SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1998	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

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 X No ___

As of November 1, 1998, there were 61,066,903 shares of the Registrant's Common Stock outstanding, excluding 18,666,614 shares owned by subsidiaries.

PART I
FINANCIAL INFORMATION

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Dollars In Thousands)

	September 30, 1998	December 31, 1997
Assets:		
Cash and short-term investments	$ 412,411	$ 257,117
Investments:		
Fixed maturities:		
Held to maturity - at amortized cost (market - $2,912,300 and $3,419,000)	2,765,074	3,328,082
Available for sale - at market (amortized cost - $7,462,670 and $7,225,736)	7,897,070	7,532,836
Other stocks - principally at market (cost - $196,868 and $153,322)	393,468	446,222
Investment in investee corporation	232,933	200,714
Policy loans	221,208	240,955

Real estate and other investments	272,401	283,979
Total investments	11,782,154	12,032,788
Recoverables from reinsurers and prepaid reinsurance premiums	1,161,686	998,743
Agents' balances and premiums receivable	754,855	691,005
Deferred acquisition costs	500,052	521,898
Other receivables	261,676	243,330
Assets held in separate accounts	84,890	300,491
Prepaid expenses, deferred charges and other assets	364,159	410,569
Cost in excess of net assets acquired	283,422	299,408
	$15,605,305	$15,755,349

Liabilities and Capital:		
Unpaid losses and loss adjustment expenses	$ 4,528,175	$ 4,225,336
Unearned premiums	1,294,259	1,328,910
Annuity benefits accumulated	5,424,690	5,528,111
Life, accident and health reserves	339,558	709,899
Long-term debt:		
Holding companies	432,589	386,661
Subsidiaries	207,306	194,084
Liabilities related to separate accounts	84,890	300,491
Accounts payable, accrued expenses and other liabilities	979,677	906,151
Total liabilities	13,291,144	13,579,643
Minority interest	525,441	512,997
Shareholders' Equity:		
Common Stock, no par value		
- 200,000,000 shares authorized		
- 61,046,072 and 61,048,904 shares outstanding	61,046	61,049
Capital surplus	781,780	775,689
Retained earnings	584,494	477,071
Net unrealized gain on marketable securities, net of deferred income taxes	361,400	348,900
Total shareholders' equity	1,788,720	1,662,709
	$15,605,305	$15,755,349

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

	Three months ended September 30, 1998	Three months ended September 30, 1997	Nine months ended September 30, 1998	Nine months ended September 30, 1997
Income:				
Property and casualty insurance premiums	$ 696,537	$ 739,858	$2,080,003	$2,102,001
Life, accident and health premiums	50,434	32,149	145,710	84,845
Investment income	222,683	218,684	671,923	646,178
Equity in net earnings (loss) of investee	(5,518)	(13,914)	26,396	18,094
Realized gains on sales of:				
Securities	14,302	29,682	28,890	35,693
Investee and subsidiaries	11,090	-	20,510	731
Other investments	-	-	6,843	-
Other income	42,276	28,347	106,153	80,633
	1,031,804	1,034,806	3,086,428	2,968,175
Costs and Expenses:				
Property and casualty insurance:				
Losses and loss adjustment expenses	513,537	545,915	1,577,440	1,510,426
Commissions and other underwriting expenses	201,777	208,975	586,409	586,580
Annuity benefits	64,514	72,868	204,735	212,305
Life, accident and health benefits	40,547	28,250	115,208	78,238
Interest charges on borrowed money	14,932	12,879	42,878	40,433
Minority interest expense	16,628	16,794	43,795	46,851
Other operating and general expenses	93,816	91,657	254,616	238,882
	945,751	977,338	2,825,081	2,713,715
Earnings before income taxes and extraordinary items	86,053	57,468	261,347	254,460
Provision for income taxes	29,622	23,801	97,464	96,396
Earnings before extraordinary items	56,431	33,667	163,883	158,064
Extraordinary items - loss on prepayment of debt	(36)	(6,973)	(763)	(7,051)
Net Earnings	$ 56,395	$ 26,694	$ 163,120	$ 151,013

Basic earnings (loss) per Common Share:				
Before extraordinary items	$.92	$.57	$2.67	$2.65
Loss on prepayment of debt	-	(.12)	(.01)	(.12)
Net earnings available to Common Shares	$.92	$.45	$2.66	$2.53
Diluted earnings (loss) per Common Share:				
Before extraordinary items	$.91	$.56	$2.63	$2.60
Loss on prepayment of debt	-	(.12)	(.01)	(.12)
Net earnings available to Common Shares	$.91	$.44	$2.62	$2.48
Average number of Common Shares:				
Basic	61,374	58,939	61,278	59,747
Diluted	62,191	60,349	62,315	60,853

