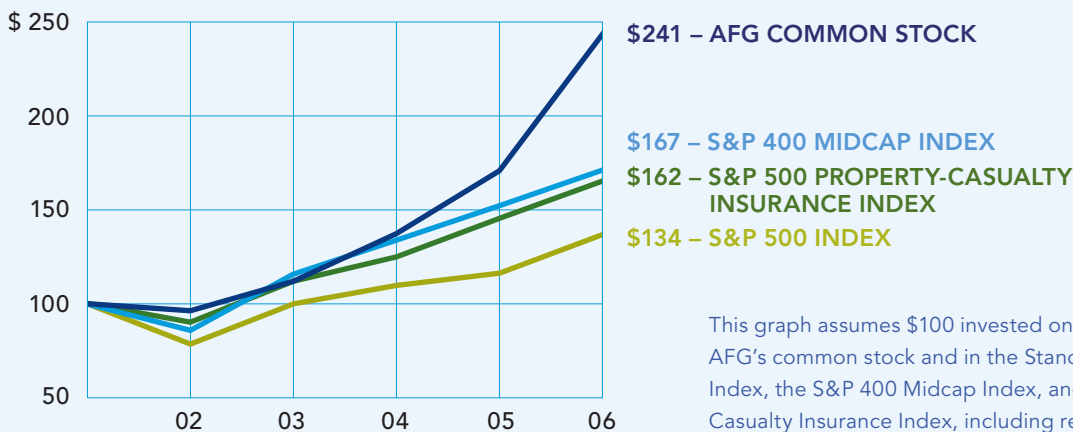
**CARL H. LINDNER III**  
*Co-Chief Executive Officer*

## TO OUR SHAREHOLDERS:

2006 was a record year for American Financial Group. Our outstanding results reflect the continuing execution of our long-term strategy and persistent focus on financial and pricing discipline and profitable growth, coupled with our investment expertise. These have contributed to the consistent improvement in our operating performance over the past several years. AFG ended 2006 in the strongest financial condition in its history. We shared this success with our shareholders through an increase in the common stock dividend. This action plus our three-for-two stock split, effective in December of 2006, reflect our confidence in the Company's long-term business and financial outlook.

We are pleased with our growth in shareholder value and the market's recognition of the Company's achievements. AFG's stock price plus dividends appreciated 43% in 2006 and over the past four years, its annual compounded growth rate was 25% compared with the S&P 500 growth rate of 15%.

### FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN OF AFG COMMON STOCK VS. S&P INDICES



This graph assumes \$100 invested on December 31, 2001 in AFG's common stock and in the Standard & Poor's ("S&P") 500 Index, the S&P 400 Midcap Index, and the S&P 500 Property-Casualty Insurance Index, including reinvestment of dividends.

## WHO WE ARE

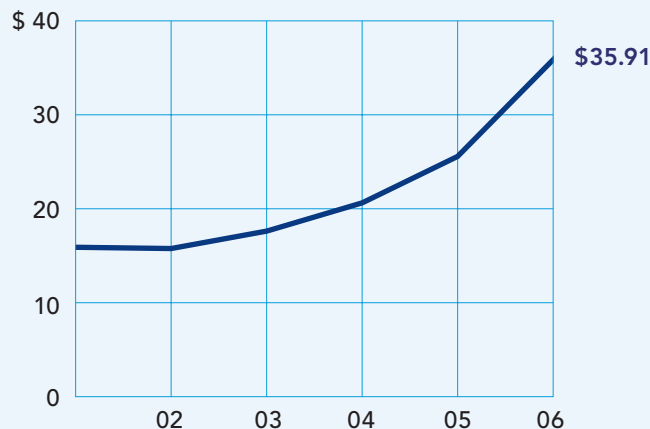
We consider AFG to be a premier specialty insurer with a diversified portfolio of businesses focused on commercial property and casualty niches, annuities and supplemental insurance products. The focus of each of our business units is to serve a particular marketplace with its own unique products and services. Our entrepreneurial culture allows operating management to optimize their areas of expertise and the flexibility to develop and implement individual strategies. Accordingly, each operation is held accountable for its results with compensation incentives aligned with specific profitability goals. Furthermore, as part of our incentive program, there is no benefit for volume growth unless that growth meets profit objectives. We want healthy premium growth but we are committed to walk away from business if the pricing is not right.

Today, we have a healthy diversity in our property and casualty insurance operations and most of our businesses have solid market positions. We have grown and diversified over the years as we entered new niches, added to existing ones and made selective acquisitions. Many of our businesses are affected by fluctuations within their own specialized markets and are not subject to the overall industry cycle. We believe this has contributed to relatively stable average rate levels for our specialty operations during the past couple of years. We are pleased with the pricing adequacy across our businesses. We have also been positioning ourselves for a number of years as a company with lower catastrophe exposures in order to reduce earnings volatility related to unusual catastrophic events. This is demonstrated by our low hurricane losses in 2004 and 2005 relative to the industry, and our decision in the early part of 2006 to exit our earthquake-exposed excess property business.

