SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 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

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

Title of Each Class	Name of Each Exchange on which Registered
American Financial Group, Inc.: Common Stock	New York Stock Exchange
American Financial Capital Trust I (Guaranteed by Registrant): 9-1/8% Trust Originated Preferred Securities	New York Stock Exchange

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

Other securities for which reports are submitted pursuant to Section 15(d) of the Act:
7-1/8% Senior Debentures due December 15, 2007

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

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

As of March 1, 1999, there were 60,978,493 shares of the Registrant's Common Stock outstanding, excluding 18,666,614 shares owned by subsidiaries. The aggregate market value of the Common Stock held by nonaffiliates at that date, was approximately $1.3 billion (based upon nonaffiliate holdings of 35,034,730 shares and a market price of $36.9375 per share.)

Documents Incorporated by Reference:

Proxy Statement for the 1999 Annual Meeting of Shareholders (portions of which are incorporated by reference into Part III hereof).

AMERICAN FINANCIAL GROUP, INC.

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(a) The response to this Item is "none".
(b) The response to this Item is included in Item 7.

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, chiefly in Items 1, 3, 5, 7 and 8, 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 especially with regard to availability of and returns on capital, regulatory actions, changes in legal environment, levels of catastrophe and other major losses, availability of reinsurance, the Year 2000 issue, and competitive pressures. AFG undertakes no obligation to update any forward-looking statements.

PART I

ITEM 1

Business

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

Introduction

American Financial Group, Inc. ("AFG") is a holding company which, through its subsidiaries, is engaged primarily in private passenger automobile and specialty property and casualty insurance businesses and in the sale of tax-deferred annuities and certain life and supplemental health insurance products. AFG's property and casualty operations originated in the 1800's and is one of the twenty five largest property and casualty groups in the United States based on statutory net premiums written. AFG was incorporated as an Ohio corporation in July 1997. Its address is One East Fourth Street, Cincinnati, Ohio 45202; its phone number is (513) 579-2121.

In December 1997, AFG completed several transactions in furtherance of a plan to reduce corporate expenses and simplify the public company structure of certain subsidiaries (the "AFG Reorganization"). No material change in AFG's financial condition or in the rights of AFG securityholders occurred as a result.

AFG's predecessor had been formed in 1994 for the purpose of acquiring American Financial Corporation ("AFC") and American Premier Underwriters, Inc. ("American Premier" or "APU") in merger transactions completed in April 1995 (the "Mergers"). For financial reporting purposes, because the former shareholders of AFC owned more than 50% of AFG following the Mergers, the financial statements of AFG for periods prior to the Mergers are those of AFC. The operations of APU are included in AFG's financial statements from the effective date of the Mergers.

At December 31, 1998, Carl H. Lindner, members of his immediate family and trusts for their benefit (collectively the "Lindner Family") beneficially owned approximately 44% of AFG's outstanding voting common stock.

General

Generally, companies have been included in AFG's consolidated financial statements when the ownership of voting securities has exceeded 50%; for investments below that level but above 20%, AFG has accounted for the investments as investees. (See Note E to AFG's financial statements.) The following table shows AFG's percentage ownership of voting securities of its significant affiliates over the past several years:

	Voting Ownership at December 31,				
	1998	1997	1996	1995	1994
American Financial Corporation	79%	79%	76%	79%	n/a
American Premier Underwriters	100%	100%	100%	100%	42%
Great American Insurance Group	100%	100%	100%	100%	100%
American Annuity Group	82%	81%	81%	81%	80%
American Financial Enterprises	100%	100%	83%	83%	83%
Chiquita Brands International	37%	39%	43%	44%	46%
Citicasters	-	-	(a)	38%	37%

(a) Sold in September 1996.

The following summarizes the more significant changes in ownership percentages shown in the above table.

American Financial Corporation In April 1995, AFC became a subsidiary of AFG as a result of the Mergers. For financial reporting purposes, AFC is the predecessor to AFG. In the Mergers, holders of AFC preferred stock were granted voting rights equal to approximately 21% of the voting power of all AFC shareholders.

American Premier Underwriters In April 1995, APU became a subsidiary of AFG as a result of the Mergers.

American Financial Enterprises In December 1997, AFEI became a wholly-owned subsidiary of AFG as a result of a transaction whereby AFG purchased all publicly-held shares of AFEI for cash and AFG Common Stock.

Chiquita Brands International During the second half of 1997 and the first half of 1998, Chiquita issued an aggregate of 4.6 million shares and 4.0 million shares of its common stock, respectively, in connection with the purchase of new businesses.

Citicasters In 1996, the investment in Citicasters was sold to an unaffiliated company.

Property and Casualty Insurance Operations

Prior to agreeing in September 1998 to sell substantially all of its Commercial lines division to the Ohio Casualty Corporation, AFG managed and operated its property and casualty business in three major business segments: Nonstandard Automobile Insurance, Specialty lines and Commercial and Personal lines. Following the sale of its Commercial lines division, AFG's property and casualty group is 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. Each group reports to an individual senior executive and is comprised of multiple business units which operate autonomously but with strong central financial controls and full accountability. Decentralized control allows each unit the autonomy necessary to respond to local and specialty market conditions while capitalizing on the efficiencies of centralized investment, actuarial, financial and legal support functions. AFG's property and casualty insurance operations employ approximately 7,600 persons.

In December 1998, AFG completed the sale of the Commercial lines division for approximately $300 million plus warrants to purchase 3 million shares of Ohio Casualty common stock. AFG may receive up to an additional $40 million in the year 2000 based upon the retention and growth of the insurance businesses acquired by Ohio Casualty. The commercial lines sold generated net written premiums of approximately $250 million in 1998 prior to the sale, $315 million in 1997 and $314 million in 1996.

In January 1999, AFG agreed to acquire Worldwide Insurance Company (formerly, Providian Auto and Home Insurance Company), from AEGON Insurance Group for approximately $160 million. Worldwide is a provider of direct response private passenger automobile insurance and is licensed in 45 states. The acquisition will provide AFG with a significant new distribution channel for its private passenger auto insurance business and a variety of other insurance products. In 1998, Worldwide generated net written premiums of approximately $121 million. Completion of the transaction is expected to occur in the first half of 1999.

AFG operates in a highly competitive industry that is affected by many factors which can cause significant fluctuations in their results of operations. The property and casualty insurance industry has historically been subject to pricing cycles characterized by periods of intense competition and lower premium rates (a "downcycle") followed by periods of reduced competition, reduced underwriting capacity due to lower policyholders' surplus and higher premium rates (an "upcycle"). The property and casualty insurance industry is currently in an extended downcycle, which has lasted nearly a decade.

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

Management's focus on underwriting performance has resulted in a statutory combined ratio averaging 103.5% for the period 1994 to 1998, as compared to 105.5% for the property and casualty industry over the same period (Source: "Best's Review/Preview - Property/Casualty" - January 1999 Edition). AFG believes that its product line diversification and underwriting discipline have contributed to the Company's ability to consistently outperform the industry's underwriting results. Management's philosophy is to refrain from writing business that is not expected to produce an underwriting profit even if it is necessary to limit premium growth to do so.

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

Unless indicated otherwise, the financial information presented for the property and casualty insurance operations herein is presented based on GAAP and includes for all periods (i) the insurance operations of AFC and American Premier and (ii) the commercial lines businesses sold up to the sale date.

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

	1998	1997	1996
Statutory Basis			
Premiums Earned	$ 2,657	$2,802	$2,821
Admitted Assets	6,463	6,983	6,603
Unearned Premiums	914	1,133	1,104
Loss and LAE Reserves	3,702	3,475	3,397
Capital and Surplus	1,840	1,916	1,659
GAAP Basis			
Premiums Earned	$ 2,699	$2,824	$2,845
Total Assets	10,053	9,212	8,623
Unearned Premiums	1,233	1,329	1,248
Loss and LAE Reserves	4,773	4,225	4,124
Shareholder's Equity	3,174	3,019	2,695

The following table shows the size (in millions), segment and A.M. Best rating of AFG's major property and casualty insurance subsidiaries. AFG continues to focus on growth opportunities in what it believes to be more profitable specialty and private passenger auto businesses which represented the bulk of 1998 net written premiums.

Company (A.M. Best Rating)	Net Written Premiums Personal	Specialty
Great American (A)	$ 167	$ 995(*)
Republic Indemnity (A)	-	162
Mid-Continent (A)	-	108
National Interstate (A-)	-	30
American Empire Surplus Lines (A+)	-	17
Atlanta Casualty (A)	348	-
Infinity (A)	314	-
Windsor (A)	313	-
Leader (A-)	137	-
	$1,279	$1,312

(*) Includes $250 million in premiums written by Great American's Commercial lines division which was sold in 1998.

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

	1998	1997	1996
Net written premiums	$2,609(a)	$2,858	$2,788
Net earned premiums	$2,699	$2,824	$2,845
Loss and LAE	2,001	2,076	2,052
Special A&E charge	214	-	80
Underwriting expenses	764	783	780
Policyholder dividends	9	7	14
Underwriting loss	($ 289)	($ 42)	($ 81)
GAAP ratios:			
Loss and LAE ratio	82.1%	73.5%	75.0%
Underwriting expense ratio	28.3	27.7	27.4
Policyholder dividend ratio	.3	.2	.5
Combined ratio (b)	110.7%	101.4%	102.9%
Statutory ratios:			
Loss and LAE ratio	82.7%	73.4%	74.8%
Underwriting expense ratio	27.9	27.3	27.2
Policyholder dividend ratio	.5	.7	.4
Combined ratio (b)	111.1%	101.4%	102.4%
Industry statutory combined ratio (c)	105.0%	101.6%	105.8%

(a) Before a reduction of $138 million for unearned premium transfer related to the sale of the Commercial lines division.
(b) The 1998 combined ratios include effects of the strengthening of insurance reserves relating to asbestos and other environmental matters ("A&E") of 7.9 percentage points (GAAP) and 8.0 percentage points (statutory); the 1996 combined ratios include A&E increases of 2.8 percentage points.
(c) Ratios are derived from "Best's Review/Preview - Property/Casualty" (January 1999 Edition).

As with other property and casualty insurers, AFG's operating results can be adversely affected by unpredictable catastrophe losses. Certain natural disasters (hurricanes, tornadoes, floods, forest fires, etc.) and other incidents of major loss (explosions, civil disorder, fires, etc.) are classified as catastrophes by industry associations. Losses from these incidents are usually tracked separately from other business of insurers because of their sizable effects on overall operations. AFG generally seeks to reduce its exposure to such events through individual risk selection and the purchase of reinsurance. Major catastrophes in recent years included midwestern hailstorms and tornadoes and Hurricanes Bonnie and Georges in 1998 and Hurricane Fran in 1996. Total net losses to AFG's insurance operations from catastrophes were $60 million in 1998; $20 million in 1997; and $85 million in 1996. These amounts are included in the tables herein.

Personal

General The Personal group consists of the nonstandard auto group along with the preferred/standard private passenger auto and other personal insurance business.

The nonstandard automobile insurance companies underwrite primarily private passenger automobile liability and physical damage insurance policies for "nonstandard" risks. Nonstandard insureds are those individuals who are unable to obtain insurance through standard market carriers due to factors such as age, record of prior accidents, driving violations, particular occupation or type of vehicle. Premium rates for nonstandard risks are generally higher than for standard risks. Total private passenger automobile insurance net premiums written by insurance carriers in the United States in 1998 have been estimated by A.M. Best to be approximately $120 billion. Because it can be viewed as a residual market, the size of the nonstandard private passenger automobile insurance market changes with the insurance environment and grows when standard coverage becomes more restrictive. When this occurs, the criteria which differentiate standard from nonstandard insurance risks change. The size of the voluntary nonstandard market is also affected by rate levels adopted by state administered involuntary plans. According to A.M. Best, the voluntary nonstandard market has accounted for about one-sixth of total private passenger automobile insurance premiums written in recent years.

Other personal insurance business consists primarily of preferred/standard private passenger automobile and homeowners' insurance. AFG's approach is to develop tailored rates for its personal automobile customers based on a variety of factors, including the driving record of the insureds. The approach to homeowners business is to limit exposure in locations which have significant catastrophic potential (such as windstorms, earthquakes and hurricanes). During 1998, AFG had a reinsurance agreement under which 90% of its homeowners' business was reinsured.

The Personal group writes business in 48 states and holds licenses to write policies in all states and the District of Columbia. The U.S. geographic distribution of the Personal group's statutory direct written premiums in 1998 compared to 1994, was as follows:

	1998	1994		1998	1994
California	14.8%	2.5%	Tennessee	* %	4.8%
Georgia	10.1	9.3	Indiana	*	3.3
Connecticut	10.0	7.6	Alabama	*	3.3
Florida	9.4	9.7	Ohio	*	2.8
New York	6.2	*	Mississippi	*	2.8
Pennsylvania	5.5	4.8	Oklahoma	*	2.7
Texas	5.0	11.5	Washington	*	2.5
New Jersey	3.3	2.2	Kentucky	*	2.0
North Carolina	2.8	3.0	Virginia	*	2.0
Arizona	2.6	4.9	Utah	*	2.0
Missouri	2.0	2.4	Other	28.3	13.9
				100.0%	100.0%

(*) less than 2%

Management believes that the Personal group's underwriting success has been due, in part, to the refinement of various risk profiles, thereby dividing the consumer market into more defined segments which can be underwritten or priced properly. The Personal group generally writes policies of short duration which allow more frequent rating evaluations of individual risks, providing management greater flexibility in the ongoing assessment of the business. In addition, the Personal group has implemented cost control measures both in the underwriting and claims handling areas.