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	Comprehensive Income
Balance at January 1, 1998	61,048,904	$836,738	$477,071	$348,900	
Net earnings	-	-	163,120	-	$163,120
Dividends on Common Stock	-	-	(45,960)	-	-
Shares issued:					
Exercise of stock options	296,416	8,288	-	-	-
Dividend reinvestment plan	7,094	294	-	-	-
Employee stock purchase plan	51,323	2,089	-	-	-
401-K plan company match	44,035	1,783	-	-	-
Portion of bonuses paid in stock	20,300	816	-	-	-
Directors fees paid in stock	1,622	68	-	-	-
Shares repurchased	(423,622)	(5,846)	(9,737)	-	-
Capital transactions of subsidiaries	-	(1,470)	-	-	-
Change in unrealized	-	-	-	12,500	12,500
Other	-	66	-	-	-
Balance at September 30, 1998	61,046,072	$842,826	$584,494	$361,400	$175,620
Balance at January 1, 1997	61,071,626	$806,721	$559,716	$188,000	
Net earnings	-	-	151,013	-	$151,013
Dividends on Common Stock	-	-	(44,844)	-	-
Shares issued:					
Exercise of stock options	131,994	2,849	-	-	-
Dividend reinvestment plan	6,651	257	-	-	-
Employee stock purchase plan	50,065	1,942	-	-	-
Portion of bonuses paid in stock	40,500	1,521	-	-	-
Directors fees paid in stock	1,164	45	-	-	-
Shares repurchased	(2,327,943)	(30,774)	(53,452)	-	-
Capital transactions of subsidiaries	-	(1,470)	-	-	-
Change in unrealized	-	-	-	130,200	130,200
Other	-	(449)	-	-	-
Balance at September 30, 1997	58,974,057	$780,642	$612,433	$318,200	$281,213

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

	Nine months ended September 30, 1998	1997
Operating Activities:		
Net earnings	$ 163,120	$ 151,013
Adjustments:		
Extraordinary items	763	7,051
Depreciation and amortization	71,589	51,202
Annuity benefits	204,735	212,144
Equity in net earnings of investee	(26,396)	(18,094)
Changes in reserves on assets	761	(102)
Realized gains on investing activities	(80,357)	(36,102)
Increase in reinsurance and other receivables	(247,348)	(216,610)
Decrease (increase) in other assets	(125,140)	64,850
Increase in insurance claims and reserves	293,264	188,305
Increase (decrease) in other liabilities	121,631	(86,022)
Increase in minority interest	9,196	16,542
Dividends from investee	3,600	3,600
Other, net	(9,792)	(17,590)
	379,626	320,187
Investing Activities:		
Purchases of and additional investments in:		
Fixed maturity investments	(1,682,077)	(1,816,909)
Equity securities	(54,971)	(22,783)
Subsidiaries	(30,325)	(4,900)
Real estate, property and equipment	(49,425)	(35,396)
Maturities and redemptions of fixed maturity investments	1,017,153	535,178
Sales of:		
Fixed maturity investments	544,722	935,942
Equity securities	19,119	85,677
Subsidiaries	164,589	2,500
Real estate, property and equipment	48,634	2,792
Cash and short-term investments of acquired (former) subsidiaries	(19,646)	(70)
Increase in other investments	(9,363)	(4,448)
	(51,590)	(322,417)

Financing Activities:		
Fixed annuity receipts	358,659	369,731
Annuity surrenders, benefits and withdrawals	(538,912)	(439,818)
Additional long-term borrowings	217,537	63,090
Reductions of long-term debt	(159,383)	(110,494)
Issuances of Common Stock	9,725	4,835
Repurchases of Common Stock	(14,702)	(84,226)
Issuances of trust preferred securities	-	149,353
Cash dividends paid	(45,666)	(44,586)
	(172,742)	(92,115)
Net Increase (Decrease) in Cash and Short-term Investments	155,294	(94,345)
Cash and short-term investments at beginning of period	257,117	448,296
Cash and short-term investments at end of period	$ 412,411	$ 353,951

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting Policies

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

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 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.

AFG's ownership of subsidiaries and significant investees with publicly traded common shares was as follows:

	September 30,	December 31,	
	1998	1997	1996
American Annuity Group, Inc. ("AAG")	82%	81%	81%
American Financial Enterprises, Inc. ("AFEI")	-	(*)	83%
Chiquita Brands International, Inc.	37%	39%	43%

(*) Became a 100%-owned subsidiary in December 1997.

Investments Debt securities are classified as "held to maturity" and reported at amortized cost if AFG has the positive intent and ability to hold them to maturity. Debt and equity securities are classified as "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of shareholders' equity if the securities are not classified as held to maturity or bought and held principally for selling in the near term. Only in certain limited circumstances, such as significant issuer credit deterioration or if required by insurance or other regulators, may a company change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future.