Over the past several years, our annuity and supplemental insurance businesses, managed by Great American Financial Resources, Inc. ("GAFRI"), have benefited from opportunistic acquisitions, introduction of new products and expanded distribution. Significant technology and expense reduction initiatives were also implemented. We acquired several blocks of business over the past few years at low incremental costs, leveraging our streamlined infrastructure and technology platform. In 2005, we reentered the fixed indexed annuity market, which has made a significant contribution

*AFG's stock price plus dividends appreciated 43% in 2006 and over the past four years, its annual compounded growth rate was 25%.*

### AFG STOCK PRICE (as of December 31, adjusted for split)



to our growth. Last year, the strategic acquisition of the Ceres Group made us a major player in the Medicare supplement market and expanded our distribution network. We have continued to update our traditional fixed annuity offerings to meet the needs of our targeted K-12 teachers' market, as well as attract quality agents. Through adherence to our pricing discipline, we have been able to continue to issue annuities that meet our return expectations. In February of 2007, we announced a proposal to have GAFRI engage in a merger transaction that would increase AFG's ownership of GAFRI's common stock to 100%. The transaction allows us to use our excess capital to increase our ownership of a specialty-focused business that we know well and is expected to enhance AFG's return on equity.

Investment management is one of our core competencies. Our investment portfolio is managed by internal investment professionals who have generated returns that have consistently outperformed various market indices. In addition, we have been very successful in buying and selling real estate and have harvested significant gains from opportunistic sales. This demonstrates the considerable unrecognized appreciation in a number of these properties. Over the last ten years, sales of securities combined with real estate sales have generated nearly \$1 billion of pre-tax realized gains for the Company.

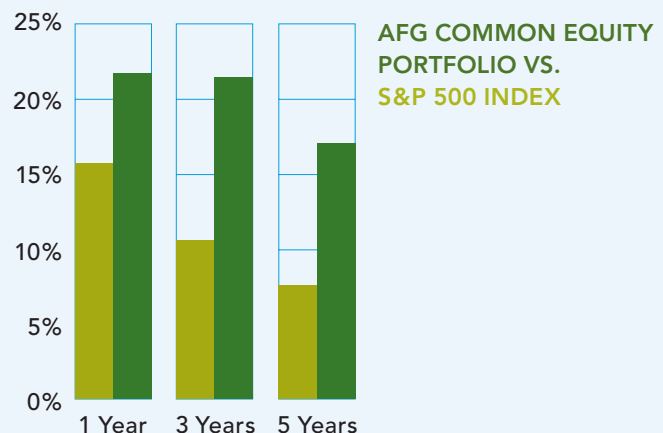
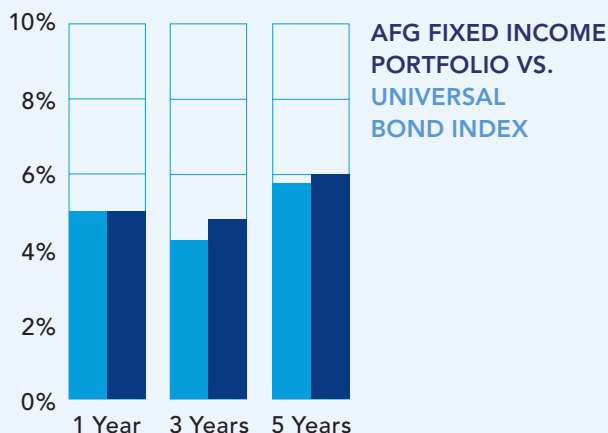
### 2006 HIGHLIGHTS

2006 was another extremely successful year for AFG. Our continuing focus on the fundamentals—People, Performance and Profit—helped us achieve results throughout the year that exceeded our expectations. We are very proud of these financial accomplishments:

- Record net earnings were \$3.75 per share, more than double the amount in 2005.
- Record core net operating earnings of \$3.14 per share were 26% higher than the previous year.
- Book value per share, excluding unrealized gains and losses on fixed maturities, of \$24.77 was up 19%, versus \$20.85 at year-end 2005.

*Our investment portfolio is managed by internal investment professionals who have generated returns that have consistently outperformed various market indices.*

### INVESTMENT PERFORMANCE VS. INDICES



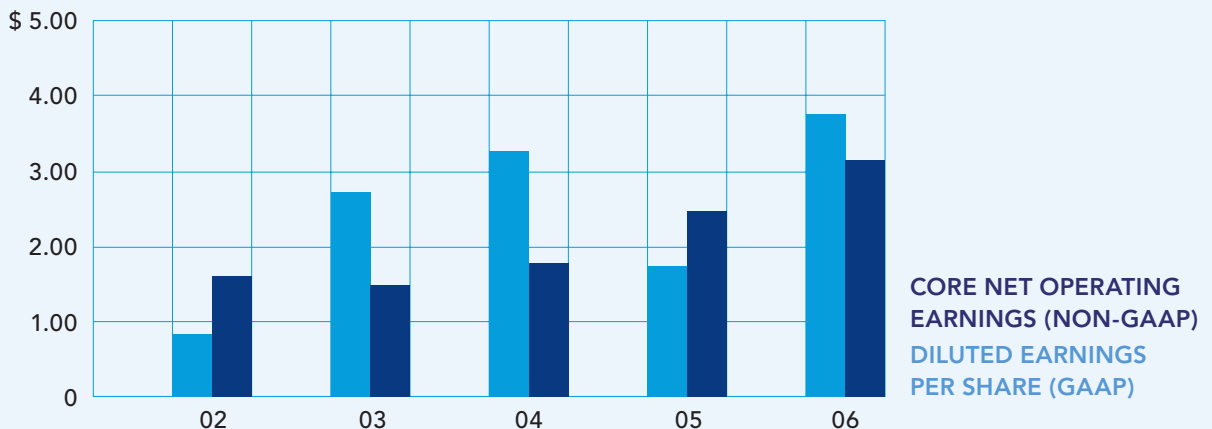
*Our continuing focus on the fundamentals helped us achieve results throughout the year that exceeded our expectations.*

While the mild hurricane season helped us, the record underwriting profit of our Specialty P&C Group was driven by excellent results in most of our businesses. The 2006 underwriting profit for the specialty operations was 55% higher than in 2005, reflecting the impact of premium growth, rate adequacy in most of our businesses and favorable reserve development. We were pleased with the growth in our premium levels even in the softer commercial P&C insurance market, resulting primarily from targeted growth within the Property and Transportation group. The multi-peril crop business of Farmers Crop Insurance Alliance, acquired in 2005, was successfully merged into our existing crop operations and was a significant contributor to our premium growth and underwriting profitability in 2006.