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

	1998	1997	1996
Net written premiums	$1,279	$1,345	$1,384
Net earned premiums	$1,290	$1,357	$1,448
Loss and LAE	958	1,019	1,146
Underwriting expenses	298	318	358
Policyholder dividends	-	(1)	-
Underwriting profit (loss)	$ 34	$ 21	($ 56)
GAAP ratios:			
Loss and LAE ratio	74.2%	75.1%	79.1%
Underwriting expense ratio	23.1	23.5	24.8
Policyholder dividend ratio	-	(.1)	-
Combined ratio	97.3%	98.5%	103.9%
Statutory ratios:			
Loss and LAE ratio	74.3%	75.2%	79.1%
Underwriting expense ratio	22.4	22.9	24.5
Combined ratio	96.7%	98.1%	103.6%
Industry statutory combined ratio (a)	103.5%	100.1%	103.6%

(a) Represents the personal lines industry statutory combined ratio derived from "Best's Review/Preview - Property/Casualty" (January 1999 Edition).

Marketing Each of the principal units in the Personal group is responsible for its own marketing, sales, underwriting and claims processing. These units each write policies primarily through several thousand independent agents. The 1999 acquisition of Worldwide will also enable AFG to sell its products through direct marketing channels.

The Personal group had approximately 1.1 million policies in force at December 31, 1998, just under 80% of which had policy limits of $50,000 or less per occurrence. Most Personal group policies are written for policy periods of six months or less.

Competition A large number of national, regional and local insurers write private passenger automobile and homeowners' insurance coverage. Insurers in this market generally compete on the basis of price (including differentiation on liability limits, variety of coverages offered and deductibles), geographic presence and ease of enrollment and, to a lesser extent, reputation for claims handling, financial stability and customer service. Management believes that sophisticated data analysis for refinement of risk profiles has helped the Personal group to compete successfully. The Personal group attempts to provide selected pricing for a wider spectrum of risks and with a greater variety of payment options, deductibles and limits of liability than are offered by many of its competitors.

Specialty

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

Executive Liability	Markets liability coverage for attorneys and for directors and officers of businesses and nonprofit organizations.
Inland and Ocean Marine	Provides coverage primarily for marine cargo, boat dealers, marina operators/dealers, excursion vessels, builder's risk, contractor's equipment, excess property and transportation cargo.
Japanese division	Provides coverage primarily for workers' compensation, commercial auto, umbrella, and general liability of Japanese businesses operating in the U.S.
Agricultural-related (allied lines)	Provides multi-peril crop insurance covering weather and disease perils as well as coverage for full-time operating farms/ranches and agribusiness operations on a nationwide basis.
Workers' Compensation	Writes coverage for prescribed benefits payable to employees (principally in California) who are injured on the job.
Nonprofit Liability	Provides property, general/professional liability, automobile, trustee liability, umbrella and crime coverage for a wide range of nonprofit organizations.
General Aviation	Provides coverage for corporate and private aircraft and airports.
Fidelity and Surety Bonds	Provides surety coverage for various types of contractors and public and private corporations and fidelity and crime coverage for government, mercantile and financial institutions. Also, provides export credit coverage and insurance and risk management programs for lending and leasing institutions.
Umbrella and Excess	Provides large capacity coverage in excess of primary layers.

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

The commercial business sold included certain coverages in workers' compensation, commercial multi-peril, umbrella (including primary and excess layers) and commercial auto.

The U.S. geographic distribution of the Specialty group statutory direct written premiums in 1998 (adjusted for the sale of the Commercial lines division) compared to 1994 is shown below.

	1998	1994		1998	1994
California	27.4%	35.1%	Ohio	2.3%	2.2%
Texas	8.4	4.1	New Jersey	2.1	3.8
New York	6.0	8.2	Pennsylvania	2.1	2.7
Massachusetts	4.6	3.4	Michigan	*	3.1
Florida	4.6	2.8	North Carolina	*	3.0
Illinois	4.0	3.2	Connecticut	*	2.4
Oklahoma	3.7	2.9	Other	34.8	23.1
				100.0%	100.0%

(*) less than 2%

The following table sets forth a distribution of statutory net written premiums for AFG's Specialty group by NAIC annual statement line for 1998 (adjusted for the sale of the Commercial lines division) compared to 1994.

	1998	1994
Other liability	22.2%	15.8%
Workers' compensation	17.6	38.5
Inland marine	12.4	5.3
Auto liability	8.7	7.4
Commercial multi-peril	6.4	12.1
Allied lines	5.8	4.5
Fidelity and surety	5.7	2.0
General aviation	5.0	-
Auto physical damage	4.7	5.2
Ocean marine	4.0	3.1
Other	7.5	6.1
	100.0%	100.0%

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

	1998	1997	1996
Net written premiums	$1,312(a)	$1,468	$1,367
Net earned premiums	$1,372	$1,429	$1,356
Loss and LAE	979	967	781
Underwriting expenses	451	454	406
Policyholder dividends	9	8	14
Underwriting profit (loss)	($ 67)	$ -	$ 155
GAAP ratios:			
Loss and LAE ratio	71.4%	67.6%	57.5%
Underwriting expense ratio	32.9	31.8	29.9
Policyholder dividend ratio	.7	.6	1.0
Combined ratio (b)	105.0%	100.0%	88.4%

Statutory ratios:			
Loss and LAE ratio	72.1%	67.6%	57.8%
Underwriting expense ratio	34.1	31.5	30.2
Policyholder dividend ratio	1.0	1.4	.9
Combined ratio (b)	107.2%	100.5%	88.9%
Industry statutory combined ratio (c)	107.2%	103.7%	108.9%

(a) Before a reduction of $138 million for unearned premium transfer related to the sale of the Commercial lines division.
(b) The 1996 combined ratios reflect a reduction of 3.0 percentage points attributable to a reallocation of loss reserves in connection with the strengthening of A&E reserves.
(c) Represents the commercial industry statutory combined ratio derived from "Best's Review/Preview - Property/Casualty" (January 1999 Edition).

Marketing The Specialty group operations direct their sales efforts primarily through independent property and casualty insurance agents and brokers, although portions are written through employee agents. These businesses write insurance through several thousand agents and brokers and have approximately 350,000 policies in force.

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

Reinsurance

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

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

In order to limit the maximum loss arising out of any one occurrence, AFG's insurance companies reinsure a portion of their exposure under treaty and facultative reinsurance programs. The following table presents (by type of coverage) the amount of each loss above the specified retention maximum generally covered by treaty reinsurance programs (in millions):

Coverage	Retention Maximum	Reinsurance Coverage(a)
California Workers' Compensation	(b)	$150.0(c)
Other Workers' Compensation	$ 1.0	49.0
Commercial Umbrella	1.0	49.0
Other Casualty	5.0	15.0
Property - General	5.0	25.0(d)
Property - Catastrophe	10.0	90.0

(a) Reinsurance covers substantial portions of losses in excess of retention.
(b) Less than $30,000.
(c) In 1998, AFG ceded 30% of its California workers' compensation business through a reinsurance agreement.
(d) In 1998 and 1997, AFG ceded 90% and 80% of its homeowners insurance coverage through a reinsurance agreement, respectively.

AFG purchases facultative reinsurance providing coverage on a risk by risk basis, both pro rata and excess of loss, depending on the risk and available reinsurance markets. Due in part to the limited exposure on individual policies, the nonstandard auto group is not materially involved in reinsuring risks with third party insurance companies.

Included in the balance sheet caption "recoverables from reinsurers and prepaid reinsurance premiums" were approximately $150 million on paid losses and LAE and $1.5 billion on unpaid losses and LAE at December 31, 1998. The collectibility of a reinsurance balance is based upon the financial condition of a reinsurer as well as

individual claim considerations. Market conditions over the past few years have forced many reinsurers into financial difficulties or liquidation proceedings. At December 31, 1998, AFG's insurance subsidiaries had allowances of approximately $92 million for doubtful collection of reinsurance recoverables, most of which related to unpaid losses. AFG regularly monitors the financial strength of its reinsurers. This process periodically results in the transfer of risks to more financially secure reinsurers. Substantially all reinsurance is ceded to reinsurers having more than $100 million in capital and A.M. Best ratings of "A-" or better. AFG's major reinsurers include Reliance Insurance Company, Mitsui Marine and Fire Insurance Company, American Re-Insurance Company, Employers Reinsurance Corporation, NAC Reinsurance Corporation, Transatlantic Reinsurance Company, Vesta Fire Insurance Corporation and Zurich Reinsurance North America, Inc. These companies have assumed nearly half of AFG's ceded reinsurance.

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

	1998	1997	1996
Reinsurance ceded	$788(*)	$614	$518
Reinsurance assumed - including involuntary pools and associations	37	89	58

(*) Includes approximately $170 million of premiums written by the Commercial lines division that were ceded to Ohio Casualty.

Loss and Loss Adjustment Expense Reserves

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

Future costs of claims are projected based on historical trends adjusted for changes in underwriting standards, policy provisions, product mix and other factors. Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors which are subject to significant variation. Through the use of analytical reserve development techniques, management monitors items such as the effect of inflation on medical, hospitalization, material, repair and replacement costs, general economic trends and the legal environment. Although management believes that the reserves currently established reflect a reasonable provision for the ultimate cost of all losses and claims, actual development may vary materially.

AFG recognizes underwriting profit only when realization is reasonably determinable and assured. In certain specialty businesses, where experience is limited or where there is potential for volatile results, AFG holds reasonable "incurred but not reported" reserves and does not recognize underwriting profit until the experience matures.

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

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

The following table presents the development of AFG's liability for losses and LAE, net of reinsurance, on a GAAP basis for the last ten years, excluding reserves of American Premier subsidiaries prior to the Mergers. The top line of the table shows the estimated liability (in millions) for unpaid losses and LAE recorded at the balance sheet date for the indicated years. The second line shows the re-estimated liability as of December 31, 1998. The remainder of the table presents development as percentages of the estimated liability. The development results from additional information and experience in subsequent years. The middle line shows a cumulative deficiency (redundancy) which represents the aggregate percentage increase (decrease) in the liability initially estimated. The lower portion of the table indicates the cumulative amounts paid as of successive periods as a percentage of the original loss reserve liability.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Liability for unpaid losses and loss adjustment expenses:											
As originally estimated	$2,209	$2,246	$2,137	$2,129	$2,123	$2,113	$2,187	$3,393	$3,404	$3,489	$3,305
As re-estimated at December 31, 1998	2,717	2,771	2,583	2,489	2,412	2,317	2,393	3,526	3,604	3,644	N/A
Liability re-estimated (*):											
One year later	99.8%	100.4%	98.6%	99.3%	99.9%	98.1%	95.9%	98.7%	100.9%	104.5%	
Two years later	100.0%	99.3%	97.7%	98.7%	98.2%	94.1%	99.3%	98.5%	105.9%		
Three years later	99.7%	98.4%	97.4%	98.0%	95.2%	97.4%	99.9%	103.9%			
Four years later	98.7%	98.2%	99.2%	97.3%	100.3%	98.9%	109.4%				
Five years later	99.1%	101.1%	100.0%	103.0%	102.6%	109.7%					
Six years later	103.0%	102.7%	106.3%	105.6%	113.6%						
Seven years later	104.7%	109.2%	109.4%	116.9%							
Eight years later	111.4%	112.2%	120.9%								
Nine years later	114.5%	123.4%									
Ten years later	123.0%										
Cumulative deficiency (redundancy)	23.0%	23.4%	20.9%	16.9%	13.6%	9.7%	9.4%	3.9%	5.9%	4.5%	N/A
Cumulative paid as of:											
One year later	29.4%	32.3%	26.1%	26.4%	26.7%	25.2%	26.8%	33.1%	33.8%	41.7%	
Two years later	48.6%	48.2%	43.2%	43.0%	43.7%	40.6%	42.5%	51.6%	58.0%		
Three years later	59.8%	59.2%	55.3%	55.4%	54.2%	50.9%	54.4%	67.2%			
Four years later	67.9%	67.6%	64.8%	63.3%	60.8%	59.1%	66.3%				
Five years later	74.0%	74.3%	71.1%	67.8%	67.0%	68.0%					
Six years later	79.5%	78.8%	74.5%	72.7%	74.0%						
Seven years later	83.2%	81.2%	78.6%	78.6%							
Eight years later	85.2%	84.8%	83.9%								
Nine years later	88.5%	89.0%									
Ten years later	89.9%										

(*) Reflects significant A&E charges and reallocations in 1994, 1996 and 1998 for prior years losses. Excluding these items, the re-estimated liability shown above would decrease ranging from approximately 17 percentage points in 1988 to 6 percentage points in 1997.

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

	1993	1994	1995	1996	1997	1998
As originally estimated:						
Net liability shown above	$2,113	$2,187	$3,393	$3,404	$3,489	$3,305
Add reinsurance recoverables	611	730	704	720	736	1,468
Gross liability	$2,724	$2,917	$4,097	$4,124	$4,225	$4,773
As re-estimated at December 31, 1998:						
Net liability shown above	$2,317	$2,393	$3,526	$3,604	$3,644	
Add reinsurance recoverables	928	919	993	996	1,065	
Gross liability	$3,245	$3,312	$4,519	$4,600	$4,709	N/A
Gross cumulative deficiency (redundancy)	19.0%	13.6%	10.3%	11.5%	11.5%	N/A

The following table presents certain data from the table above, adjusted to include reserves of American Premier's subsidiaries for periods subsequent to their entry into the insurance business in 1989 and prior to the Mergers in 1995.