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 their expected average lives using the interest method.

Gains or losses on sales of securities are recognized at the time of disposition with the amount of gain or loss 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 and the carrying value of that investment is reduced.

Investment in Investee Corporation Investments in securities of 20%- to 50%-owned companies are generally carried at cost, adjusted for AFG's proportionate share of their undistributed earnings or losses.

Cost in Excess of Net Assets Acquired The excess of cost of subsidiaries and investees over AFG's equity in the underlying net assets ("goodwill") is being amortized over 40 years.

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

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 the agreements covering reinsurance ceded, AFG's insurance subsidiaries would remain liable. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance 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. AFG's insurance subsidiaries also assume reinsurance from other companies. Income on reinsurance assumed is recognized based on reports received from ceding reinsurers.

Deferred Acquisition Costs Policy acquisition costs (principally commissions, premium taxes and other underwriting expenses) related to the production of new business are deferred ("DPAC"). For the property and casualty companies, the deferral of acquisition costs is limited based upon their recoverability without any consideration for anticipated investment income. DPAC is charged against income ratably over the terms of the related policies. For the annuity companies, DPAC is amortized, with interest, in relation to the present value of expected gross profits on the policies.

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 the 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. These liabilities are subject to the impact of changes in claim amounts and frequency and other factors. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. Changes in estimates of the liabilities for losses and loss adjustment expenses are reflected in the Statement of Earnings in the period in which determined.

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 a net level premium method. Computations are based on anticipated investment yield, mortality, morbidity and surrenders and include provisions for unfavorable deviations. Reserves are modified as necessary to reflect actual experience and developing trends.

Assets Held In and Liabilities Related to Separate Accounts Separate account assets and related liabilities represent variable annuity deposits and, in 1997, include deposits maintained by several banks under a previously offered tax-deferred annuity program which was sold as part of the Funeral Services division (see Note B).

Premium Recognition Property and casualty premiums are earned 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. The estimate is accrued during the period in which the related premium is 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.

Minority Interest For balance sheet purposes, minority interest represents the interests of noncontrolling shareholders in AFG subsidiaries, including American Financial Corporation ("AFC") preferred stock and preferred securities issued by trust subsidiaries of AFG. For income statement purposes, minority interest expense represents those shareholders' interest in the earnings of AFG subsidiaries as well as AFC preferred dividends and accrued distributions on the trust preferred securities.

Issuances of Stock by Subsidiaries and Investees Changes in AFG's equity in a subsidiary or an investee caused by issuances of the subsidiary's or investee's stock are accounted for as gains or losses where such issuance is not part of a broader reorganization.

Income Taxes AFC and American Premier Underwriters, Inc. ("American Premier" or "APU") have each filed consolidated federal income tax returns which include all 80%-owned U.S. subsidiaries, except for certain life insurance subsidiaries and their subsidiaries. AFG (parent) was included in American Premier's consolidated return for 1996. At the close of business on December 31, 1996, AFG contributed 81% of the common stock of American Premier to AFC. Accordingly, AFC and American Premier filed a consolidated return for 1997. Because holders of AFC Preferred Stock hold in excess of 20% of AFC's voting rights, AFG (parent) and AFC Holding Company own less than 80% of AFC, and therefore, filed separate returns.

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 Statement of Financial Accounting Standards ("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."

Benefit Plans AFG provides retirement benefits to qualified employees of participating companies through contributory and noncontributory defined contribution plans contained in AFG's Retirement and Savings Plan. Under the retirement portion of the plan, company contributions (approximately 6% of covered compensation in 1997) are invested primarily in securities of AFG and affiliates. Under the savings portion of the plan, AFG matches a specific portion of employee contributions. Contributions to benefit plans are charged against earnings 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.

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.

Start-up Costs Certain costs associated with introducing new products and distribution channels are deferred by AAG and are amortized on a straight-line basis over 5 years. See Management's Discussion and Analysis - "New Accounting Standard to be Implemented."

Earnings Per Share In 1997, AFG implemented SFAS No. 128, "Earnings Per Share". This standard requires the presentation of basic and diluted earnings per share. Basic earnings per share are calculated using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share include the effect of the assumed exercise of dilutive common stock options. Per share amounts for prior periods have been restated to conform to the current presentation.

Comprehensive Income Effective January 1, 1998, AFG implemented SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 uses the term "comprehensive income" to describe the total of net earnings plus other comprehensive income. For AFG, other comprehensive income represents the change in net unrealized gain on marketable securities net of deferred taxes and a reclassification adjustment for gains and losses included in net earnings. Implementation of this statement had no impact on net earnings or shareholders' equity. Prior periods have been restated to conform to the current presentation.