The Annuity and Supplemental Insurance Group continued to grow and diversify its business during 2006. This group's core net operating earnings were 24% higher than in 2005. This increase reflects improvements in the fixed annuity operations, higher earnings in the runoff life operations, earnings from the Ceres acquisition, plus earnings on the proceeds received in connection with the sale of a Puerto Rican subsidiary. Although the interest rate environment has been a challenge in our annuity business, the discipline with which we manage our business continues to produce positive results for us. Our supplemental insurance operations experienced an earnings decline in the first half of 2006. The integration of Ceres has proceeded well and we have been pleased with the performance of these operations. Our other acquisitions of blocks of business have continued to meet or exceed our expectations and demonstrate our position as a profitable, low cost, high service provider in our specific markets. We achieved record levels of premiums and have continued to introduce new products in order to address the needs of our distribution partners and their customers.

Investment income for 2006 was up 9% compared to 2005 due to higher yields and higher invested assets. Consistent with our strategy to make opportunistic sales of real estate assets, we sold Chatham Bars Inn on Cape Cod and selected New York real estate assets in 2006, generating gains that actually exceeded the values we had anticipated.

4 NET EARNINGS PER SHARE



## STRATEGIC FOCUS

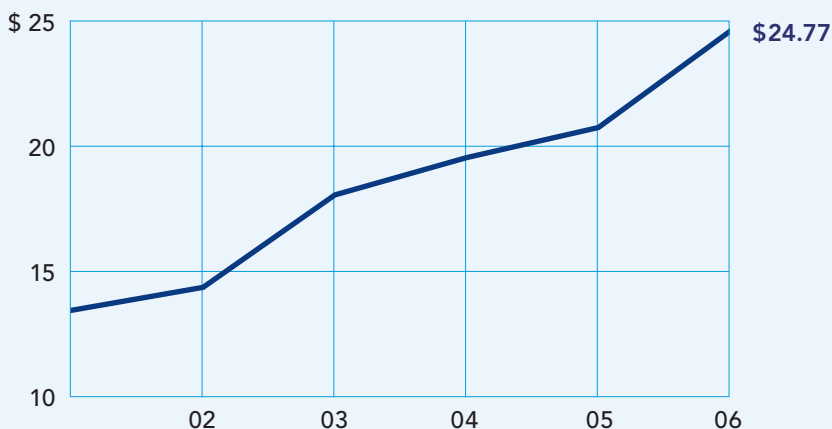
Our overriding goal is to increase long-term shareholder value by using our strong balance sheet and excess capital to intelligently expand our business. We have outlined important aspects of our strategy that we believe will be drivers for the future and allow us to achieve that goal:

- Our operational focus on specialty niche markets within the property and casualty insurance, annuity and supplemental insurance industries will continue.
- We will pursue internal growth opportunities within our existing portfolio of insurance businesses.
- We will seek acquisition and start-up opportunities that meet our specialty strategy and financial objectives. We will look for underserved markets and opportunities to improve our geographic spread, achieve economies of scale or improve market position.
- We remain committed to our strong underwriting culture, pricing discipline and risk management philosophy. These are important factors to our success in producing strong underwriting results and outperforming the industry which we have done over a long period of time.
- We will nurture relationship-based distribution networks that will result in strong and lasting partnerships and contribute to business retention and continuity.
- Our investment group will focus on continuing to achieve returns that outperform various market indices. We will consider opportunities that allow us to effectively apply this investment competency.
- We will continue to acquire, renovate and develop real estate assets to increase their market value and evaluate ways to unlock gains from these real estate assets over time.

Our long-term objectives are to achieve returns on equity between 12% and 15% and double-digit growth in book value. We plan to maintain a strong balance sheet and adequate liquidity that will continue to provide financial flexibility.

*Our long-term objectives are to achieve returns on equity between 12% and 15% and double-digit growth in book value.*

### BOOK VALUE PER SHARE (Excluding unrealized gains and losses on fixed maturities)





## LOOKING AHEAD

*Our success is  
a reflection of  
the efforts of  
our dedicated  
employees and  
business partners.*

We are enthusiastic about the upcoming year. At the end of 2006, we announced that we are targeting AFG's 2007 core net operating earnings to be between \$3.23 and \$3.43 per share. These projected results assume that the P&C specialty operations will generate net written premium growth in the range of 4% to 7% while maintaining a stable combined ratio, and a 4% to 6% increase in its investment income. We expect modest improvement in the core net operating earnings of our annuity and supplemental insurance group which should represent about 16% of AFG's core net operating earnings. The high end of AFG's earnings range assumes that some excess capital will be put to work prudently to expand our businesses profitably. These targeted earnings exclude the potential for significant catastrophe and crop losses, adjustments to asbestos and environmental reserves, and large real estate gains.

Our family, management team and employees have a substantial ownership interest in AFG and clear alignment with our shareholders' interests. We are all aware of the importance of increasing long-term shareholder value and believe that can be accomplished with continued execution of our business strategy. We remain committed to our core values, including integrity and customer focus. Our success is a reflection of the efforts of our dedicated employees and business partners and we want to thank them for their contributions to the Company's success. With the right People in place, we believe Performance and Profit will follow.