	1989	1990	1991	1992	1993	1994
Liability for unpaid losses and loss adjustment expenses:						
As originally estimated	$2,616	$2,739	$2,793	$2,886	$3,029	$3,267
As re-estimated at December 31, 1998	3,083	3,121	3,092	3,062	3,103	3,378
Cumulative deficiency (redundancy)	17.9%	14.0%	10.7%	6.1%	2.4%	3.4%
Reconciliation of net liability to gross liability:						
As originally estimated:						
Net liability shown above					$3,029	$3,267
Add reinsurance recoverables					617	742
Gross liability					$3,646	$4,009
As re-estimated at December 31, 1998:						
Net liability shown above					$3,103	$3,378
Add reinsurance recoverables					970	953
Gross liability					$4,073	$4,331
Gross cumulative deficiency (redundancy)					11.7%	8.0%

These tables do not present accident or policy year development data. Furthermore, in evaluating the re-estimated liability and cumulative deficiency (redundancy), it should be noted that each percentage includes the effects of changes in amounts for prior periods. For example, AFG's $214 million special charge for A&E claims related to losses recorded in 1998, but incurred before 1988, is included in the re-estimated liability and cumulative deficiency (redundancy) percentage for each of the previous years shown. Conditions and trends that have affected development of the liability in the past may not necessarily exist in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

The adverse development in the tables is due primarily to A&E exposures for which AFG has been held liable under general liability policies written years ago where environmental coverage was not intended. Other factors affecting development included higher than projected inflation on medical, hospitalization, material, repair and replacement costs. Additionally, changes in the legal environment have influenced the development patterns over the past ten years. For example, changes in the California workers' compensation law in 1993 and subsequent court decisions, primarily in late 1996, greatly limited the ability of insurers to challenge medical assessments and treatments. These limitations, together with changes in work force characteristics and medical delivery costs, are contributing to an increase in claims severity. Two changes influencing development patterns in the 1980s were the trend towards an adverse litigious climate and the change from contributory to comparative negligence.

The differences between the liability for losses and LAE reported in the annual statements filed with the state insurance departments in accordance with statutory accounting principles ("SAP") and that reported in the accompanying consolidated financial statements in accordance with GAAP at December 31, 1998, are as follows (in millions):

Liability reported on a SAP basis, net of $511 million of retroactive reinsurance	$3,191
Additional discounting of GAAP reserves in excess of the statutory limitation for SAP reserves	(7)
Reserves of foreign operations	45
Estimated salvage and subrogation recoveries based on a cash basis for SAP and on an accrual basis for GAAP	(1)
Reinsurance recoverables, net of allowance	1,468
Reclassification of allowance for uncollectible reinsurance	77
Liability reported on a GAAP basis	$4,773

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

Establishing reserves for A&E claims is subject to uncertainties that are greater than those presented by other types of claims. Factors contributing to those uncertainties include a lack of sufficiently detailed historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, and the extent and timing of any such contractual liability. Courts have reached different and sometimes inconsistent conclusions as to when a loss is deemed to have occurred, what policies provide coverage, what claims are covered, whether there is an insured obligation to defend, how policy limits are determined and other policy provisions. Management believes these issues are not likely to be resolved in the near future.

Significant industrywide information concerning A&E reserves first became broadly available in mid-1996 following the publication of new data relating to that subject in the 1995 Annual Statements of insurance companies. During 1995 and 1996, a number of insurers recorded large reserve increases for A&E exposures. During this time, the industry's survival ratio (reserves divided by annual paid losses) was used as a benchmark for reserving such claims. The following table compares AFG's three-year survival ratio for A&E claims with that of the industry.

	December 31,				
Survival Ratio:	1998	1997	1996	1995	1994
AFG	19.5	10.0	10.5	6.5	7.0
Industry (a)	N/A	8.9	9.0	9.4	7.8

(a) Source: "BestWeek - Property and Casualty Supplement" (September 21, 1998 Edition); 1998 is not available; the impact of an extraordinary case payment made in 1996 is excluded from industry ratios.

Industry actions and statistics in 1995 caused AFG to re-evaluate its position in relation to its peers as part of the continuing process of obtaining additional information and revising accounting estimates. This process led management to conclude in 1996 that the A&E reserves should be increased sufficiently to bring AFG's three-year survival ratio in line with those of the top 50 companies. In the third quarter of 1996, AFG recorded a noncash, pretax charge of $80 million and reallocated $40 million in reserves from its Specialty group.

As part of the continuing process of monitoring appropriate reserve needs and prompted by the retention of certain A&E exposures under the agreement covering the sale of its Commercial lines division, AFG began a thorough study of its A&E exposures in 1998. Based on this study and observations of industry trends in this regard, AFG decided that the survival ratio may not be the best basis for measuring ultimate A&E exposures. AFG's study was reviewed by independent actuaries who used state of the art actuarial techniques that have wide acceptance in the industry. AFG recorded a fourth quarter charge of $214 million in 1998 to increase A&E reserves to its best estimate of the ultimate liability.

The following table (in millions) is a progression of A&E reserves. During the review of A&E exposures in 1998, $13.8 million in reserves recorded prior to 1998 and not identified as A&E were determined to be A&E reserves. In addition, the allowance for uncollectible reinsurance applicable to ceded A&E reserves was not reflected in the following table prior to 1998.

	1998	1997	1996
Reserves at beginning of year	$347.9	$343.4	$225.7
Incurred losses and LAE (a)	247.5	43.2	149.0
Paid losses and LAE	(26.1)	(38.7)	(31.3)
Reserves transferred with sale of Commercial lines	(11.4)	-	-
Reserves not classified as A&E prior to 1998:			
Reserves	13.8	-	-
Allowance for uncollectable reinsurance applicable to ceded A&E reserves	53.7	-	-
Reserves at end of year, net of reinsurance recoverable	625.4	347.9	343.4
Reinsurance recoverable, net of allowance in 1998	240.7	173.2	162.7
Gross reserves at end of year	$866.1	$521.1	$506.1

(a) Includes (i) special charges of $214 million in 1998 and $80 million in 1996 and (ii) a reallocation in 1996 of $40 million in reserves from its Specialty group.

Since the mid-1980's, AFG has also written certain environmental coverages (asbestos abatement and underground storage tank liability) in which the premium charged is intended to provide coverage for the specific environmental exposures inherent in these policies. The business has been profitable since its inception. To date, approximately $182 million of premiums has been written, $20 million in losses and LAE have been paid and reserves for unpaid losses and LAE aggregated $30 million at December 31, 1998 (not included in the above table).

Annuity and Life Operations

General

AFG's annuity and life operations are conducted through American Annuity Group, Inc. ("AAG"), a holding company which markets primarily retirement annuity products as well as life and supplemental health insurance through the following subsidiaries (in millions). AAG and its subsidiaries employ approximately 1,700 persons.

Subsidiary - year acquired	Principal Products	1998 Statutory Premiums
Great American Life Insurance	Traditional fixed annuities	$301
Company ("GALIC") - 1992(*)	Equity-indexed annuities	58
Annuity Investors Life Insurance	Variable annuities	89
Company ("AILIC") - 1994	Traditional fixed annuities	73
Loyal American Life Insurance	Supplemental health	20
Company ("Loyal") - 1995	Supplemental life	17
Great American Life Assurance Company	Life	37
of Puerto Rico, Inc. ("GAPR")-1997	Supplemental health	11
GALIC's Life Division (formed in 1997)	Term and universal life	19

(*) Acquired from Great American.

Acquisitions in recent years have supplemented AAG's internal growth as the assets of the holding company and its operating subsidiaries have increased from $4.5 billion at the end of 1992 to over $7.1 billion at the end of 1998. Premiums over the last three years were as follows (in millions):

Insurance Product	1998	1997	1996
Retirement annuities	$521	$489	$540
Life and health	104	42	43
	$625	$531	$583

Table does not include premiums of subsidiaries or divisions until their first full year following acquisition or formation. All periods exclude premiums of subsidiaries sold.

In September 1998, AAG sold its Funeral Services division. This division had assets of approximately $1 billion as of September 30, 1998 and 1997 premiums of $111 million.

Retirement Products

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

The following table (in millions) presents combined financial information concerning AAG's principal retirement annuity subsidiaries, GALIC and AILIC.

	1998	1997	1996
GAAP Basis			
Total Assets	$6,549	$6,289	$5,942
Fixed Annuity Reserves	5,396	5,355	5,211
Variable Annuity Reserves (separate accounts)	120	37	3
Stockholder's Equity	862	770	658
Statutory Basis			
Total Assets	$6,159	$5,977	$5,760
Fixed Annuity Reserves	5,538	5,469	5,302
Variable Annuity Reserves (separate accounts)	120	37	3
Capital and Surplus	350	317	285
Asset Valuation Reserve (a)	63	65	91
Interest Maintenance Reserve (a)	21	24	25
Annuity Receipts:			
Flexible Premium:			
First Year	$ 45	$ 38	$ 36
Renewal	149	160	182
	194	198	218
Single Premium	327	291	322
Total Annuity Receipts	$ 521	$ 489	$ 540

(a) Allocation of surplus.

Sales of annuities are affected by many factors, including: (i) competitive annuity products and rates; (ii) the general level of interest rates; (iii) the favorable tax treatment of annuities; (iv) commissions paid to agents; (v) services offered; (vi) ratings from independent insurance rating agencies; (vii) other alternative investments and (viii) general economic conditions. At December 31, 1998, AAG had approximately 265,000 annuity policies in force.

Annuity contracts are generally classified as either fixed rate (including equity-indexed) or variable. With a fixed rate annuity, the interest crediting rate is initially set by the issuer and thereafter may be changed from time to time by the issuer subject to any guaranteed minimum interest crediting rates in the policy. With a variable annuity, the value of the policy is tied to an underlying securities portfolio or underlying mutual funds. The following table presents premiums by classification:

Premiums	1998	1997	1996
Traditional fixed	72%	83%	98%
Equity-indexed	11	8	2
Variable	17	9	*
	100%	100%	100%

* less than 1%

AAG seeks to maintain a desired spread between the yield on its investment portfolio and the rate it credits to its fixed rate annuities. AAG accomplishes this by: (i) offering crediting rates which it has the option to change; (ii) designing annuity products that encourage persistency and (iii) maintaining an appropriate matching of assets and liabilities. AAG designs its products with certain surrender penalties to discourage policyholders from surrendering or withdrawing funds during the first five to ten years after issuance of a policy. Partly due to these features, annuity surrenders have averaged less than 10% of statutory reserves over the past five years.

All of AAG's fixed rate annuities offer a minimum interest rate guarantee of 3% or 4%; the majority permit AAG to change the crediting rate at any time (subject to the minimum guaranteed interest rates). In determining the frequency and extent of changes in the crediting rate, AAG takes into account the economic environment and the relative competitive position of its products.

Over the last few years, traditional fixed rate annuities have met substantial competition from mutual funds and other equity-based investments. In response, AAG began offering equity-indexed annuities and variable annuities. An equity-indexed fixed annuity provides policyholders with a crediting rate tied, in part, to the performance of an existing stock market index while protecting them against the related downside risk through a guarantee of principal. AAG hedges the equity-based risk component of this product through the purchase of call options on the appropriate index. These options are designed to offset substantially all of the increases in the liabilities associated with equity-indexed annuities.

Industry sales of variable annuities have increased substantially over the last ten years as investors have sought to obtain the returns available in the equity markets while enjoying the tax-deferred status of annuities. With a variable annuity, the earnings credited to the policy vary based on the investment results of the underlying investment options chosen by the policyholder. Premiums directed to the variable options in policies issued by AAG are invested in funds managed by various independent investment managers. AAG earns a fee on amounts deposited into variable accounts. Policyholders may also choose to direct all or a portion of their premiums to various fixed rate options, in which case AAG earns a spread on amounts deposited.

The following table reflects the geographical distribution of AAG's annuity premiums in 1998 compared to 1994.

	1998	1994		1998	1994
California	28.8%	20.5%	Michigan	3.4%	9.1%
Ohio	7.5	6.2	New Jersey	3.4	4.5
Texas	4.9	2.6	Indiana	2.8	*
Washington	4.8	3.7	Connecticut	2.4	4.4
Florida	4.7	8.5	Pennsylvania	2.4	*
Massachusetts	4.6	8.0	Illinois	2.2	3.1
North Carolina	4.1	3.0	Iowa	2.1	2.0
Minnesota	3.6	4.6	Rhode Island	*	2.0
			Other	18.3	17.8
				100.0%	100.0%

(*) less than 2%

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

Historically, AAG's principal marketing focus had been on sales to employees of educational institutions in the kindergarten through high school segment. However, sales of non-qualified annuities have begun to represent an increasing percentage of premiums (33% in 1998 compared to 15% in 1994) as AAG has developed products and distribution channels targeted to the non-qualified markets.

AAG distributes its annuity products through approximately 90 managing general agents ("MGAs") who, in turn, direct approximately 1,000 actively producing independent agents. AAG has developed its business on the basis of its relationships with MGAs and independent agents primarily through a consistent marketing approach and responsive service. To extend the distribution of its annuities to a broader customer base, AAG developed a personal producing general agent ("PPGA") distribution system. More than 100 PPGAs are contracted to sell annuities in those territories not served by an MGA.

Life, Accident and Health Products

AAG offers a variety of life, accident and health products through Loyal, GAPR and GALIC's life division. This group produced approximately $100 million of premiums in 1998. At year end 1998, it had assets of over $550 million. It also had more than 500,000 policies and $7.1 billion of life insurance in force.

Loyal offers a variety of life and supplemental health insurance products through payroll deduction plans and credit unions. The principal products sold by Loyal include cancer, universal life, traditional whole life, hospital indemnity, and short-term disability insurance. Loyal's products are marketed with the endorsement or consent of the employer or the credit union management.

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

In December 1997, GALIC's life division began offering term, universal and whole life insurance products through national marketing organizations.

Sale of Funeral Services Division

In September 1998, AAG sold its Funeral Services division for approximately $165 million in cash. The Funeral Services division provided life insurance and annuities to fund pre-arranged funerals, as well as administrative services for pre-arranged funeral trusts. This division included American Memorial Life Insurance Company (acquired in 1995) and Arkansas National Life Insurance Company (acquired in 1998).

Independent Ratings

AAG's principal insurance subsidiaries are rated by Standard & Poor's, A.M. Best and Duff & Phelps. Such ratings are generally based on items of concern to policyholders and agents and are not directed toward the protection of investors.

	Standard & Poor's	A.M. Best	Duff & Phelps
GALIC	A+ (Strong)	A (Excellent)	AA- (Very high)
AILIC	A+ (Strong)	A (Excellent)	AA- (Very high)
Loyal	A (Strong)	A (Excellent)	AA- (Very high)
GAPR	Not rated	A (Excellent)	Not rated

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

Although AAG believes that its insurance companies' ratings are very stable, those companies' operations could be materially adversely affected by a downgrade in ratings.