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, 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. Sale of Subsidiaries On September 30, 1998, AAG sold its Funeral Services division for approximately $165 million in cash. AFG realized a pretax gain of $21.6 million, before $2.7 million of minority interest, on this sale.

In September 1998, AFG reached a definitive agreement to sell the majority of its commercial lines division to Ohio Casualty Company for $300 million in cash plus warrants to purchase 3 million shares of Ohio Casualty common stock. The commercial lines being sold generated net written premiums of approximately $215 million and $235 million for the nine months ended September 30, 1998 and 1997, respectively, and $330 million for the year ended December 31, 1997. AFG expects to record a pretax gain in excess of $140 million on this transaction. Completion of the sale, which is expected to occur in the fourth quarter of 1998, is subject to certain conditions, including receipt of regulatory approval.

C. Segments of Operations Following the sale of its Commercial lines division, AFG's property and casualty group will be engaged primarily in private passenger automobile and specialty insurance businesses. AFG's annuity and life business primarily sells tax-deferred annuities to employees of primary and secondary educational institutions and hospitals. In addition, AFG has owned significant portions of the voting equity securities of certain companies (investee corporation - see Note D).

The Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which is required to be implemented by the end of 1998. The implementation of SFAS No. 131 will have no effect on AFG's earnings or its financial position.

The following table (in thousands) shows AFG's revenues by significant business segment. The Personal group consists of the nonstandard auto group along with the preferred/standard private passenger auto and other personal insurance business, formerly included in the Commercial and Personal lines. The Specialty group now includes a highly diversified group of specialty business units (formerly, Specialty lines) plus the commercial business previously included in the Commercial and Personal lines.

	Nine months ended September 30, 1998	1997
Property and casualty insurance:		
Premiums earned:		
Personal	$ 980,288	$1,017,976
Specialty	1,068,854	1,056,531
Other (a)	30,861	27,494
	2,080,003	2,102,001
Investment and other income	376,684	340,608
	2,456,687	2,442,609
Annuities and life (b)	584,834	466,046
Other	18,511	41,426
	3,060,032	2,950,081
Equity in net earnings of investee	26,396	18,094
	$3,086,428	$2,968,175

(a) Includes nonstandard auto group operations in the United Kingdom.
(b) Represents primarily investment income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

D. Investment in Investee Corporation Investment in investee corporation reflects AFG's ownership of 24 million shares of Chiquita common stock. The market value of this investment was $253 million and $391 million at September 30, 1998 and December 31, 1997, respectively. Chiquita is a leading international marketer, producer and distributor of bananas and other quality fresh and processed food products.

Summarized financial information for Chiquita follows (in millions):

	Nine months ended September 30, 1998	1997
Net Sales	$2,095	$1,834
Operating Income	157	134
Net Income	83	56

In November 1998, Chiquita reported that it had incurred significant damage to its operations in Honduras as a result of widespread flooding caused by Hurricane Mitch. Chiquita estimated that its asset write-offs and charges relating to Honduras for its fourth quarter will be in the $50 million range.

E. Long-Term Debt The carrying value of long-term debt consisted of the following (in thousands):

	September 30, 1998	December 31, 1997
Holding Companies:		
AFG 7-1/8% Senior Debentures due December 2007	$100,000	$100,000
AFC notes payable to banks due December 2002	95,000	45,000
AFC 9-3/4% Debentures due April 2004	78,797	79,792
APU 9-3/4% Subordinated Notes due August 1999	89,738	92,127
APU 10-5/8% Subordinated Notes due April 2000	43,108	43,889
APU 10-7/8% Subordinated Notes due May 2011	17,544	17,586
Other	8,402	8,267
	$432,589	$386,661
Subsidiaries:		
AAG 6-7/8% Senior Notes due June 2008	$100,000	$ -
AAG notes payable to banks due in installments to December 2003	57,000	107,000
AAG 11-1/8% Senior Subordinated Notes	-	24,080
Notes payable secured by real estate	37,744	49,525
Other	12,562	13,479
	$207,306	$194,084

At September 30, 1998, sinking fund and other scheduled principal payments on debt for the balance of 1998 and the subsequent five years were as follows (in thousands):

	Holding Companies	Subsidiaries	Total
1998	$ -	$ 472	$ 472
1999	89,030	1,962	90,992
2000	42,042	8,666	50,708
2001	-	1,381	1,381
2002	100,502	1,266	101,768
2003	-	58,294	58,294

Debentures purchased in excess of scheduled payments may be applied to satisfy any sinking fund requirement. The scheduled principal payments shown above assume that debentures previously purchased are applied to the earliest scheduled retirements.

In February 1998, AFC entered into a new unsecured credit agreement with a group of banks under which AFC can borrow up to $300 million through December 2002. Borrowings bear interest at floating rates based on prime or Eurodollar rates.