We'd like to thank our customers for their continuing business and of course, you, our shareholders, for your investment and support.



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



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

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



## FINANCIAL HIGHLIGHTS (In millions, except per share data)

BALANCE SHEET DATA	2006	2005	2004
Cash and investments	\$17,739	\$16,224	\$15,637
Total assets	25,101	22,816	22,560
Long-term debt, including payable to subsidiary trusts	921	1,000	1,106
Shareholders' equity <sup>A</sup>	2,955	2,442	2,249
Ratio of debt to total capital <sup>B</sup>	22%	27%	31%
Cash dividends per share	\$0.37	\$0.33	\$0.33
Book value per share <sup>A</sup>	\$24.77	\$20.85	\$19.57
Shares outstanding	119.3	117.1	115.0

### SUMMARY OF OPERATIONS

Total revenues	\$4,250	\$3,984	\$3,868
Components of net earnings:			
Core net operating earnings <sup>C</sup>	\$379.9	\$294.2	\$213.0
Major gains on real estate sales	54.8	45.9	—
Unlocking charges & write-off of deferred acquisition costs	—	(15.6)	—
A&E reserve increases and litigation settlements	—	(121.6)	(33.8)
Realized investment gains	18.6	11.3	192.2
Accounting changes	—	—	(5.6)
Other <sup>D</sup>	.1	(7.6)	(5.9)
Net earnings – GAAP	\$453.4	\$206.6	\$359.9
Components of diluted earnings per share:			
Core net operating earnings <sup>C</sup>	\$3.14	\$2.49	\$1.90
Major gains on real estate sales	.45	.39	—
Unlocking charges & write-off of deferred acquisition costs	—	(.13)	—
A&E reserve increases and litigation settlements	—	(1.03)	(.30)
Realized investment gains	.16	.10	1.71
Accounting changes	—	—	(.05)
Other <sup>D</sup>	—	(.07)	(.05)
Diluted earnings per share – GAAP	\$3.75	\$1.75	\$3.21

A Excludes unrealized gains and losses on fixed maturity investments.

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

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

D Primarily includes results of discontinued operations, including disposed hotels, losses from non-insurance investees, retirement of debt and a 2006 benefit from a tax resolution.

## AMERICAN FINANCIAL GROUP AT A GLANCE

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### SPECIALTY PROPERTY & CASUALTY GROUP A.M. BEST RATINGS

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

### SPECIALTY GROUP COMPONENTS

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#### Property And Transportation

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

#### Specialty Casualty

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



## Specialty Financial

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

## California Workers' Compensation

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Workers' Compensation	Coverage for prescribed benefits payable to employees (principally in California) who are injured on the job.
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## ANNUITIES AND SUPPLEMENTAL INSURANCE GROUP A.M. BEST RATINGS

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Great American Financial Resources (GAFRI):	
Great American Life Insurance Company	A (Excellent)
Annuity Investors Life Insurance Company	A (Excellent)
United Teacher Associates Insurance Company	A- (Excellent)
Loyal American Life Insurance Company	A (Excellent)
Continental General Insurance Company	B++ (Good)
Central Reserve Life Insurance Company	B++ (Good)

## ANNUITY AND SUPPLEMENTAL GROUP COMPONENTS

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



## OUR VALUES

### ACCOUNTABILITY

We foster a working environment where we can count on others to keep commitments and agreements.

### CLEAR & OPEN COMMUNICATIONS

We maintain an environment of open dialogue among our employees and stakeholders to help develop and strengthen our businesses.

### CUSTOMER FOCUS

We try to keep our customers' perspectives as the driving force behind our business activities.

### ENTREPRENEURIAL SPIRIT

Each of our business units has the authority and the responsibility to respond to opportunities unique to its particular market niche.

### FAMILY

We support healthy and balanced lifestyles. We recognize the importance of family and community.

### INTEGRITY

We are committed to conducting our business in accordance with the highest ethical standards. We base our relationships with customers, suppliers, competitors and employees on fair practices.

### RESPECT FOR OTHERS

We treat people with civility, courtesy and dignity. We strive to create and maintain good working relationships.

### SELF-DISCIPLINE

We maintain an environment that encourages self-control, motivation, persistence and goal setting.

### SPECIALIZATION

We provide insurance products and services where we have significant expertise in particular lines of business or customer groups.



## BUSINESS SUMMARY

### THE BUSINESS OF MANAGING RISKS

Our purpose is simple...to enable individuals and businesses to manage financial risks to plan for their future. We provide insurance products and services tailored to meet the specific and ever-changing financial risk exposures and needs facing our diverse customer base. To do that, we offer insurance products in niche areas where we have developed expertise and relationships that allow us to provide the highest quality products and services at competitive rates.

In the insurance business, what we sell can seem very basic, especially when forms, rates and policy provisions may look the same from company to company. At AFG, we know that *how* we deliver our products and services and *how* we stand behind our promises are at the core of why we've been successful. Our people, together with consistent performance, have allowed us to achieve record profitability and superior results.

### THE VALUE OF PEOPLE AND RELATIONSHIPS

Our employees are specialists who know our businesses. Our organizational structure allows each of these businesses to operate in an entrepreneurial environment—where each has the authority and responsibility to understand the risks faced by our policyholders, and establish underwriting, claims, reinsurance and distribution strategies that are “owned” by business leaders who know their business better than anyone else. We are committed to providing an environment for each of these businesses that enables them to focus on what they do best—specialization and superior service. Demonstrated self-discipline, effective goal setting and attainment of desired results are behaviors that are recognized and rewarded.