Competition

AAG's insurance companies operate in highly competitive markets. They compete with other insurers and financial institutions based on many factors, including: (i) ratings; (ii) financial strength; (iii) reputation; (iv) service to policyholders and agents; (v) product design (including interest rates credited and premium rates charged); and (vi) commissions. Since policies are marketed and distributed primarily through independent agents (except at GAPR), the insurance companies must also compete for agents. AAG believes that consistently targeting the same market and emphasizing service to agents and policyholders provides a competitive advantage.

No single insurer dominates the annuity marketplace. Competitors include (i) individual insurers and insurance groups, (ii) mutual funds and (iii) other financial institutions of varying sizes. In a broader sense, AAG's insurance companies compete for retirement savings with a variety of financial institutions offering a full range of financial services. Financial institutions have demonstrated a growing interest in marketing investment and savings products other than traditional deposit accounts. In addition, recent judicial and regulatory decisions have expanded powers of financial institutions in this regard. It is too early to predict what impact, if any, these developments will have on the insurance companies.

Foreign Operations

In 1998, AAG opened an office in Bangalore, India. Employees located at this office perform computer programming and certain back office functions for AAG's insurance operations. Management believes there are sufficient resources available at domestic locations should there be any interruption in the operations at this office and as a result no materially adverse impact would result from any such interruption.

Other Companies

Through subsidiaries, AFG is engaged in a variety of other businesses, including The Golf Center at Kings Island (golf and tennis facility) in the Greater Cincinnati area; commercial real estate operations in Cincinnati (office buildings and The Cincinnatian Hotel), New Orleans (Le Pavillon Hotel), Cape Cod (Chatham Bars Inn), Austin (Driskill Hotel) and apartments in Austin, Houston, Lafayette-Louisiana, Louisville, Milwaukee, Pittsburgh, St. Paul and Tampa Bay. These operations employ approximately 700 full-time employees.

Investment Portfolio

General

A summary of AFG's December 31, 1998, investment portfolio by business segment follows (excluding investment in equity securities of investee corporations) (in millions).

	Carrying Value				Total Market
	P&C	Annuity	Other	Total	Value
Cash and short-term investments	$ 142	$ 133	$22	$ 297	$ 297
Fixed maturities	4,271	6,023	30	10,324	10,324
Other stocks, options and warrants	342	83	5	430	430
Policy loans	-	220	-	220	220(a)
Real estate and other investments	126	119	27	272	272(a)
	$4,881	$6,578	$84	$11,543	$11,543

(a) Carrying value used since market values are not readily available.

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

	1998	1997	1996	1995	1994
Cash and Short-term Investments	2.6%	2.1%	3.9%	4.9%	2.2%
Fixed Maturities:					
U.S. Government and Agencies	4.4	5.0	4.1	3.7	4.0
State and Municipal	1.2	1.3	1.0	.7	.8
Public Utilities	6.0	6.8	8.2	9.7	9.1
Mortgage-Backed Securities	20.8	21.4	22.2	20.7	21.8
Corporate and Other	53.0	52.3	51.5	49.5	53.4
Redeemable Preferred Stocks	.5	.6	.5	1.0	1.4
	85.9	87.4	87.5	85.3	90.5
Net Unrealized Gains (Losses) on fixed maturities held Available for Sale	3.5	2.5	1.1	2.7	(1.0)
	89.4	89.9	88.6	88.0	89.5
Other Stocks, Options and Warrants	3.7	3.7	2.8	2.3	2.7
Policy Loans	1.9	2.0	2.1	2.1	2.5
Real Estate and Other Investments	2.4	2.3	2.6	2.7	3.1
	100.0%	100.0%	100.0%	100.0%	100.0%
Yield on Fixed Income Securities:					
Excluding realized gains and losses	7.8%	7.8%	7.9%	7.9%	8.1%
Including realized gains and losses	8.0%	7.9%	7.7%	8.8%	8.1%
Yield on Stocks:					
Excluding realized gains and losses	5.4%	5.6%	5.8%	3.9%	5.1%
Including realized gains and losses	(5.3%)	30.2%	15.1%	8.4%	35.4%
Yield on Investments (*):					
Excluding realized gains and losses	7.8%	7.8%	7.8%	7.9%	8.1%
Including realized gains and losses	7.8%	8.2%	7.8%	8.8%	8.8%

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

Fixed Maturity Investments

Unlike many insurance groups which have portfolios that are invested heavily in tax-exempt bonds, AFG's bond portfolio is invested primarily in taxable bonds. The NAIC assigns quality ratings which range from Class 1 (highest quality) to Class 6 (lowest quality). The following table shows AFG's bonds and redeemable preferred stocks, by NAIC designation (and comparable Standard & Poor's Corporation rating) as of December 31, 1998 (dollars in millions).

NAIC Rating	Comparable S&P Rating	Amortized Cost	Market Value Amount	Market Value %
1	AAA, AA, A	$6,681	$ 7,000	68%
2	BBB	2,401	2,484	24
	Total investment grade	9,082	9,484	92
3	BB	426	435	4
4	B	320	315	3
5	CCC, CC, C	92	81	1
6	D	1	9	*
	Total noninvestment grade	839	840	8
	Total	$9,921	$10,324	100%

____
(*) Less than 1%

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

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

Equity Investments

AFG's equity investment practice permits concentration of attention on a relatively limited number of companies. Some of the equity investments, because of their size, may not be as readily marketable as the typical small investment position. Alternatively, a large equity position may be attractive to persons seeking to control or influence the policies of a company and AFG's concentration in a relatively small number of companies may permit it to identify investments with above average potential to increase in value.

Chiquita At December 31, 1998, AFG owned 24 million shares of Chiquita common stock representing 37% of its outstanding shares. The carrying value and market value of AFG's investment in Chiquita were approximately $192 million and $229 million, respectively, at December 31, 1998. Chiquita is a leading international marketer, producer and distributor of quality fresh fruits and vegetables and processed foods. In addition to bananas, these products include a wide variety of other fresh fruits and vegetables; fruit and vegetable juices and beverages; processed bananas and other processed fruits and vegetables; private-label and branded canned vegetables; fresh cut and ready-to-eat salads; and edible oil-based consumer products.

Citicasters In 1996, AFG sold its investment in Citicasters to Jacor Communications for approximately $220 million in cash plus warrants to purchase Jacor common stock. Citicasters owned radio and television stations in major markets throughout the country.

Other Stocks AFG's $243 million investment in Provident Financial Group, Inc., a Cincinnati-based commercial banking and financial services company, comprised approximately three-fifths of the equity investments included in "Other stocks" in AFG's Balance Sheet at December 31, 1998.

Regulation

AFG's insurance company subsidiaries are subject to regulation in the jurisdictions where they do business. In general, the insurance laws of the various states establish regulatory agencies with broad administrative powers governing, among other things, premium rates, solvency standards, licensing of insurers, agents and brokers, trade practices, forms of policies, maintenance of specified reserves and capital for the protection of policyholders, deposits of securities for the benefit of policyholders, investment activities and relationships between insurance subsidiaries and their parents and affiliates. Material transactions between insurance subsidiaries and their parents and affiliates generally must be disclosed and prior approval of the applicable insurance regulatory authorities generally is required for any such transaction which may be deemed to be material or extraordinary. In addition, while differing from state to state, these regulations typically restrict the maximum amount of dividends that may be paid by an insurer to its shareholders in any twelve-month period without advance regulatory approval. Such limitations are generally based on net earnings or statutory surplus. Under applicable restrictions, the maximum amount of dividends available to AFG in 1999 from its insurance subsidiaries without seeking regulatory clearance is approximately $281 million.

Changes in state insurance laws and regulations have the potential to materially affect the revenues and expenses of the insurance operations. For example, between July 1993 and January 1995, the California Commissioner ordered reductions in workers' compensation insurance premium rates totaling more than 30% and subsequently replaced the workers' compensation insurance minimum rate law with an "open rating" policy. The Company is unable to predict whether or when other state insurance laws or regulations may be adopted or enacted or what the impact of such developments would be on the future operations and revenues of its insurance businesses.

Most states have created insurance guarantee associations to provide for the payment of claims of insurance companies that become insolvent. Annual assessments for AFG's insurance companies have not been material. In addition, many states have created "assigned risk" plans or similar arrangements to provide state mandated minimum levels of automobile liability coverage to drivers whose driving records or other relevant characteristics make it difficult for them to obtain insurance otherwise. Automobile insurers in those states are required to provide such coverage to a proportionate number of those drivers applying as assigned risks. Premium rates for assigned risk business are established by the regulators of the particular state plan and are frequently inadequate in relation to the risks insured, resulting in underwriting losses. Assigned risks accounted for approximately one percent of AFG's net written premiums in 1998.

The NAIC is an organization which is comprised of the chief insurance regulator for each of the 50 states and the District of Columbia. In 1990, the NAIC began an accreditation program to ensure that states have adequate procedures in place for effective insurance regulation, especially with respect to financial solvency. The accreditation program requires that a state meet specific minimum standards in over 15 regulatory areas to be considered for accreditation. The accreditation program is an ongoing process and once accredited, a state must enact any new or modified standards approved by the NAIC within two years following adoption. As of December 31, 1998, the District of Columbia and 48 states were accredited including states which regulate AFG's largest insurance subsidiaries.

The NAIC model law for Risk Based Capital applies to both life and property and casualty companies. The risk-based capital formulas determine the amount of capital that an insurance company needs to ensure that it has an acceptably low expectation of becoming financially impaired. The model law provides for increasing levels of regulatory intervention as the ratio of an insurer's total adjusted capital and surplus decreases relative to its risk-based capital, culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called "mandatory control level". At December 31, 1998, the capital ratios of all AFG insurance companies substantially exceeded the risk-based capital requirements.

ITEM 2

Properties

Subsidiaries of AFG own several buildings in downtown Cincinnati. AFG and its affiliates occupy about 70% of the aggregate 660,000 square feet of commercial and office space.

AFG's insurance subsidiaries lease the majority of their office and storage facilities in numerous cities throughout the United States, including Great American's and AAG's home offices in Cincinnati. An AAG subsidiary owns an office building in Mobile, Alabama which is being marketed for sale or lease; one-fifth of its 82,000 square feet is company occupied.

AFG subsidiaries own transferable rights to develop approximately 1.5 million square feet of floor space in the Grand Central Terminal area in New York City. The development rights were derived from ownership of the land upon which the terminal is constructed.

ITEM 3

Legal Proceedings

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

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

In February 1994, the USX Corporation ("USX") paid nearly $600 million in satisfaction of antitrust judgments entered against its subsidiary, The Bessemer & Lake Erie Railroad ("B&LE"). In May 1994, USX/B&LE filed two lawsuits, one in state and the other in federal court, against American Premier as the reorganized successor of The Penn Central Corporation seeking to recover this amount under theories of indemnity and contribution law. In disclosing the existence of these lawsuits, American Premier stated that it had sufficient defenses and did not expect to suffer any material loss from the litigation.

In May 1998, the largest and last of these lawsuits was dismissed in state court; a companion federal lawsuit had been dismissed earlier in 1998. Both of the lawsuits were dismissed on American Premier's Motion for Summary Judgment filed in state and federal court.

The state court action is now on appeal to the Eighth Appellate District of Ohio in Cleveland, Ohio. The federal court action is now on appeal to the US Court of Appeals for the Sixth Circuit in Cincinnati, Ohio. American Premier and its outside counsel continue to believe that American Premier will not suffer any material loss from either of these cases.

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

In terms of potential liability to American Premier, the company believes that the most significant such site is the railyard at Paoli, Pennsylvania ("Paoli Yard") which PCTC transferred to Consolidated Rail Corporation ("Conrail") in 1976. A Record of Decision issued by the U.S. Environmental Protection Agency in 1992 presented a final selected remedial action for clean-up of polychlorinated biphenyls ("PCB's") at Paoli Yard having an estimated cost of approximately $28 million. American Premier has accrued its portion of such estimated clean-up costs in its financial statements (in addition to other expenses) but has not accrued the entire amount because it believes it is probable that other parties, including Conrail, will be responsible for substantial percentages of the clean-up costs by virtue of their operation of electrified railroad cars at Paoli Yard that discharged PCB's at higher levels than discharged by cars operated by PCTC.

In management's opinion, the outcome of the foregoing environmental claims and contingencies will not, individually or in the aggregate, have a material adverse effect on the financial condition of American Premier. In making this assessment, management has taken into account previously established loss accruals in its financial statements and probable recoveries from third parties.

PART II

ITEM 5

Market for Registrant's Common Equity and Related Stockholder Matters

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

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

	1998		1997	
	High	Low	High	Low
First Quarter	$44 3/16	$37 5/8	$38 3/8	$34 7/8
Second Quarter	45 3/4	42 3/8	42 3/4	32 3/8
Third Quarter	44 7/8	32 3/8	49 1/4	42 3/16
Fourth Quarter	43 7/8	30 1/2	46 11/16	34 9/16

There were approximately 16,300 shareholders of record of AFG Common Stock at March 1, 1999. AFG's policy is to pay quarterly dividends on its Common Stock in amounts determined by its Board of Directors. In 1998 and 1997, AFG declared and paid quarterly dividends of $.25 per share. The ability of AFG to pay dividends will be dependent upon, among other things, the availability of dividends and payments under intercompany tax allocation agreements from its insurance company subsidiaries.