In January 1998, AAG replaced its existing bank lines with a new $200 million unsecured credit agreement. Loans under the credit agreement mature from 2000 to 2003 and bear interest at floating rates based on prime or Eurodollar rates. In February 1998, AAG borrowed $50 million under the line and retired its 11-1/8% Notes (including $24.3 million principal amount held by AAG and its subsidiaries). In June 1998, AAG sold $100 million principal amount of 6-7/8% Senior Notes due 2008 to the public and used the net proceeds to reduce outstanding indebtedness under the credit agreement.

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

	September 30, 1998	December 31, 1997
Interest of noncontrolling shareholders in subsidiaries' common stock	$128,287	$115,843
Preferred securities issued by subsidiary trusts	325,000	325,000
AFC preferred stock	72,154	72,154
	$525,441	$512,997

Preferred Securities Wholly-owned subsidiary trusts of AFC Holding ("AFCH") and AAG have issued $325 million of preferred securities and, in turn, purchased $325 million of newly authorized AFC Holding and AAG subordinated debt issues which provide interest and principal payments to fund the respective trusts' obligations. The preferred securities are mandatorily redeemable upon maturity or redemption of the subordinated debt.

The preferred securities are summarized as follows:

Date of Issuance	Issue (Maturity Date)	Amount	Optional Redemption Dates
October 1996	AFCH 9-1/8% TOPrS (2026)	$100,000,000	On or after 10/22/2001
November 1996	AAG 9-1/4% TOPrS (2026)	75,000,000	On or after 11/7/2001
March 1997	AAG 8-7/8% Pfd (2027)	75,000,000	On or after 3/1/2007
May 1997	AAG 7-1/4% ROPES (2041)	75,000,000	Prior to 9/28/2000 and after 9/28/2001

AFC Holding and AAG effectively provide unconditional guarantees of their respective trusts' obligations and AFG guarantees AFC Holding's obligation.

AFC Preferred Stock AFC's Preferred Stock was voting, cumulative, and consisted of the following:

Series J, no par value; $25.00 liquidating value per share; annual dividends per share $2.00; redeemable at $25.75 per share beginning December 2005 declining to $25.00 at December 2007; 2,886,161 shares (stated value $72.2 million) outstanding at September 30, 1998 and December 31, 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	Nine months ended September 30, 1998	1997
Interest of noncontrolling shareholders in earnings of subsidiaries	$18,323	$11,680
Accrued distributions by subsidiaries on preferred securities:		
Trust issued securities	21,143	17,558
AFC preferred stock	4,329	17,613
	$43,795	$46,851

G. Shareholders' Equity At September 30, 1998, there were 61,046,072 shares of AFG Common Stock outstanding, including 1,367,981 shares held by American Premier for distribution to certain creditors and other claimants pursuant to a plan of reorganization relating to American Premier's predecessor. 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.

At September 30, 1998, there were 4.7 million shares of AFG Common Stock reserved for issuance upon exercise of stock options. As of that date, AFG had options for 3.8 million shares outstanding. 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. All options expire ten years after the date of grant.

The change in net unrealized gain on marketable securities for the nine months ended September 30 included the following (in millions):

	Pretax	Taxes	Minority Interest	Net
1998				
Unrealized holding gains (losses) on securities arising during the period	$ 67.2	($22.0)	($ 7.0)	$ 38.2
Less reclassification adjustment for realized gains included in net income and unrealized gains of subsidiaries sold	(45.1)	15.8	3.6	(25.7)
Change in net unrealized gain on marketable securities	$ 22.1	($ 6.2)	($ 3.4)	$ 12.5
1997				
Unrealized holding gains (losses) on securities arising during the period	$254.0	($89.0)	($11.6)	$153.4
Less reclassification adjustment for realized gains included in net income	(36.1)	12.6	.3	(23.2)
Change in net unrealized gain on marketable securities	$217.9	($76.4)	($11.3)	$130.2

H. Extraordinary Items Extraordinary items represent AFG's proportionate share of losses related to debt retirements by the following companies. Amounts shown are net of minority interest and income tax benefits (in thousands):

	Nine months ended September 30, 1998	1997
Holding Companies:		
AFC (parent)	($ 51)	($5,357)
APU (parent)	(63)	(444)
Subsidiaries:		
AAG	(649)	(1,250)
	($763)	($7,051)

I. Cash Flows - Fixed Maturity Investments "Investing activities" related to fixed maturity investments in AFG's Statement of Cash Flows consisted of the following (in thousands):

	Held to Maturity	Available For Sale	Total
1998			
Purchases	$ 826	$1,681,251	$1,682,077
Maturities and redemptions	478,860	538,293	1,017,153
Sales	37,903 (*)	506,819	544,722
1997			
Purchases	$ 4,118	$1,812,791	$1,816,909
Maturities and redemptions	268,432	266,746	535,178
Sales	-	935,942	935,942

(*) Sold (at a gain of $.7 million) due to significant deterioration in the issuers' creditworthiness.