OUR PEOPLE,

TOGETHER WITH CONSISTENT

PERFORMANCE,

HAVE ALLOWED US TO ACHIEVE RECORD

PROFITABILITY

AND SUPERIOR RESULTS.

OUR COMMITMENT TO  
**LEARNING,**

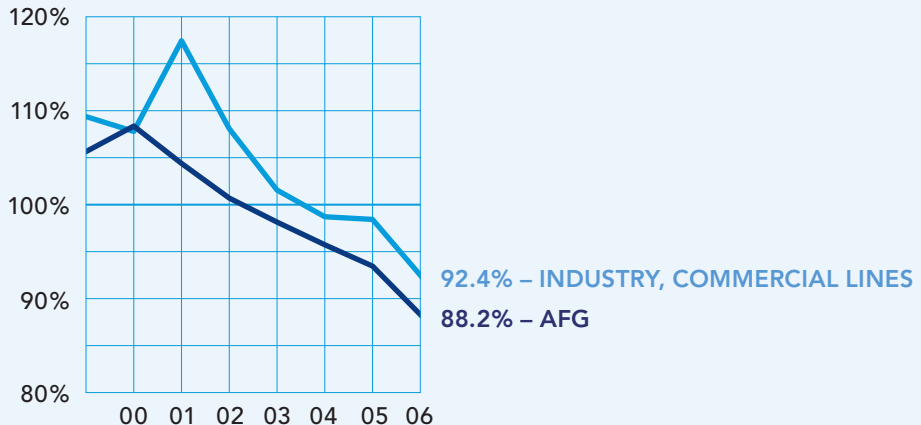
COUPLED WITH OUR SPECIALIZED  
**KNOWLEDGE,**

HAS ENABLED US TO COMPETE AS  
**INDUSTRY-RECOGNIZED**  
LEADERS IN MANY OF OUR MARKETS

Our 6,900 employees are located in more than 100 locations throughout North America and the UK. Our businesses operate in all 50 states, Canada, Europe and Mexico, and are serviced by thousands of independent agents and brokers as well as selected agency captives. Service, respect and integrity are foundations of our corporate culture. We continue to build intellectual capital through the use of a talent management program and detailed succession planning.

Building and nurturing strategic customer and agent relationships is at the heart of our business strategy. Developing an understanding of our customers' challenges helps us to meet these needs in a timely, proactive manner. We encourage a learning culture that embraces continuing education and application of knowledge about changes in our customers' needs, the economic and regulatory environment, and the assets we protect. This commitment, coupled with our specialized knowledge, has enabled us to compete as industry-recognized leaders in many of our markets.

**SPECIALTY GROUP – STATUTORY COMBINED RATIO**



## OPERATIONAL OVERVIEW

### Specialty Property And Casualty Insurance Operations

Our Specialty P&C operations represent a highly diversified group of businesses offering a range of specialty commercial coverages. Throughout 2006, these operations have focused on maintaining price adequacy, while achieving appropriate growth targets, given pricing dynamics. We recognize the importance of strong capital adequacy and the strength of our reserves in allowing us to grow our most profitable businesses organically and to seek opportunities for targeted start-ups and/or acquisitions.

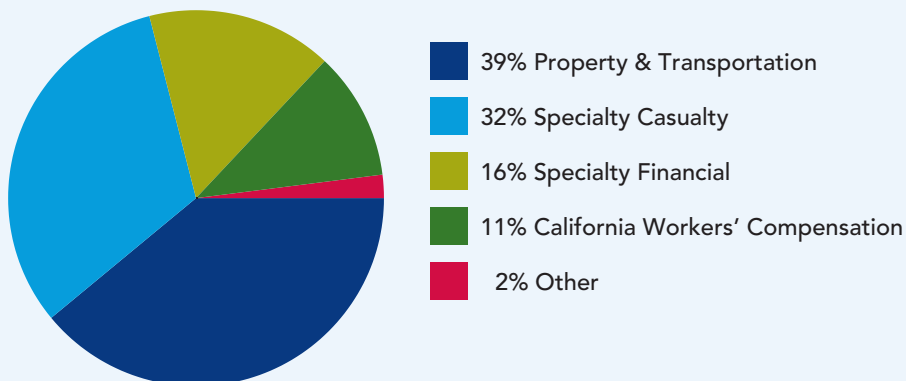
Record underwriting profits in 2006 were driven largely by pricing discipline over the past several years as well as effective risk management and claims handling strategies. A lack of significant catastrophic events, particularly major hurricanes, was also a contributing factor. Gross and net written premiums were up 8% and 9%, respectively, over 2005 due to healthy growth in many of our business lines.

*Record underwriting profits in 2006 were driven largely by pricing discipline over the past several years, as well as effective risk management and claims handling strategies.*

### SPECIALTY PROPERTY & CASUALTY INSURANCE GROUP

Year ended December 31 (in millions)	2006	2005	2004
Gross Written Premiums	<b>\$3,920</b>	\$3,637	\$3,639
Net Written Premiums	<b>2,657</b>	2,445	2,224
Net Earned Premiums	<b>2,561</b>	2,363	2,097
GAAP Ratios:			
Loss and LAE	<b>57.7%</b>	63.7%	66.7%
Underwriting Expense	<b>29.8%</b>	27.5%	27.4%
Combined Ratio	<b>87.5%</b>	91.2%	94.1%

### SPECIALTY GROUP – 2006 NET WRITTEN PREMIUM DISTRIBUTION







**Our Property and Transportation Group** produced strong underwriting profit during 2006, 20% higher than in 2005. Strong earned premium growth, lower catastrophe losses, and higher favorable prior year reserve development all contributed to these improved results. Gross and net written premiums grew 22% and 14% over 2005. This growth was driven primarily by new business volume in the property and inland marine and transportation operations as well as by additional crop premiums resulting from the 2005 acquisition of Farmers Crop Insurance Alliance. Rate levels held steady or increased in most of the lines of business. Overall, the rate increase averaged 2% for the group in 2006.