ITEM 6

Selected Financial Data

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

	1998	1997	1996	1995	1994
Earnings Statement Data:					
Total Revenues	$4,050	$4,021	$4,115	$3,630	$2,104
Earnings Before Income Taxes and Extraordinary Items	205	320	353	247	44
Earnings Before Extraordinary Items	125	199	262	190	19
Extraordinary Items	(1)	(7)	(29)	1	(17)
Net Earnings	124	192	233	191	2
Basic Earnings (Loss) Per Common Share (a):					
Earnings (Loss) before Extraordinary Items and Premium on Redemption of Preferred Stock	$2.04	$3.34	$4.31	$3.87	($.24)
Net Earnings (Loss) Available to Common Shares	2.03	.65	3.84	3.88	(.83)
Diluted Earnings (Loss) Per Common Share (a):					
Earnings (Loss) before Extraordinary Items and Premium on Redemption of Preferred Stock	$2.01	$3.28	$4.26	$3.83	($.24)
Net Earnings (Loss) Available to Common Shares	2.00	.64	3.79	3.85	(.83)
Cash Dividends Paid Per Share of Common Stock	$1.00	$1.00	$1.00	$.75	(b)
Ratio of Earnings to Fixed Charges (c)	3.22	3.98	4.22	2.60	1.69

Balance Sheet Data:					
Total Assets	$15,845	$15,755	$15,051	$14,954	$10,593
Long-term Debt:					
Holding Companies	415	387	340	648	849
Subsidiaries	177	194	178	234	258
Minority Interest (d)	522	513	494	314	106
Capital Subject to Mandatory Redemption	-	-	-	-	3
Other Capital	1,716	1,663	1,554	1,440	396

(a) Net earnings available to common shares for 1997 is calculated after deducting a premium over stated value on redemption of a subsidiary's preferred stock of $153.3 million. The number of shares used for periods prior to April 1995, is the 28.3 million shares issued in exchange for AFC shares in the Mergers.

(b) Prior to the Mergers, AFC's common stock was privately held by members of the Lindner family. In 1995, American Premier declared and paid cash dividends per share of $.25 prior to the Mergers; it also declared cash dividends of $.91 in 1994. AFG declared two quarterly $.25 per share dividends subsequent to the Mergers in 1995.

(c) Fixed charges are computed on a "total enterprise" basis. For purposes of calculating the ratios, "earnings" have been computed by adding to pretax earnings the fixed charges and the minority interest in earnings of subsidiaries having fixed charges and deducting (adding) the undistributed equity in earnings (losses) of investees. Fixed charges include interest (excluding interest on annuity benefits), amortization of debt premium/discount and expense, preferred dividend and distribution requirements of subsidiaries and a portion of rental expense deemed to be representative of the interest factor.

(d) Includes AFC preferred stock following the Mergers and trust preferred securities of subsidiaries issued in 1996 and 1997.

ITEM 7

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

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

GENERAL

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

AFG was formed through the combination of AFC and American Premier in merger transactions completed in April 1995 (the "Mergers").

LIQUIDITY AND CAPITAL RESOURCES

Ratios Following the Mergers, AFC and American Premier retired or replaced with lower cost financing over $1 billion in debt and preferred stock reducing AFG's interest expense and preferred dividend requirements by over $110 million annually. AFG's debt to total capital ratio at the parent holding company level improved from nearly 60% at the date of the Mergers to approximately 18% at December 31, 1998.

AFG's ratio of earnings to fixed charges on a total enterprise basis was 3.22 for the year ended December 31, 1998 compared to 2.07 in 1994 (pro forma for the Mergers and related transactions).

The National Association of Insurance Commissioners' model law for risk based capital ("RBC") applies to both life and property and casualty companies. RBC formulas determine the amount of capital that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. At December 31, 1998, the capital ratios of all AFG insurance companies substantially exceeded the RBC requirements (the lowest capital ratio of any AFG subsidiary was 2.1 times its authorized control level RBC; weighted average of all AFG subsidiaries was 5.0 times).

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

Management believes these 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.

In December 1997, the parent holding companies entered into a reciprocal Master Credit Agreement under which these companies make funds available to each other for general corporate purposes.

The senior debentures of AFG, AFC and AAG are rated investment grade by three nationally recognized rating agencies; the subordinated debentures of APU and AAG are rated investment grade by two of the agencies.

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 December 31, 1998, there was $80 million borrowed under the line.

In 1996 and 1997, wholly-owned trust subsidiaries of AFC Holding and AAG sold preferred securities for cash proceeds totaling $100 million and $225 million, respectively. Proceeds were used to retire outstanding debt and preferred stock of subsidiaries and for general corporate purposes, including a capital contribution to a subsidiary.

In 1997, AFG filed a shelf registration statement for the future issuance of up to an aggregate of $500 million in common stock, debt or trust securities. The filing provides AFG with greater flexibility to access the capital markets from time to time as market and other conditions permit. In December 1997, AFG issued $100 million of 7-1/8% Senior Debentures due 2007 under this shelf registration statement. AFG used the proceeds to retire outstanding preferred stock of AFC and minority shares of a subsidiary.

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 reductions of debt at the holding companies (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 noncore investments.

For statutory accounting purposes, equity securities are generally carried at market value. At December 31, 1998, AFG's insurance companies owned publicly traded equity securities with a market value of $1.4 billion, including equity securities of AFG affiliates (including subsidiaries) of $1.0 billion. Since significant amounts of these are concentrated in a relatively small number of companies, decreases in the market prices could adversely affect the insurance group's capital, potentially impacting the amount of dividends available or necessitating a capital contribution. Conversely, increases in the market prices could have a favorable impact on the group's dividend-paying capability.

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

Uncertainties Two lawsuits were filed in 1994 against American Premier by USX Corporation ("USX") and a former USX subsidiary. The lawsuits seek contribution from American Premier for all or a portion of a $600 million final antitrust judgment entered against a USX subsidiary in 1994. The lawsuits argue that USX's liability for that judgment is attributable to the alleged activities of American Premier's predecessor in an unlawful antitrust conspiracy among certain railroad companies. In May 1998, the largest and last of the lawsuits was dismissed in state court. All of USX's claims against American Premier have now been dismissed with prejudice, and, although USX has appeals pending, American Premier and its outside legal counsel continue to believe that American Premier will not suffer a material loss from this litigation.

Great American's liability for unpaid losses and loss adjustment expenses includes amounts for various liability coverages related to environmental, hazardous product and other mass tort claims. At December 31, 1998, Great American had recorded $866 million (before reinsurance recoverables of $241 million) for such claims on policies written many years ago where, in most cases, coverage was never intended. Due to inconsistent court decisions on many coverage issues and the difficulty in determining standards acceptable for cleaning up pollution sites, significant uncertainties exist which are not likely to be resolved in the near future.

AFG's subsidiaries are parties in a number of proceedings relating to former operations. While the results of all such uncertainties cannot be predicted, based upon its knowledge of the facts, circumstances and applicable laws, management believes that sufficient reserves have been provided. See Note L to the financial statements.

Year 2000 Status AFG's Year 2000 Project is a corporate-wide program designed to ensure that its computer systems and other equipment using date-sensitive computer chips 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 Office monitors and coordinates 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 issue, AFG's operations have been divided into separate systems groups. During 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. A majority of the groups have met 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 40% of the groups is being "closely watched" because there is some degree of risk that critical dates in the project schedule may be missed with a potential for some disruption of normal business operations. AFG's goal is to have program modifications and new installations for these groups completed during mid-1999. One group, which has significantly missed internal project deadlines, now has been reorganized and staffing levels were increased. This group is expected to be completed during the third quarter of 1999.

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 and operating contingent databases. Contingency planning for other systems deemed critical to operations and reasonably likely not to be modified on schedule began in the fourth quarter of 1998 and will be completed by mid-1999.

Many of the systems being replaced were planned replacements which were accelerated due to the Year 2000 considerations. 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 represent solely incremental costs.

From the inception of the Year 2000 Project in the early 1990's through December 31, 1998, AFG estimates that it has incurred approximately $46 million in costs related to the Project, including capitalized costs of $10 million for new systems. During 1998, $27 million in such costs have been expensed. AFG estimates that it will incur an additional $26 million of such costs in completing the Project, about two-thirds of which is projected to be expensed.

Projected Year 2000 costs and completion dates are based on management's best estimates. However, there can be no assurances 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 effect 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. While assessments of independent agents and evaluations of third party vendors are progressing slowly, efforts are being intensified to complete these assessments in the second quarter of 1999. 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.

Exposure to Market Risk Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. AFG's exposures to market risk relate primarily to its investment portfolio and annuity contracts which are exposed to interest rate risk and, to a lesser extent, equity price risk. AFG's long-term debt is also exposed to interest rate risk. AFG's investments in derivatives were not significant at December 31, 1998.

Fixed Maturity Portfolio The fair value of AFG's fixed maturity portfolio ($10.3 billion at December 31, 1998) is directly impacted by changes in market interest rates. AFG's fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily short-term and intermediate-term maturities. This practice allows flexibility in reacting to fluctuations of interest rates. The portfolios of AFG's property and casualty insurance and life and annuity operations are managed with an attempt to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations. AFG's life and annuity operations use various actuarial models in an attempt to align the duration of their invested assets to the projected cash flows of policyholder liabilities.

The following table provides information about AFG's fixed maturity investments at December 31, 1998, that are sensitive to interest rate risk. The table shows principal cash flows (in millions) and related weighted-average interest rates by expected maturity dates. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. Mortgage-backed securities ("MBSs") and sinking fund issues are included based on maturity year adjusted for expected payment patterns. Actual cash flows may differ from those expected.

	Principal Cash Flows	Weighted Average Interest Rate
1999	$ 849.8	7.87%
2000	942.7	8.01
2001	954.2	8.08
2002	1,086.3	7.76
2003	1,415.3	7.33
Thereafter	4,784.1	7.59
Total	$10,032.4	7.68%

Equity Price Risk Equity price risk is the potential economic loss from adverse changes in equity security prices. Although AFG's investment in "Other stocks" is less than 4% of total investments, it is concentrated in a relatively limited number of major positions. While this approach allows management to more closely monitor the companies and industries in which they operate, it does increase risk exposure to adverse price declines in a major position.

Annuity Contracts Substantially all of AAG's fixed rate annuity contracts permit AAG to change crediting rates (subject to minimum interest rate guarantees of 3% to 4% per annum) enabling management to react to changes in market interest rates and maintain an adequate spread. Sales of variable rate annuities have not been significant. Projected payments (in millions) of AAG's fixed annuity liabilities at December 31, 1998, were as follows.

1999	2000	2001	2002	2003	Remaining	Total
$660	$620	$560	$500	$450	$2,610	$5,400

About half of AAG's fixed annuity liabilities at December 31, 1998, were two-tier in nature in that policyholders can receive a higher amount if they annuitize rather than surrender their policy, even if the surrender period has expired. Current stated crediting rates on AAG's principal fixed annuity products range from 3% on equity-indexed annuities (before any equity participation) to over 7% on certain new policies (including first year bonus amounts). AAG estimates that its effective weighted-average crediting rate over the next five years will range from 5% to 5.2%. This range reflects actuarial assumptions as to (i) deaths, (ii) the number of policyholders who annuitize and receive higher credited amounts and (iii) the number of policyholders who surrender. Actual experience and changes in actuarial assumptions may result in different effective crediting rates than those above.

Debt and Preferred Securities The following table shows scheduled principal payments (in millions) on fixed-rate and variable-rate long-term debt of AFG and its subsidiaries and related weighted average interest rates. At December 31, 1998, there were $325 million of subsidiary trust preferred securities outstanding, none of which are scheduled for redemption during the next five years; weighted average interest rate on these securities is 8.66%.

	Fixed-Rate Debt		Variable-Rate Debt	
	Scheduled Principal Payments	Weighted Average Interest Rate	Scheduled Principal Payments	Weighted Average Interest Rate
1999	$ 90.7	9.69%	$ .3	5.86%
2000	49.1	9.85	.2	5.80
2001	1.2	7.13	.1	5.58
2002	1.1	6.81	85.7	5.95
2003	1.1	6.68	27.2	6.09
Thereafter	333.3	7.92	.2	5.58
Total	$476.5	8.45%	$113.7	5.98%

At December 31, 1998, the fair value of fixed-rate debt and variable-rate debt was approximately $490.6 million and $113.7 million, respectively.

Investments Approximately 70% of AFG's consolidated assets are invested in marketable securities. A diverse portfolio of primarily publicly traded bonds and notes accounts for nearly 95% of these securities. AFG attempts to optimize investment income while building the value of its portfolio, placing emphasis upon long-term performance. AFG's goal is to maximize return on an ongoing basis rather than focusing on short-term performance.

Fixed income investment funds are generally invested in securities with short-term and intermediate-term maturities with an objective of optimizing total return while allowing flexibility to react to changes in market conditions. At December 31, 1998, the average life of AFG's fixed maturities was just under 6 years.

Approximately 92% of the fixed maturities held by AFG were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies at December 31, 1998. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated or noninvestment grade. Management believes that the high quality investment portfolio should generate a stable and predictable investment return.

Investments in MBSs represented approximately one-fourth of AFG's fixed maturities at December 31, 1998. AFG invests primarily in MBSs which have a reduced risk of prepayment. In addition, the majority of MBSs held by AFG were purchased at a discount. Management believes that the structure and discounted nature of the MBSs will mitigate the effect of prepayments on earnings over the anticipated life of the MBS portfolio. Approximately 90% of AFG's MBSs are rated "AAA" with substantially all being of investment grade quality. The market in which these securities trade is highly liquid. Aside from interest rate risk, AFG does not believe a material risk (relative to earnings or liquidity) is inherent in holding such investments.

Because most income of the property and casualty insurance subsidiaries has been sheltered from income taxes through 1997, nontaxable municipal bonds represent only a small portion (less than 1%) of the portfolio.

Prior to the Mergers, the realization of capital gains, primarily through sales of equity securities, was an integral part of AFG's investment program. Individual securities are sold creating gains or losses as market opportunities exist. Pretax capital gains recognized upon disposition of securities, including investees, during the past five years have been: 1998 - $16 million; 1997 - $57 million; 1996 - $166 million; 1995 - $84 million and 1994 - $50 million. At December 31, 1998, the net unrealized gain (before income taxes) on AFG's fixed maturities and equity securities was $403 million and $223 million, respectively.

RESULTS OF OPERATIONS - THREE YEARS ENDED DECEMBER 31, 1998

General Pretax earnings before extraordinary items were $205 million in 1998, $320 million in 1997 and $353 million in 1996.