J. Commitments and Contingencies Other than as disclosed in "Legal Proceedings" in Part II of AFG's June 30, 1998 Form 10-Q, there have been no significant changes to the matters discussed and referred to in Note N "Commitments and Contingencies" in AFG's Annual Report on Form 10-K for 1997.

ITEM 2

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

GENERAL

AFG and its subsidiaries, AFC Holding, AFC and American Premier, are organized as holding companies with almost all of their operations being conducted by subsidiaries. These parent corporations, however, have continuing cash needs for administrative expenses, the payment of principal and interest on borrowings, shareholder dividends, and taxes. Therefore, certain analyses are best done on a parent only basis while others are best done on a total enterprise basis. In addition, since most of its businesses are financial in nature, AFG does not prepare its consolidated financial statements using a current-noncurrent format. Consequently, certain traditional ratios and financial analysis tests are not meaningful.

Year 2000 Status AFG's Year 2000 Project is a corporate-wide program designed to ensure that its computer systems will function properly in the year 2000. The Project also encompasses communicating with agents, vendors, financial institutions and others with which the companies conduct business to determine their Year 2000 readiness and resulting effects on AFG. AFG's Year 2000 Project is being coordinated by its Year 2000 Project Office which monitors the work being performed by the various business units and reports monthly to the Audit Committee of the Board of Directors and more frequently to senior management.

To address the Year 2000 problem, AFG's operations have been divided into separate systems groups. At September 30, 1998, these groups were in the process of either (i) modifying their software programs or (ii) replacing programs with new software that is Year 2000 compliant. Nearly three-fourths of the groups are "on target" to meet AFG's goal of having program modifications and new software installations substantially completed by the end of 1998, with testing continuing in and through 1999. About one-fourth of the groups are being "closely watched" because there is some risk that critical dates in the project schedule may be missed with a potential for some disruption of normal business operations. One group is considered "critical" at this time since it has significantly missed internal project deadlines. This project has recently been reorganized and staffing levels have been increased. The project is being closely monitored and will be reviewed to determine if it can be upgraded to the "closely watched" category during the fourth quarter of 1998.

Contingency plans have been developed for certain systems deemed most critical to operations. These plans provide a documented order of actions necessary to keep the business functions operating for these systems. Such plans typically include procedures and workflow processes for developing contingent databases. Contingency planning for other systems deemed critical to operations and reasonably likely not to be modified on schedule will begin in the fourth quarter of 1998 and be completed by mid-1999.

Many of the systems being replaced were planned replacements which were merely accelerated due to the Year 2000 problem. In addition, a significant portion of AFG's Year 2000 Project is being completed using internal staff. Therefore, cost estimates for the Year 2000 Project do not entirely represent incremental costs.

From inception in the early 1990s through September 30, 1998, AFG has incurred approximately $32 million in Year 2000 costs, including capitalized costs of $7 million for new systems. During the first nine months of 1998, $17 million in Year 2000 costs have been expensed. AFG estimates that it will incur an additional $30 million of such costs in completing the Project.

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

Projected Year 2000 costs and completion dates are based on management's best estimates. However, there can be no assurance that these estimates will be achieved. Should software modifications and new software installations not be completed on a timely basis, the resulting disruptions could have a material adverse affect on operations.

AFG's operations could also be affected by the inability of third parties such as agents and vendors to become Year 2000 compliant. In addition, AFG's property and casualty insurance subsidiaries are reviewing the potential impact of the Year 2000 issue on insureds as part of their underwriting process. They are also reviewing policy forms, issuing clarifying endorsements where appropriate and examining coverage issues for Year 2000 exposures. While it is possible that Year 2000 claims may emerge in future periods, it is not possible to estimate any such amounts.

A&E Reserves Under the agreement to sell a majority of its Commercial lines division, AFG will retain liabilities for certain asbestos and environmental exposures ("A&E") relating to claims under policies written prior to the mid-1980's. AFG's insurance subsidiaries are in the process of reviewing their A&E reserves and expect this review to be completed before the end of this year. While its A&E reserves at September 30, 1998, were about $350 million, approximately 10 times the preceding three years' average claim payments, AFG expects that the review could indicate estimated ultimate aggregate losses as much as two-thirds greater than that amount. Any additional A&E reserves estimated to be required will be recorded as a special charge upon completion of the review.