We expect continued growth in this group, fueled primarily by improved geographic penetration by our property and inland marine operations. Additionally, we are planning to expand our trucking program to include liability for owner-operators, and coverage for small fleets (business with 1-5 trucks). This group should maintain its excellent underwriting track record.

## PROPERTY AND TRANSPORTATION GROUP

Year ended December 31 (in millions)	2006	2005	2004
Gross Written Premiums	<b>\$1,657</b>	\$1,357	\$1,337
Net Written Premiums	<b>1,036</b>	909	683
GAAP Combined Ratio	<b>82.3%</b>	83.0%	80.7%

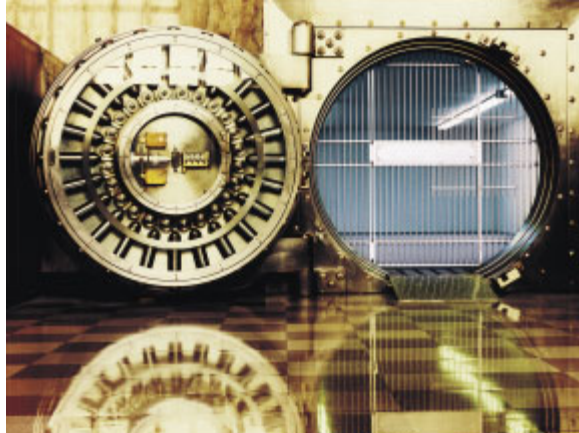


**Our Specialty Casualty Group** experienced significant improvement in its underwriting profitability. Reserve development in 2006 improved substantially over 2005 development. Net written premiums grew 13% over 2005, resulting from volume growth and higher premium retention in several businesses as well as the restructuring of a business unit's reinsurance program. Gross written premiums were impacted by softer pricing in the excess and surplus lines as well as several of the primary casualty operations. The average rate for the overall group remained stable.

Looking forward to 2007, we expect this group's underwriting margins to remain strong and premiums to be flat or increase slightly over 2006 levels.

## SPECIALTY CASUALTY GROUP

Year ended December 31 (in millions)	2006	2005	2004
Gross Written Premiums	<b>\$1,426</b>	\$1,406	\$1,453
Net Written Premiums	<b>839</b>	743	740
GAAP Combined Ratio	<b>84.9%</b>	91.3%	99.8%



**Our Specialty Financial Group** reported an underwriting loss for 2006 resulting from disappointing results in our automobile residual value business (RVI), which is in run-off. Residual value insurance losses reflected a decrease in used car sales prices, particularly for luxury cars and SUVs. Excluding the effect of the RVI business, the combined ratio for the remaining businesses was 88.7%. Premium growth was driven primarily by the financial institutions, lender services and surety and fidelity operations. Rates in this group were down slightly in 2006, primarily due to lower pricing in the trade credit operations.

During 2007, we expect the underwriting margins of the non-residual value insurance businesses in this group to remain strong, and that overall premium should grow modestly. Depending on the used car market, we could experience some additional losses in our residual value insurance business. However, the number of cars with expiring leases will continue to decline, and 2007 is the last year in which there are a significant number of vehicles in loss contracts coming off lease. We expect this overall group to achieve an underwriting profit in 2007.

## SPECIALTY FINANCIAL GROUP

Year ended December 31 (in millions)	2006	2005	2004
Gross Written Premiums	<b>\$535</b>	\$493	\$468
Net Written Premiums	<b>424</b>	384	395
GAAP Combined Ratio	<b>110.2%</b>	121.3%	108.9%



**Our California Workers' Compensation Business** generated excellent profitability in 2006 as a result of appropriate pricing and the benefit of favorable prior year reserve development. These underwriting results reflect the positive effects of the California workers' compensation reforms that have resulted in a more favorable claims environment and lowered workers' compensation costs for employers through reduced insurance rates. Our average rate decrease in California in 2006 was 32%. As such, premium levels declined. We continue to monitor the impact of changes in the California workers' compensation environment. Due to the long-tail nature of this business, we will remain conservative in our reserving structure until a higher percentage of claims are paid and the ultimate impact of reforms can be determined.

We filed for several rate decreases in 2006, consistent with recommendations from the Workers' Compensation Insurance Review Board and the Insurance Commissioner of the State of California. As a result, we anticipate that this group's 2007 premiums will decline in excess of 10%. The combined ratio is expected to increase somewhat, but should be in the mid-80s or below, still producing excellent returns on this business.

## CALIFORNIA WORKERS' COMPENSATION

Year ended December 31 (in millions)	2006	2005	2004
Gross Written Premiums	<b>\$302</b>	\$382	\$380
Net Written Premiums	<b>285</b>	344	339
GAAP Combined Ratio	<b>74.1%</b>	70.0%	89.5%





*The acquisition of the Ceres Group was an excellent strategic fit for our supplemental health businesses.*

### Annuity and Supplemental Insurance Operations

Our Annuity and Supplemental Insurance Operations, conducted through GAFRI, market traditional fixed, indexed and variable annuities and various forms of supplemental insurance.