Results for 1998 include a pretax charge in the fourth quarter of $214 million attributable to an increase in loss reserves relating to asbestos and environmental coverages ("A&E"), $180 million in pretax gains, primarily from the sale of substantially all of AFG's Commercial lines division and the Funeral Services division, and a $34 million decline in the underwriting results in AFG's property and casualty insurance business (excluding the special A&E charge) due primarily to increased catastrophe losses.

Results for 1997 include $91 million in pretax gains, primarily on the sales of affiliates and other securities, and reflect declines of $41 million in underwriting results in AFG's property and casualty insurance business and $24 million in interest expense.

Results for 1996 include $203 million in pretax gains primarily on the sales of Citicasters and Buckeye, reduced by a charge of $80 million resulting from a decision to strengthen insurance A&E reserves.

Property and Casualty Insurance - Underwriting Following the sale of its Commercial lines division in late 1998, AFG's property and casualty group is 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.

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, nonprofit liability, general aviation coverages, fidelity and surety bonds, and umbrella and excess coverages. Commercial lines businesses sold included certain coverages in workers' compensation, commercial multi-peril, commercial automobile, and umbrella.

To understand the overall profitability of particular lines, the timing of claims payments and the related impact of investment income must be considered. Certain "short-tail" lines of business (primarily property coverages) have quick loss payouts which reduce the time funds are held, thereby limiting investment income earned thereon. On the other hand, "long-tail" lines of business (primarily liability coverages and workers' compensation) have payouts that are either structured over many years or take many years to settle, thereby significantly increasing investment income earned on related premiums received.

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

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

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

Excluding the special $214 million A&E charge in the fourth quarter of 1998, underwriting results of AFG's insurance operations outperformed the industry average for the thirteenth consecutive year. AFG's insurance operations have been able to exceed the industry's results by focusing on growth opportunities in the more profitable areas of the specialty and nonstandard auto businesses.

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

	1998	1997	1996
Net Written Premiums (GAAP)			
Personal	$1,279	$1,345	$1,384
Specialty	1,312(*)	1,468	1,367
Other Lines	18	45	37
	$2,609	$2,858	$2,788
Combined Ratios (GAAP)			
Personal	97.3%	98.5%	103.9%
Specialty	105.0	100.0	88.4
Aggregate (including A&E and other lines)	110.7%	101.4%	102.9%

(*) Before a reduction of $138 million for the unearned premium transfer related to the sale of the Commercial lines division.

Special A&E Charge Operating results for 1998 and 1996 were adversely impacted by increases in A&E reserves (exposures for which AFG may be liable under general liability policies written years ago) and higher catastrophe losses. A standard insurance measure used in testing the reasonableness of A&E reserves has been the "survival ratio" (reserves divided by average annual paid losses for the preceding three years). Due in part to the greater uncertainties inherent in estimating A&E claims, management has evaluated its survival ratio in relation to those published for the industry. Based primarily on industry survival ratios published in mid-1996, AFG increased A&E reserves of its discontinued insurance lines by $120 million in 1996 by recording a third quarter, noncash pretax charge of $80 million and reallocating $40 million, or approximately 2%, of its Specialty group reserves (approximately $2.1 billion at December 31, 1996).

Under the agreement covering the sale of its Commercial lines division in 1998, AFG retained liabilities for certain A&E exposures. Prompted by this retention and as part of the continuing process of monitoring reserves, AFG began a thorough study of its A&E exposures. Based on this study and observations of industry trends in this regard, AFG decided that the survival ratio may not be the best basis for measuring ultimate A&E exposures. AFG's study was reviewed by independent actuaries who used state of the art actuarial techniques that have wide acceptance in the industry. The methods used involved sampling and statistical modeling incorporating external data bases that supplement the internal information. AFG recorded a fourth quarter charge of $214 million increasing A&E reserves at December 31, 1998, to approximately $866 million (before deducting reinsurance recoverables of $241 million), an amount which, in the opinion of management, makes a reasonable provision for AFG's ultimate liability for A&E claims.

Personal The Personal group's net written premiums decreased $65.9 million (5%) during 1998 due primarily to stronger price competition in the personal automobile market. The combined ratio improved in 1998 due to both lower loss experience and a 6% reduction in underwriting expenses.

The Personal group's net written premiums decreased $39.6 million (3%) during 1997 due primarily to a reinsurance agreement, effective January 1, 1997, under which 80% of all AFG's homeowners' business was reinsured. Excluding the impact of

the reinsurance agreement, premiums increased 4%. Volume increases in the California nonstandard auto business resulting from enactment of legislation which requires drivers to provide proof of insurance in order to obtain a valid permit contributed to a growth in personal automobile business. Rate increases during 1995 and early 1996, primarily in the nonstandard auto group, contributed to the improvement in the combined ratio in 1997.

Specialty The Specialty group's net written premiums decreased $156 million (11%) during 1998 due primarily to the impact of a reinsurance agreement whereby approximately 30% of AFG's California workers' compensation premiums were ceded and the sale of the Commercial lines division. Excluding these operations, the net written premiums of the other specialty businesses were essentially the same as a year ago. Underwriting results worsened from the comparable period in 1997 due to losses from the midwestern storms in the second quarter of 1998 compared to milder weather conditions during 1997 and unusually good results in 1997 in certain other lines.

Net written premiums increased $101.8 million (7%) in 1997 due primarily to premiums recorded by a newly acquired aviation division and the return of premiums in 1996 related to the withdrawal from a voluntary pool. The Specialty group had a combined ratio of 100% in 1997 despite a significant decline in the results of AFG's California workers' compensation business relating to (i) deteriorating underwriting margins on business written in 1996 and 1997, (ii) reserve reductions in 1996 primarily for business written prior to 1995 in response to a fundamental change in the California workers' compensation market and actuarial evaluations and (iii) several current year commercial casualty losses as well as adverse development in certain prior year claims. The Specialty group's combined ratio was unusually low in 1996 due primarily to the reallocation of $40 million in reserves to A&E reserves (a combined ratio impact of 3.0 percentage points) and the 1996 reductions in California workers' compensation reserves mentioned above.

Life, Accident and Health Premiums and Benefits The increase in life, accident and health premiums and benefits in 1998 reflects primarily AAG's acquisition of Great American Life Assurance Company of Puerto Rico, Inc. in December 1997. Life, accident and health premiums and benefits increased in 1997 due primarily to an increase in pre-need life insurance sales by AAG's Funeral Services division which was sold in 1998.

Investment Income Changes in investment income reflect fluctuations in market rates and changes in average invested assets.

1998 compared to 1997 Investment income increased $14.8 million (2%) from 1997 due primarily to an increase in the average amount of investments held partially offset by decreasing market interest rates.

1997 compared to 1996 Investment income increased $22.5 million (3%) from 1996 due primarily to an increase in the average amount of investments held partially offset by decreasing market interest rates.

Investee Corporation Equity in net losses of investee corporation represents AFG's proportionate share of the results of Chiquita Brands International. Equity in net losses excludes AFG's share of amounts included in extraordinary items; the amount for 1996 includes $1.5 million in earnings from Citicasters which was sold in 1996.

AFG recorded equity in net losses of Chiquita of $13.2 million, $5.6 million and $18.4 million in 1998, 1997 and 1996, respectively. Chiquita's loss attributable to common shareholders (before extraordinary items) was $35.5 million, $16.6 million and $39.7 million during these same periods.

Chiquita's results for 1998 include pretax writedowns and costs of $74 million resulting from widespread flooding in Honduras and Guatemala caused by Hurricane Mitch. Excluding these unusual items, Chiquita's operating income improved $52 million in 1998 compared to 1997 due primarily to lower delivered product costs for bananas on higher worldwide volume, which more than offset the adverse effect of lower banana pricing.

Chiquita's results for 1997 were adversely affected by a stronger dollar in relation to major European currencies (mitigated in part by the company's foreign currency hedging program) and by increased banana production costs resulting primarily from widespread flooding in 1996. These factors more than offset the benefit of higher local currency banana pricing in Europe during the second half of the year.

Chiquita's results for 1996 include pretax writedowns and costs of $70 million resulting from (i) industry-wide flooding in Costa Rica, Guatemala and Honduras, (ii) certain strategic undertakings designed to achieve further long-term reductions in the delivered product cost of Chiquita bananas and (iii) certain claims relating to prior European Union quota restructuring actions.

Gains on Sales of Investees The gains on sales of investees in 1998 and 1997 represent pretax gains to AFG as a result of Chiquita's public issuance of shares of its common stock. The gain on sale of investee in 1996 represents a pretax gain, before $6.5 million of minority interest, on the sale of Citicasters common stock.

Gains on Sales of Subsidiaries The gains on sales of subsidiaries in 1998 include (i) a pretax gain of $152.6 million on the sale of the Commercial lines division, (ii) a pretax gain of $21.6 million on AAG's sale of its Funeral Services division and (iii) a charge of $15.5 million relating to operations expected to be sold or otherwise disposed of. The gains on sales of subsidiaries in 1997 include (i) a pretax gain of $49.9 million on the sale of MDI and (ii) a charge of $17 million relating to operations expected to be sold or otherwise disposed of. The gains on sales of subsidiaries in 1996 include a pretax gain of $33.9 million on the sale of Buckeye Management Company and the settlement of litigation related to a subsidiary sold in 1993.

Other Income

1998 compared to 1997 Other income increased $10.3 million (9%) in 1998 due primarily to income from the sale of operating real estate assets and lease residuals which more than offset the absence of revenues from a noninsurance subsidiary which was sold in the fourth quarter of 1997.

1997 compared to 1996 Other income decreased $14.9 million (11%) in 1997 compared to 1996 due primarily to the absence of revenues from a noninsurance subsidiary which was sold in the first quarter of 1997.

Annuity Benefits For GAAP financial reporting purposes, annuity receipts are accounted for as interest-bearing deposits ("annuity benefits accumulated") rather than as revenues. Under these contracts, policyholders' funds are credited with interest on a tax-deferred basis until withdrawn by the policyholder. Annuity benefits reflect amounts accrued on annuity policyholders' funds accumulated. The rate at which AAG credits interest on most of its annuity policyholders' funds is subject to change based on management's judgment of market conditions. As a result, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. While AAG believes the recent interest rate and stock market environment over the last several years has contributed to an increase in annuitizations and surrenders, the company's persistency rate remains approximately 88%. However, a continuation of the current interest rate environment could adversely affect this rate.

Fixed annuity receipts totaled approximately $480 million in 1998, $490 million in 1997 and $570 million in 1996. Annuity receipts in 1997 reflect the decrease of business written by a single agency from $99 million in 1996 to $23 million in 1997. AAG is no longer writing business through this agency. AAG believes that the success of the stock market and the recent interest rate environment have also resulted in decreased sales and persistency of traditional fixed annuities. Sales of annuity products linked to the performance of the stock market (equity-indexed and variable annuities) helped offset this decrease.

Annuity benefits decreased $17.2 million (6%) from 1997 due primarily to decreases in crediting rates and changes in actuarial assumptions. Annuity benefits increased $7 million (3%) in 1997 due primarily to an increase in average annuity benefits accumulated partially offset by decreases in crediting rates.

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

1998 compared to 1997 Interest expense increased $5.4 million (10%) from 1997 due primarily to an increase in outstanding indebtedness.

1997 compared to 1996 Interest expense decreased $23.7 million (31%) from 1996. The decrease reflects significant debt reductions in 1996.

Minority Interest Expense Minority interest expense for 1996 includes $6.5 million related to the sale of Citicasters shares held by AFEI. Dividends paid by subsidiaries on their preferred securities have varied as the securities were issued and retired over the past three years.

Other Operating and General Expenses

1998 compared to 1997 Other operating and general expenses increased $10.8 million (3%) in 1998 due primarily to inclusion of the operations of Great American Life Assurance Company of Puerto Rico following its acquisition in late 1997 which more than offset the absence of expenses from a noninsurance subsidiary which was sold in the fourth quarter of 1997.

1997 compared to 1996 Operating and general expenses in 1997 include third quarter charges of $5.5 million relating to an arbitration settlement and $4.0 million relating to relocating a subsidiary's operations to Cincinnati. These charges were more than offset by a reduction caused by the absence of expenses from a noninsurance subsidiary which was sold in the first quarter of 1997.

Income Taxes See Note J to the Financial Statements for an analysis of items affecting AFG's effective tax rate.

Recent Accounting Standards The following accounting standards have been implemented by AFG in 1997 or 1998 or will be implemented in 1999 or 2000. The implementation of these standards is discussed under various subheadings of Note A to the Financial Statements (segment information is discussed in Note C); effects of each are shown in the relevant Notes. Implementation of Statement of Position ("SOP") 98-5 in the first quarter of 1999 and Statement of Financial Account Standard ("SFAS") No. 133 in the first quarter of 2000 is not expected to have a significant effect on AFG.

Accounting Standard	Subject of Standard (Year Implemented)	Reference
SFAS #128	Earnings Per Share (1997)	"Earnings Per Share"
SFAS #130	Comprehensive Income (1998)	"Comprehensive Income"
SFAS #131	Segment Information (1998)	"Segment Information"
SFAS #133	Derivatives (2000)	"Derivatives"
SOP 98-5	Start-up Costs (1999)	"Start-up Costs"

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

ITEM 7A

Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 8

Financial Statements and Supplementary Data

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

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

PART III

The information required by the following Items will be included in AFG's definitive Proxy Statement for the 1999 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission within 120 days after the end of Registrant's fiscal year and is incorporated herein by reference.

ITEM 10 Directors and Executive Officers of the Registrant

ITEM 11 Executive Compensation

ITEM 12 Security Ownership of Certain Beneficial Owners and Management

ITEM 13 Certain Relationships and Related Transactions

REPORT OF INDEPENDENT AUDITORS

Board of Directors
American Financial Group, Inc.