Forward-Looking Statements The Private Securities Litigation Reform Act of 1995 encourages corporations to provide investors with information about the company's anticipated performance and provides protection from liability if future results are not the same as management's expectations. This document contains certain forward-looking statements that are based on assumptions which management believes are reasonable, but by their nature, inherently uncertain. Future results could differ materially from those projected. Factors that could cause such differences include, but are not limited to: changes in economic conditions, regulatory actions, level of catastrophe losses, the Year 2000 issue, and competitive pressures. AFG undertakes no obligation to update any forward-looking statements.

LIQUIDITY AND CAPITAL RESOURCES

Ratios AFG's debt to total capital ratio (at the parent holding company level) was approximately 18% at September 30, 1998 and 17% at December 31, 1997. AFG's ratio of earnings to fixed charges (on a total enterprise basis) was 4.20 for the first nine months of 1998 and 3.98 for the entire year of 1997.

Sources of Funds Management believes the parent holding companies have sufficient resources to meet their liquidity requirements through operations in the short-term and long-term future. If funds generated from operations, including dividends and tax payments from subsidiaries, are insufficient to meet fixed charges in any period, these companies would be required to generate cash through borrowings, sales of securities or other assets, or similar transactions.

A new five-year, $300 million bank credit line was established by AFC in February 1998, replacing two subsidiary holding company lines. The new credit line provides ample liquidity and can be used to obtain funds for operating subsidiaries or, if necessary, for the parent companies. At September 30, 1998, there was $95 million borrowed under the credit line.

Dividend payments from subsidiaries have been very important to the liquidity and cash flow of the individual holding companies in the past. However, the reliance on such dividend payments has been lessened by the combination of (i) strong capital at AFG's insurance subsidiaries (and the related decreased likelihood of a need for investment in those companies), (ii) the reduction of debt at the holding companies from historical levels (and the related decrease in ongoing cash needs for interest and principal payments), (iii) AFG's ability to obtain financing in capital markets, as well as (iv) the sales of non-core investments.

Investments Approximately 91% of fixed maturities held by AFG were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies at September 30, 1998. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and non-investment grade. Management believes that the high quality investment portfolio should generate a stable and predictable investment return.

AFG's equity securities are concentrated in a relatively limited number of major positions. This approach allows management to more closely monitor the companies and the industries in which they operate.

RESULTS OF OPERATIONS

General Pretax earnings before extraordinary items for the three months ended September 30, 1998 were $86.1 million compared to $57.5 million for the third quarter of 1997. The earnings improvement for the 1998 quarter reflects an increase in investment income and income from the sale of lease residuals and real estate properties, a decrease in investee losses, a reduction in dividend requirements on a subsidiary's preferred stock and the absence of certain costs and expenses included in the 1997 period.

Pretax earnings before extraordinary items for the nine months ended September 30, 1998 were $261.3 million compared to $254.5 million for the first nine months of 1997. The earnings reflect higher realized gains in addition to those items mentioned above related to the third quarter, partially offset by a deterioration in underwriting results in the property and casualty operations due primarily to severe storms in the midwestern part of the country during the 1998 second quarter and a continuation of the adverse claims environment in the California workers' compensation business.

Property and Casualty Insurance - Underwriting Following the sale of its Commercial Lines division as described in Note B, which is expected to be completed in the fourth quarter of 1998, AFG's property and casualty group will be engaged primarily in private passenger automobile and specialty insurance businesses. Accordingly, AFG has realigned its property and casualty group into two major business groups: Personal and Specialty.

The Personal group consists of the nonstandard auto group along with the preferred/standard private passenger auto and other personal insurance business, formerly included in the Commercial and Personal lines. The nonstandard automobile insurance companies insure risks not typically accepted for standard automobile coverage because of the applicant's driving record, type of vehicle, age or other criteria.

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

The Specialty group includes a highly diversified group of business lines (formerly, Specialty lines) plus the commercial business previously included in the Commercial and Personal lines. Some of the more significant areas are executive liability, inland and ocean marine, U.S.-based operations of Japanese companies, agricultural-related coverages, California workers' compensation, non-profit liability, general aviation coverages, fidelity and surety bonds, and umbrella and excess coverages. Commercial lines businesses to be sold include certain coverages in workers' compensation, commercial multi-peril, umbrella, and commercial automobile.

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 projections is less certain (primarily the various specialty lines 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.

Net written premiums and combined ratios for AFG's property and casualty insurance subsidiaries were as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998	1997
Net Written Premiums (GAAP)				
Personal	$314.3	$329.0	$ 998.0	$1,030.6
Specialty	357.9	397.7	1,039.6	1,090.8
Other	2.1	13.6	17.7	29.4
	$674.3	$740.3	$2,055.3	$2,150.8
Combined Ratios (GAAP)				
Personal	97.3%	98.5%	96.9%	99.1%
Specialty	106.0	103.9	107.5	96.5
Aggregate (including other)	102.8	102.0	104.1	99.8

Personal The Personal group's net written premiums decreased 4% in the third quarter and 3% in the first nine months of the year compared to the same 1997 periods. The decline is due primarily to stronger price competition in the personal automobile market.