Annuities comprise GAFRI's largest product group, accounting for more than 80% of its assets. This segment has its roots in the 403(b) annuity business, where it has served teachers in the niche K-12 market and other employees of not-for-profit organizations, as well as other qualified markets. GAFRI has also developed expertise in the non-qualified single premium market. Traditional fixed, fixed indexed and variable annuity product offerings are continually enhanced to best meet the needs of those in our target markets.

Growth in fixed indexed annuity products has contributed to record annuity premium levels in 2006. Statutory premiums were 51% higher than in 2005. The acquisition of the Ceres Group during the 2006 third quarter was an excellent strategic fit for our supplemental health businesses. It positioned GAFRI as a top ten provider of Medicare Supplement insurance to the senior market.

#### ANNUITIES AND SUPPLEMENTAL INSURANCE GROUP\*

Year ended December 31 (in millions)	2006	2005	2004
Statutory Premiums			
Annuities			
Fixed	\$1,289	\$757	\$662
Variable	87	92	105
Total Annuities	1,376	849	767
Supplemental Health and Life Premiums	351	298	276
Total Premiums	\$1,727	\$1,147	\$1,043
Gross Investment Income	\$606	\$563	\$527

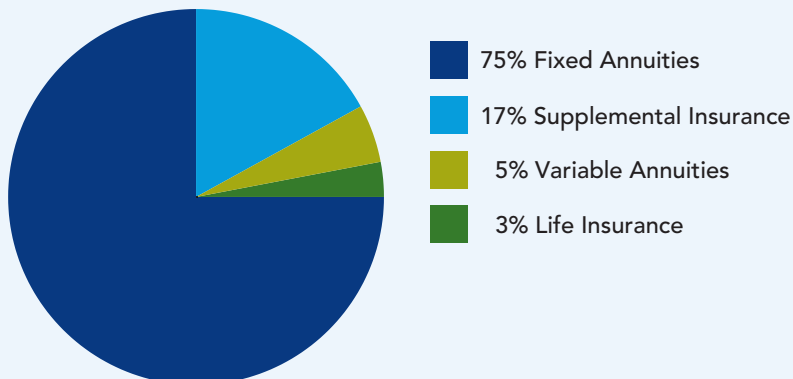
\*excluding results of Puerto Rico subsidiary sold in January 2006



Increases in operating earnings for the annuity and supplemental health segment were primarily attributable to improvements in the fixed annuity operations, resulting from a 2006 first quarter acquisition of an annuity block of business and higher real estate income. Higher earnings in a run-off life operation resulting from improved mortality experience and lower expenses, earnings from the Ceres acquisition and earnings on the proceeds received in connection with the sale of a Puerto Rican subsidiary in early 2006, also contributed to improved operating earnings. These increases more than offset an earnings decrease in the supplemental insurance operations.

We expect continued premium growth in 2007 from indexed annuities and supplemental insurance, as well as solid operating earnings within the annuity, supplemental insurance and the life insurance operations. The introduction of new products within our annuity and supplemental products group is expected to provide additional premium growth in 2007. We believe that this segment of our business has the capacity for continued growth at low incremental costs because of its efficient operating infrastructure.

## 2006 STATUTORY PREMIUM DISTRIBUTION





Mountain View Grand Resort, New Hampshire

*We believe that we have significant unrecognized appreciation in a number of our real estate investments.*

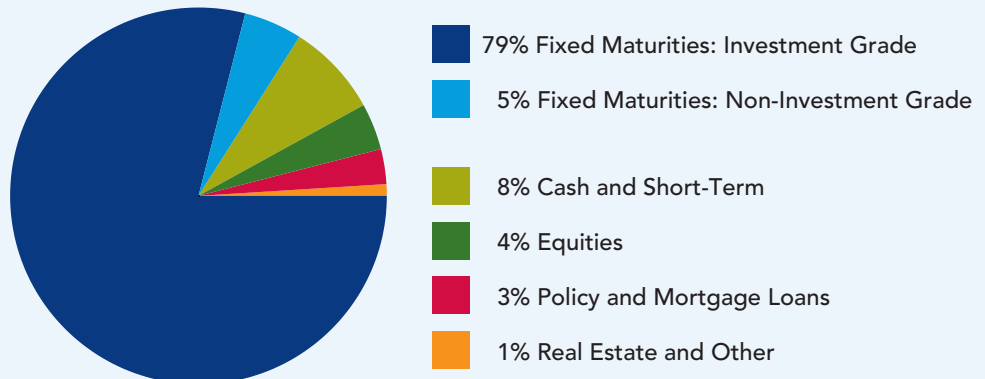
### Investments

Our primary investment objective is to maximize return on a total return basis. We have a high quality investment portfolio that produces a predictable, steady stream of income. Over the years, our investment returns have consistently outperformed various market indices. Over the last 10 years, we have generated about \$600 million in realized gains from sales of securities.

We have a highly liquid and transparent investment portfolio, with over 95% of our investments being publicly traded that can be valued through the securities market. Fixed income securities, primarily investment grade bonds and mortgage-backed securities, account for approximately 95% of our total investments, with about 94% of the fixed maturity investments rated “investment grade.” Stocks, real estate, policy loans and other investments make up the remainder of the portfolio.