We have audited the accompanying consolidated balance sheet of American Financial Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Financial Group, Inc. and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Cincinnati, Ohio
March 19, 1999

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

	December 31, 1998	1997
Assets:		
Cash and short-term investments	$ 296,721	$ 257,117
Investments:		
Fixed maturities:		
Available for sale - at market (amortized cost - $9,921,344 and $7,225,736)	10,324,344	7,532,836
Held to maturity - at amortized cost (market - $3,419,000)	-	3,328,082
Other stocks - principally at market (cost - $207,345 and $153,322)	430,345	446,222
Investment in investee corporation	192,138	200,714
Policy loans	220,496	240,955
Real estate and other investments	271,915	283,979
Total investments	11,439,238	12,032,788
Recoverables from reinsurers and prepaid reinsurance premiums	1,973,895	998,743
Agents' balances and premiums receivable	618,198	691,005
Deferred acquisition costs	464,047	521,898
Other receivables	306,821	243,330
Assets held in separate accounts	120,049	300,491
Prepaid expenses, deferred charges and other assets	344,465	410,569
Cost in excess of net assets acquired	281,769	299,408
	$15,845,203	$15,755,349
Liabilities and Capital:		
Unpaid losses and loss adjustment expenses	$ 4,773,377	$ 4,225,336
Unearned premiums	1,232,848	1,328,910
Annuity benefits accumulated	5,449,633	5,528,111
Life, accident and health reserves	341,595	709,899
Long-term debt:		
Holding companies	415,536	386,661
Subsidiaries	176,896	194,084
Liabilities related to separate accounts	120,049	300,491
Accounts payable, accrued expenses and other liabilities	1,097,316	906,151
Total liabilities	13,607,250	13,579,643
Minority interest	521,776	512,997
Shareholders' Equity:		
Common Stock, no par value - 200,000,000 shares authorized - 60,928,322 and 61,048,904 shares outstanding	60,928	61,049
Capital surplus	770,721	775,689
Retained earnings	527,028	477,071
Net unrealized gain on marketable securities, net of deferred income taxes	357,500	348,900
Total shareholders' equity	1,716,177	1,662,709
	$15,845,203	$15,755,349

See notes to consolidated financial statements.

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

	Year ended December 31, 1998	1997	1996
Income:			
Property and casualty insurance premiums	$2,698,738	$2,824,381	$2,844,512
Life, accident and health premiums	170,365	121,506	103,552
Investment income	883,700	868,946	846,428
Equity in net losses of investees	(13,198)	(5,564)	(16,955)
Realized gains (losses) on sales of:			
Securities	6,275	46,006	(3,470)
Investees	9,420	11,428	169,138
Subsidiaries	158,673	33,602	36,837
Other investments	5,293	-	-
Other income	130,768	120,418	135,355
	4,050,034	4,020,723	4,115,397
Costs and Expenses:			
Property and casualty insurance:			
Losses and loss adjustment expenses	2,001,783	2,075,616	2,051,421
Special asbestos and environmental charge	213,500	-	80,000
Commissions and other underwriting expenses	772,917	790,324	793,800
Annuity benefits	261,666	278,829	271,821
Life, accident and health benefits	131,652	110,082	92,315
Interest charges on borrowed money	57,682	52,331	76,052
Minority interest expense	55,798	54,456	47,821
Other operating and general expenses	350,282	339,475	348,923
	3,845,280	3,701,113	3,762,153
Earnings before income taxes and extraordinary items	204,754	319,610	353,244
Provision for income taxes	79,584	120,127	91,277
Earnings before extraordinary items	125,170	199,483	261,967
Extraordinary items - loss on prepayment of debt	(770)	(7,233)	(28,667)
Net Earnings	$ 124,400	$ 192,250	$ 233,300
Premium over stated value paid on redemption of preferred stock	-	(153,333)	-
Net earnings available to Common Shares	$ 124,400	$ 38,917	$ 233,300

Basic earnings (loss) per Common Share:			
Before extraordinary items	$2.04	$3.34	$4.31
Loss on prepayment of debt	(.01)	(.12)	(.47)
Premium on redemption of preferred stock	-	(2.57)	-
Net earnings available to Common Shares	$2.03	$ .65	$3.84
Diluted earnings (loss) per Common Share:			
Before extraordinary items	$2.01	$3.28	$4.26
Loss on prepayment of debt	(.01)	(.12)	(.47)
Premium on redemption of preferred stock	-	(2.52)	-
Net earnings available to Common Shares	$2.00	$ .64	$3.79
Average number of Common Shares:			
Basic	61,222	59,660	60,801
Diluted	62,185	60,748	61,494

See notes to consolidated financial statements.

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 December 31, 1995	60,139,303	$801,494	$387,143	$251,500	
Net earnings	-	-	233,300	-	$233,300
Dividends on Common Stock	-	-	(60,727)	-	-
Shares issued:					
Exercise of stock options	664,639	14,837	-	-	-
Dividend reinvestment plan	10,491	342	-	-	-
Employee stock purchase plan	81,041	2,551	-	-	-
Portion of bonuses paid in stock	4,300	131	-	-	-
Directors fees paid in stock	1,299	46	-	-	-
Conversion of Preferred Stock	446,799	8,908	-	-	-
Shares repurchased	(276,246)	(8,563)	-	-	-
Retirement of AFC Preferred Stock	-	(14,388)	-	-	-
Change in unrealized	-	-	-	(63,500)	(63,500)
Other	-	1,363	-	-	-
Balance at December 31, 1996	61,071,626	806,721	559,716	188,000	$169,800
Net earnings	-	-	192,250	-	$192,250
Dividends on Common Stock	-	-	(59,589)	-	-
Shares issued:					
Exercise of stock options	413,312	11,292	-	-	-
Dividend reinvestment plan	8,207	314	-	-	-
Employee stock purchase plan	65,692	2,553	-	-	-
Portion of bonuses paid in stock	40,500	1,521	-	-	-
Directors fees paid in stock	1,662	68	-	-	-
AFEI merger	2,122,548	51,926	-	-	-
Shares repurchased	(2,674,643)	(35,347)	(61,973)	-	-
Retirement of AFC Preferred Stock	-	-	(153,333)	-	-
Capital transactions of subsidiaries	-	(1,960)	-	-	-
Change in unrealized	-	-	-	160,900	160,900
Other	-	(350)	-	-	-
Balance at December 31, 1997	61,048,904	836,738	477,071	348,900	$353,150
Net earnings	-	-	124,400	-	$124,400
Dividends on Common Stock	-	-	(61,222)	-	-
Shares issued:					
Exercise of stock options	296,416	8,288	-	-	-
Dividend reinvestment plan	11,021	432	-	-	-
Employee stock purchase plan	68,177	2,689	-	-	-
401-K plan company match	44,035	1,783	-	-	-
Portion of bonuses paid in stock	20,300	816	-	-	-
Directors fees paid in stock	2,280	90	-	-	-
Shares repurchased	(562,811)	(7,768)	(13,221)	-	-
Capital transactions of subsidiaries	-	(11,703)	-	-	-
Change in unrealized	-	-	-	8,600	8,600
Other	-	284	-	-	-
Balance at December 31, 1998	60,928,322	$831,649	$527,028	$357,500	$133,000

See notes to consolidated financial statements.

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

	Year ended December 31,		
	1998	1997	1996
Operating Activities:			
Net earnings	$ 124,400	$ 192,250	$ 233,300
Adjustments:			
Extraordinary items	770	7,233	28,667
Special asbestos and environmental charge	213,500	-	80,000
Depreciation and amortization	106,041	76,434	79,425
Annuity benefits	261,666	278,829	271,821
Equity in net losses of investee corporations	13,198	5,564	16,955
Changes in reserves on assets	14,020	7,610	5,656
Realized gains on investing activities	(205,659)	(103,157)	(198,676)
Deferred annuity and life policy acquisition costs	(117,202)	(72,634)	(68,511)
Decrease (increase) in reinsurance and other receivables	(349,183)	(171,690)	96,387
Decrease (increase) in other assets	(5,575)	23,763	92,052
Increase (decrease) in insurance claims and reserves	176,552	206,900	(70,829)
Increase (decrease) in other liabilities	153,903	(28,003)	(212,720)
Increase in minority interest	5,731	22,654	18,206
Dividends from investees	4,799	4,799	4,799
Other, net	(11,516)	(24,549)	(3,552)
	385,445	426,003	372,980
Investing Activities:			
Purchases of and additional investments in:			
Fixed maturity investments	(2,155,192)	(2,555,060)	(2,128,553)
Equity securities	(78,604)	(37,107)	(10,528)
Subsidiaries	(30,325)	(118,713)	-
Real estate, property and equipment	(66,819)	(64,917)	(38,035)
Maturities and redemptions of fixed maturity investments	1,248,775	897,786	617,272
Sales of:			
Fixed maturity investments	795,520	1,407,598	881,114
Equity securities	28,850	104,960	53,195
Investees and subsidiaries	164,589	32,500	284,277
Real estate, property and equipment	53,962	23,289	7,981
Cash and short-term investments of acquired (former) subsidiaries	(21,141)	2,714	(4,589)
Decrease (increase) in other investments	(15,135)	(12,892)	315
	(75,520)	(319,842)	(337,551)

Financing Activities:			
Fixed annuity receipts	480,572	493,708	573,741
Annuity surrenders, benefits and withdrawals	(690,388)	(607,174)	(517,881)
Additional long-term borrowings	262,537	284,150	288,775
Reductions of long-term debt	(251,837)	(230,688)	(582,288)
Issuances of Common Stock	10,236	13,845	26,296
Repurchases of Common Stock	(20,651)	(97,320)	(8,563)
Issuances of trust preferred securities	-	149,353	168,876
Issuances of subsidiary preferred stock	-	-	16,800
Repurchases of subsidiary preferred stock	-	(243,939)	(36,912)
Cash dividends paid	(60,790)	(59,275)	(60,385)
	(270,321)	(297,340)	(131,541)
Net Increase (Decrease) in Cash and Short-term Investments	39,604	(191,179)	(96,112)
Cash and short-term investments at beginning of period	257,117	448,296	544,408
Cash and short-term investments at end of period	$ 296,721	$ 257,117	$ 448,296

See notes to consolidated financial statements.

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A. Accounting Policies

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

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

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. At December 31, 1998, AFG reclassified "held to maturity" securities with an amortized cost of $2.6 billion to "available for sale" to give management greater flexibility to react to changing market conditions. This reclassification resulted in an increase of $98.8 million in the carrying value of fixed maturity investments and (after effects of income taxes, minority interest, and adjustments related to deferred policy acquisition costs) an increase of $49.6 million in shareholders'equity. The transfer had no effect on net earnings.

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 reinsured policies. AFG's insurance subsidiaries report as assets (a) the estimated reinsurance recoverable on unpaid losses, including an estimate for losses incurred but not reported, and (b) amounts paid to reinsurers applicable to the unexpired terms of policies in force. 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 the 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 tax-deferred annuity program previously offered by American Annuity Group, Inc.'s ("AAG's") Funeral Services division, which was sold in 1998 (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 a part of a broader reorganization.

Income Taxes AFC files consolidated federal income tax returns which include all 80%-owned U.S. subsidiaries, except for certain life insurance subsidiaries and their subsidiaries. Because holders of AFC Preferred Stock hold in excess of 20% of AFC's voting rights, AFG (parent) and its direct subsidiary, AFC Holding Company ("AFC Holding" or "AFCH") own less than 80% of AFC, and therefore, file 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 1998) 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. Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," was issued during the second quarter of 1998 and is effective for fiscal years beginning after December 15, 1998. The SOP requires that (i) costs of start-up activities be expensed as incurred and (ii) 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 $7 million in capitalized start-up costs at December 31, 1998.

Derivatives The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," during the second quarter of 1998. SFAS No. 133 is effective for fiscal periods (both years and quarters) beginning after June 15, 1999. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including derivative instruments that are embedded in other contracts, and for hedging activities. SFAS No. 133 requires the recognition of all derivatives (both assets and liabilities) in the statement of financial position at fair value. Changes in fair value of derivative instruments are included in current income or as a component of comprehensive income (outside current income) depending on the type of derivative. Implementation of SFAS No. 133 is not expected to have a material effect on AFG's financial position or results of operations.

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 is 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 were restated.

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. Implementation of this statement had no impact on net earnings or shareholders' equity. Appropriate data for prior periods has been added 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.

Fair Value of Financial Instruments Methods and assumptions used in estimating fair values are described in Note O to the financial statements. These fair values represent point-in-time estimates of value that might not be particularly relevant in predicting AFG's future earnings or cash flows.

B. Acquisitions and Sales of Subsidiaries and Investees

Commercial lines division In December 1998, AFG completed the sale of substantially all of its Commercial lines division to Ohio Casualty Corporation for $300 million plus warrants to purchase 3 million shares of Ohio Casualty common stock. AFG retained $300 million in securities it would otherwise have transferred to Ohio Casualty in connection with the reinsurance of business assumed by Ohio Casualty. For accounting purposes, the insurance liabilities ceded to Ohio Casualty and the sale of the other net assets are required to be accounted for separately. AFG deferred a gain of $103 million on the insurance ceded to Ohio Casualty and recognized a pretax gain of $153 million on the sale of the other net assets. The deferred gain is being recognized over the estimated remaining settlement period (weighted average of 4.25 years) of the claims ceded. AFG may receive up to an additional $40 million in the year 2000 based upon the retention and growth of the insurance businesses acquired by Ohio Casualty. The commercial lines sold generated net written premiums of approximately $250 million in 1998 (11 months), $315 million in 1997 and $314 million in 1996.

Funeral Services division In September 1998, AAG sold its Funeral Services division for approximately $165 million in cash. The division held assets of approximately $1 billion at the sale date. AFG realized a third quarter pretax gain of $21.6 million, before $2.7 million of minority interest, on this sale.

Chiquita During 1997 and 1998, Chiquita issued shares of its common stock in acquisitions of operating businesses. AFG recorded pretax gains of $11.4 million in the fourth quarter of 1997, $7.7 million in the first quarter of 1998 and $1.7 million in the second quarter of 1998 representing the excess of AFG's equity in Chiquita following the issuances of its common stock over AFG's previously recorded carrying value.