Specialty The Specialty group's net written premiums decreased $39.8 million (10%) during the third quarter from the comparable 1997 period due primarily to the initial impact of a reinsurance agreement whereby approximately 30% of AFG's California workers' compensation premiums are being ceded. Also, the Specialty group's writings continue to be affected by intense price competition in the commercial casualty markets. Underwriting results for the third quarter of 1998 continue to be affected by the adverse claims environment in the California workers' compensation business and weak results in the general aviation business.

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

Net written premiums for the first nine months of 1998 decreased $51.2 million (5%) from 1997 due to the workers' compensation reinsurance agreement mentioned above and a decline in commercial multi-peril due to price competition. Underwriting results for the first nine months of 1998 worsened from the comparable periods in 1997 due to (i) losses from the midwestern storms in the second quarter of 1998, (ii) the continuation of the adverse claims environment in the California workers' compensation business, (iii) weak results in the general aviation business and (iv) unusually good results in 1997 in certain other lines.

Life, Accident and Health Premiums and Benefits The increase in life, accident and health premiums and benefits reflects primarily AAG's acquisition of GA Life Assurance Company in December 1997 and increased sales of pre-need life insurance.

Investment Income Investment income increased approximately $4 million (2%) for the third quarter of 1998 and $25.7 million (4%) in the first nine months of 1998 compared to 1997 due primarily to an increase in the average amount of investments held partially offset by decreasing market interest rates.

Investee Corporations Equity in net earnings of investee corporations represents AFG's proportionate share of Chiquita's earnings. Chiquita reported net income (losses) for the third quarter and first nine months of 1998 of ($11 million) and $83 million, respectively, compared to ($28 million) and $56 million for the same periods in 1997.

Realized Gains Realized capital gains have been an important part of the return on investments in marketable securities. Individual securities are sold creating gains and losses as market opportunities exist.

Gains on Sales of Investee and Subsidiaries

Investee Chiquita's public issuance of shares of its common stock in the first and second quarters of 1998 resulted in pretax gains to AFG of $7.7 million and $1.7 million in those periods.

Subsidiaries In the third quarter of 1998, AFG recorded a pretax gain of $21.6 million on AAG's sale of its Funeral Services Division and a charge of $10.5 million relating to operations expected to be sold or otherwise disposed of.

Other Income Other income increased $13.9 million (49%) during the third quarter and $25.5 million (32%) in the first nine months of 1998 compared to 1997 due primarily to income from the sale of operating real estate assets and lease residuals.

Annuity Benefits Annuity benefits reflect interest credited to annuity policyholders' funds accumulated. The majority of AAG's fixed rate annuity products permit AAG to change the crediting rate at any time (subject to minimum interest rate guarantees of 3% or 4% per annum). As a result, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. While management believes the recent interest rate environment has contributed to an increase in annuitizations and surrenders, AAG's persistency rate remains over 87%. A continuation of the current interest rate environment could adversely affect this rate.

Interest on Borrowed Money Interest expense increased $2.1 million (16%) during the third quarter and $2.4 million (6%) during the first nine months of 1998 from the comparable 1997 periods due primarily to an increase in outstanding indebtedness.

New Accounting Standard to be Implemented Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," was issued during the second quarter of 1998. The SOP is effective for fiscal years beginning after December 15, 1998, and requires that costs of start-up activities be expensed as incurred. The SOP requires that unamortized balances of previously deferred costs be expensed no later than the first quarter of 1999 and reported as the cumulative effect of a change in accounting principle. AAG had approximately $8 million in capitalized start-up costs at September 30, 1998.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be implemented for fiscal years beginning after June 15, 1999. Management does not anticipate that implementation of the new statement will have a significant effect on AFG's earnings or its financial position.

PART II
OTHER INFORMATION

Item 6

Exhibits and Reports on Form 8-K

(a) Exhibit 27.1 - Financial Data Schedule as of September 30, 1998.
For submission in electronic filing only.

(b) Reports on Form 8-K:

Date of Report	Item Reported
September 21, 1998	Agreement to sell Commercial Lines Division

Signature

Pursuant to the requirements 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.

November 12, 1998

BY: Fred J. Runk
Fred J. Runk
Senior Vice President and Treasurer

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This schedule contains summary financial information extracted from American Financial Group, Inc. 10-Q for the nine months ended September 30, 1998 and is qualified in its entirety by reference to such financial statements.

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9-MOS
DEC-31-1998
SEP-30-1998
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254,616
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42,878
261,347
97,464
163,883
0
(763)
0
$163,120
2.66
2.62

Includes an investment in investee corporation of $233 million.