Our real estate investments include hotels, resorts, marinas and apartment developments in various parts of the United States as well as some undeveloped land. During 2006, we recognized \$116 million of pre-tax gains primarily from the sale

### INVESTMENT PORTFOLIO (Composition at December 31, 2006)







Sailfish Marina and Resort, Palm Beach Shores



Crescent Centre Apartments, Louisville

of Chatham Bars Inn, a resort property on Cape Cod (reported as discontinued operations), certain New York assets and some apartment and condominium complexes in Florida. We believe that we have significant unrecognized appreciation in a number of our real estate investments, and using a multiple of 11 to 14 times current cash flow, estimate that the market value exceeds the carrying value on the balance sheet by \$110 million to \$155 million.

Our real estate investment strategy is based upon our history of buying underperforming or out-of-favor assets, developing and managing them “in house,” and selling them when we believe value has been maximized. Over the past 10 years, we have realized gains of approximately \$360 million on sales of our real estate properties. We continue to look for attractive opportunities to invest in. We will continue to capitalize on our strong internal investment capabilities that we believe will give us a competitive advantage. We believe that our investment return will continue to be a major contributor to our earnings and book value growth.

*We believe that our investment return will continue to be a major contributor to our earnings and book value growth.*



The Annual Shareholders’ Meeting is expected to be held at our hotel, The Cincinnati, in Cincinnati on May 17, 2007.

Originally called The Palace Hotel, the Cincinnati was built in 1882 and at the time was the tallest building in Cincinnati. The hotel was completely renovated in 1987 and is currently listed on the National Register of Historic Places.



## LOOKING TO THE FUTURE

In 2007, we continue to execute our operating strategy to achieve profitable growth. We remain focused on maintaining adequate pricing, achieving solid underwriting profitability, sustaining appropriate interest spreads on our annuity offerings, and outperforming the market in terms of investment returns. We continue to embrace the value created by our diversified portfolio of specialty insurance businesses and will continue to maintain the financial strength and flexibility that allows us to expand our businesses going forward.

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



## BOARD OF DIRECTORS

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### CARL H. LINDNER

Chairman of the Board

### CARL H. LINDNER III

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

### S. CRAIG LINDNER

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

### KENNETH C. AMBRECHT <sup>2,3</sup>

Principal, KCA Associates, LLC, an investment banking firm

### THEODORE H. EMMERICH <sup>1\*</sup>

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

### JAMES E. EVANS

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

### TERRY S. JACOBS <sup>1,3</sup>

President and Chief Executive Officer, JFP Group, LLC, a real estate investment and development company

### WILLIAM R. MARTIN <sup>1,2\*</sup>

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

### WILLIAM W. VERITY <sup>2,3\*</sup>

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

Board of Directors Committees:

<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Governance Committee

\* Chairman of Committee

## CORPORATE MANAGEMENT

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### S. CRAIG LINDNER

Co-Chief Executive Officer and Co-President

### CARL H. LINDNER III

Co-Chief Executive Officer and Co-President

### JAMES E. EVANS

Senior Vice President and General Counsel

### KEITH A. JENSEN

Senior Vice President

### THOMAS E. MISCHELL

Senior Vice President – Taxes

### KATHLEEN J. BROWN

Vice President – Taxes

### ROBERT E. DOBBS

Vice President – Internal Audit

### KARL J. GRAFE

Vice President and Assistant Secretary

### SANDRA W. HEIMANN

Vice President

### JAMES C. KENNEDY

Vice President, Deputy General Counsel and Secretary

### ROBERT H. RUFFING

Vice President and Controller

### PIYUSH K. SINGH

Vice President

### ANNE N. WATSON

Vice President – Investor Relations

### DAVID J. WITZGALL

Vice President and Treasurer

### CORPORATE OFFICES

American Financial Group, Inc.  
One East Fourth Street  
Cincinnati, OH 45202  
(513) 579-2121

### ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting is expected to be held at The Cincinnati Hotel in Cincinnati on May 17, 2007. Notices will be mailed to all registered holders of the Company's voting stock.

## COMMON STOCK MARKET INFORMATION

American Financial Group's Common Stock is traded on both the New York Stock Exchange ("NYSE") and the NASDAQ Global Select Market ("NASDAQ") under the symbol AFG. On March 1, 2007, approximately 8,900 holders of record own our shares. The following table sets forth the high and low sales prices of AFG's Common Stock as reported on the NYSE Composite Tape.

2005	HIGH	LOW	DIVIDENDS PAID
1st Quarter	21.25	19.93	0.083
2nd Quarter	22.64	18.64	0.083
3rd Quarter	23.42	21.50	0.083
4th Quarter	26.33	21.38	0.083

2006	HIGH	LOW	DIVIDENDS PAID
1st Quarter	28.30	24.70	0.092
2nd Quarter	29.70	27.08	0.092
3rd Quarter	32.13	27.15	0.092
4th Quarter	36.71	31.13	0.092

## DIVIDEND REINVESTMENT PLAN

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

## DUPLICATE MAILINGS

Please call or write the Company's Investor Relations Department at the number or address on page 25 if you wish to eliminate any duplicate mailing of this report or other Company materials.

## TRANSFER AGENT FOR:

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

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



## ADDITIONAL INFORMATION

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

Investor Relations  
American Financial Group, Inc.  
580 Walnut Street, 9th Floor  
Cincinnati, Ohio 45202  
(513) 579-6739

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

## CERTIFICATIONS

AFG has included as Exhibit 31 to its 2006 Annual Report on Form 10-K, certifications from its Co-Chief Executive Officers and Chief Financial Officer as to the integrity and quality of AFG's public disclosures. AFG's Co-Chief Executive Officers have also submitted to the NYSE a certification indicating that they are not aware of any violations by AFG of the NYSE corporate governance listing standards.

## FORWARD-LOOKING STATEMENTS

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

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

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