Millennium Dynamics, Inc. In December 1997, AFG completed the sale of the assets of its software solutions and consulting services subsidiary, Millennium Dynamics, Inc. ("MDI"), to a subsidiary of Peritus Software Services, Inc. for $30 million in cash and 2,175,000 shares of Peritus common stock. AFG recognized a pretax gain of approximately $50 million on the sale.

Peritus experienced difficulties in 1998, wrote off substantial amounts of its assets, and reported significant losses throughout the year. As a result, AFG recognized a pretax realized loss of $26.9 million and reduced its carrying value of Peritus shares to a nominal value at December 31, 1998.

American Financial Enterprises, Inc. ("AFEI") In December 1997, AFG and AFEI engaged in a merger transaction whereby the shares of AFEI not held by AFG were acquired by AFG for approximately $23 million in cash and approximately 2.1 million shares of its common stock.

Citicasters In 1996, AFG sold its investment in Citicasters to Jacor Communications for approximately $220 million in cash plus warrants to purchase Jacor common stock. AFG realized a pretax gain of approximately $169 million, before minority interest of $6.5 million, on the sale.

Buckeye In 1996, AFG sold Buckeye Management Company to Buckeye's management (including an AFG director who resigned in March 1996) and employees for $60 million in cash, net of transaction costs. AFG recognized a $33.9 million pretax gain on the sale. In connection with the sale, the AFG director converted his AFG convertible preferred stock into 446,799 shares of AFG Common Stock and sold such shares in the open market.

C. Segments of Operations Following the sale of substantially all of its Commercial lines division, AFG's property and casualty group is engaged primarily in private passenger automobile and specialty insurance businesses. 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. AFG's annuity and life business markets primarily retirement products as well as life and supplemental health insurance. AFG's businesses operate throughout the United States. In addition, AFG has owned significant portions of the voting equity securities of certain companies (investee corporation - see Note E).

Effective January 1, 1998, AFG implemented SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires segment information to be reported based on how management internally evaluates the operating performance of its business units. Implementation of this standard had no impact on AFG's financial position or results of operations.

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

	1998	1997	1996
Assets			
Property and casualty insurance (a)	$ 8,278,898	$ 7,517,856	$ 7,116,088
Annuities and life	7,174,544	7,693,463	7,009,127
Other	199,623	343,316	726,252
	15,653,065	15,554,635	14,851,467
Investment in investees	192,138	200,714	199,651
	$15,845,203	$15,755,349	$15,051,118
Revenues (b)			
Property and casualty insurance:			
Premiums earned:			
Personal	$ 1,289,689	$ 1,356,642	$ 1,447,751
Specialty	1,371,509	1,429,143	1,355,906
Other lines	37,540	38,596	40,855
	2,698,738	2,824,381	2,844,512
Investment and other income	643,106	448,849	500,897
	3,341,844	3,273,230	3,345,409
Annuities and life (c)	729,854	638,348	585,079
Other	(8,466)	114,709	201,864
	4,063,232	4,026,287	4,132,352
Equity in net losses of investees	(13,198)	(5,564)	(16,955)
	$ 4,050,034	$ 4,020,723	$ 4,115,397
Operating Profit (Loss)			
Property and casualty insurance:			
Underwriting:			
Personal	$ 34,029	$ 21,235	($ 55,989)
Specialty	(67,131)	(324)	155,405
Other lines (d)	(256,360)	(62,470)	(180,125)
	(289,462)	(41,559)	(80,709)
Investment and other income	514,736	318,613	392,250
	225,274	277,054	311,541
Annuities and life	128,074	93,794	77,119
Other (e)	(135,396)	(45,674)	(18,461)
	217,952	325,174	370,199
Equity in net losses of investees	(13,198)	(5,564)	(16,955)
	$ 204,754	$ 319,610	$ 353,244

(a) Not allocable to segments.
(b) Revenues include sales of products and services as well as other income earned by the respective segments.
(c) Represents primarily investment income.
(d) Represents primarily losses related to asbestos and other environmental matters ("A&E").
(e) Includes holding company expenses.

D. Investments Fixed maturities and other stocks at December 31, consisted of the following (in millions):

1998

	Available for Sale				Held to Maturity			
	Amortized Cost	Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost	Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities:								
United States Government and government agencies and authorities	$ 507.5	$ 537.6	$ 30.2	($ .1)	$ -	$ -	$ -	$ -
States, municipalities and political subdivisions	137.0	144.8	7.8	-	-	-	-	-
Foreign government	67.3	71.0	3.8	(.1)	-	-	-	-
Public utilities	688.0	717.8	29.9	(.1)	-	-	-	-
Mortgage-backed securities	2,399.9	2,493.2	102.0	(8.7)	-	-	-	-
All other corporate	6,062.3	6,297.9	265.9	(30.3)	-	-	-	-
Redeemable preferred stocks	59.3	62.0	3.5	(.8)	-	-	-	-
	$9,921.3	$10,324.3	$443.1	($40.1)	$ -	$ -	$ -	$ -
Other stocks	$ 207.3	$ 430.3	$230.7	($ 7.7)				

1997

	Available for Sale				Held to Maturity			
	Amortized Cost	Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost	Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities:								
United States Government and government agencies and authorities	$ 600.8	$ 618.6	$ 18.1	($ .3)	$ -	$ -	$ -	$ -
States, municipalities and political subdivisions	86.7	89.3	2.6	-	72.0	73.6	1.8	(.2)
Foreign government	55.9	57.9	2.1	(.1)	8.3	8.9	.6	-
Public utilities	359.3	374.7	15.7	(.3)	459.7	466.7	8.3	(1.3)
Mortgage-backed securities	1,715.7	1,779.4	65.5	(1.8)	868.9	899.4	30.6	(.1)
All other corporate	4,336.9	4,536.9	200.0	-	1,919.2	1,970.4	52.7	(1.5)
Redeemable preferred stocks	70.4	76.0	5.9	(.3)	-	-	-	-
	$7,225.7	$ 7,532.8	$309.9	($ 2.8)	$3,328.1	$ 3,419.0	$ 94.0	($ 3.1)
Other stocks	$ 153.3	$ 446.2	$293.7	($ .8)				

The table below sets forth the scheduled maturities of fixed maturities based on market value as of December 31, 1998. Data based on amortized cost is generally the same. Mortgage-backed securities had an average life of approximately 4.6 years at December 31, 1998.

Maturity	
One year or less	6%
After one year through five years	25
After five years through ten years	30
After ten years	15
	76
Mortgage-backed securities	24
	100%

Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

Included in "Other stocks" at December 31, 1998 and 1997, are $243 million and $313 million, respectively, of securities of Provident Financial Group, Inc. which exceeded 10% of Shareholders' Equity.

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

	Fixed Maturities	Equity Securities	Tax Effects	Total
1998				
Realized (*)	$ 25,841	($ 19,566)	($ 2,196)	$ 4,079
Change in Unrealized	4,982	(69,900)	22,721	(42,197)
1997				
Realized	11,542	34,464	(16,102)	29,904
Change in Unrealized	222,188	107,600	(115,426)	214,362
1996				
Realized	(16,545)	13,075	8,199	4,729
Change in Unrealized	(271,803)	70,000	70,631	(131,172)

(*) Includes $6.8 million in realized gains on fixed maturities transferred to Ohio Casualty in connection with sale of the Commercial lines division (see Note B).

Transactions in fixed maturity investments included in the Statement of Cash Flows consisted of the following (in millions):

	Purchases	Maturities and Redemptions	Sales	Gross Gains	Gross Losses
1998					
Held to Maturity (*)	$ .8	$ 585.0	$ 45.3	$12.1	($ .5)
Available for Sale	2,154.4	663.8	750.2	24.9	(17.5)
Total	$2,155.2	$1,248.8	$ 795.5	$37.0	($18.0)
1997					
Held to Maturity	$ 5.6	$ 422.3	$ 8.0	$ .5	($ 1.0)
Available for Sale	2,549.5	475.5	1,399.6	37.7	(25.7)
Total	$2,555.1	$ 897.8	$1,407.6	$38.2	($26.7)
1996					
Held to Maturity	$ 202.8	$ 332.5	$ 9.3	$ 2.4	($ 1.2)
Available for Sale	1,925.8	284.8	871.8	29.6	(47.3)
Total	$2,128.6	$ 617.3	$ 881.1	$32.0	($48.5)

(*) Prior to reclassification to available for sale at December 31, 1998.

Securities classified as "held to maturity" having amortized cost of $41.8 million, $8.2 million and $9.5 million were sold for gains (losses) of $603,000, ($170,000) and ($159,000) in 1998, 1997 and 1996, respectively, due to significant deterioration in the issuers' creditworthiness.

E. Investment in Investee Corporation Investment in investee corporation reflects AFG's ownership of 24 million shares (37%) of Chiquita common stock. The market value of this investment was $229 million and $391 million at December 31, 1998 and 1997, respectively. Chiquita is a leading international marketer, producer and distributor of quality fresh fruits and vegetables and processed foods. Equity in net losses excludes AFG's share of amounts included in extraordinary items; the amount for 1996 includes $1.5 million in earnings from Citicasters which was sold in 1996.

Summarized financial information for Chiquita at December 31, is shown below (in millions).

	1998	1997	1996
Current Assets	$ 840	$ 783	
Noncurrent Assets	1,669	1,618	
Current Liabilities	531	483	
Noncurrent Liabilities	1,184	1,138	
Shareholders' Equity	794	780	
Net Sales	$2,720	$2,434	$2,435
Operating Income	79	100	84
Loss Before Extraordinary Items	(18)	-	(28)
Extraordinary Loss from Debt Refinancings	-	-	(23)
Net Loss	(18)	-	(51)
Net Loss Attributable to Common Shares	(36)	(17)	(63)

Operating income for 1998 includes $74 million of fourth quarter write-downs and costs resulting from widespread flooding in Honduras and Guatemala caused by Hurricane Mitch.

F. Cost in Excess of Net Assets Acquired At December 31, 1998 and 1997, accumulated amortization of the excess of cost over net assets of purchased subsidiaries amounted to approximately $143 million and $133 million, respectively. Amortization expense was $11.9 million in 1998, $11.6 million in 1997 and $10.8 million in 1996.

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

	1998	1997
Holding Companies:		
AFG 7-1/8% Senior Debentures due December 2007	$100,000	$100,000
AFC notes payable under bank line	80,000	45,000
AFC 9-3/4% Debentures due April 2004, less discount of $618 and $737 (imputed rate - 9.8%)	78,560	79,792
American Premier Underwriters, Inc. ("APU") 9-3/4% Subordinated Notes due August 1999, including premium of $487 and $1,224 (imputed rate - 8.8%)	89,467	92,127
APU 10-5/8% Subordinated Notes due April 2000, including premium of $883 and $1,559 (imputed rate - 8.8%)	41,518	43,889
APU 10-7/8% Subordinated Notes due May 2011, including premium of $1,471 and $1,584 (imputed rate - 9.6%)	17,473	17,586
Other	8,518	8,267
	$415,536	$386,661
Subsidiaries:		
AAG 6-7/8% Senior Notes due June 2008	$100,000	$ -
AAG notes payable under bank line	27,000	107,000
AAG 11-1/8% Senior Subordinated Notes	-	24,080
Notes payable secured by real estate	37,602	49,525
Other	12,294	13,479
	$176,896	$194,084

At December 31, 1998, sinking fund and other scheduled principal payments on debt for the subsequent five years were as follows (in thousands):

	Holding Companies	Subsidiaries	Total
1999	$88,980	$ 1,986	$90,966
2000	40,635	8,685	49,320
2001	-	1,382	1,382
2002	85,608	1,268	86,876
2003	-	28,294	28,294

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 an 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. At December 31, 1998 and 1997, the weighted average interest rate on amounts borrowed under this bank credit line and a previous one was 5.68% and 6.81%, respectively.

In January 1998, AAG replaced its existing bank lines with a $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. At December 31, 1998 and 1997, the weighted average interest rate on amounts borrowed under AAG's bank credit line was 6.09% and 6.80%, respectively. In

February 1998, AAG borrowed under the credit line and retired its 11-1/8% Notes. In June 1998, AAG issued $100 million principal amount of 6-7/8% Senior Notes due 2008 and used the net proceeds to reduce outstanding indebtedness under the credit line.

Significant retirements of long-term debt since January 1, 1997, have been as follows (in millions):

	Year	Principal	Cost
AFC Debentures	1997	$85.0	$96.7
	1998	1.4	1.4
APU Notes	1997	11.3	12.5
	1998	3.6	3.8
AAG Notes	1997	40.8	42.5
	1998	24.1	24.8

Cash interest payments of $49 million, $50 million and $75 million were made on long-term debt in 1998, 1997 and 1996, respectively.

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

	1998	1997
Interest of noncontrolling shareholders in subsidiaries' common stock	$124,622	$115,843
Preferred securities issued by subsidiary trusts	325,000	325,000
AFC preferred stock	72,154	72,154
	$521,776	$512,997

Preferred Securities Wholly-owned subsidiary trusts of AFCH and AAG have issued $325 million of preferred securities and, in turn, purchased $325 million of newly-authorized AFCH 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

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

AFC Preferred Stock AFC's Preferred Stock is voting, cumulative, and consists 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 December 31, 1998 and 1997.

In December 1997, AFC retired all shares of its Series F and G Preferred Stock in exchange for approximately $244 million in cash and the above shares of Series J Preferred Stock. AFG recorded a charge to retained earnings of $153.3 million representing the excess of total consideration paid over the stated value of the preferred stock retired.

In 1996, AFC redeemed 1.6 million shares of its Series F Preferred Stock for $31.9 million and purchased 250,000 shares of Series F from its retirement plan for $5.0 million. In 1996, AFC issued 1.6 million shares of its Series G Preferred Stock to its retirement plan for $16.8 million.

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

	1998	1997	1996
Interest of noncontrolling shareholders in earnings of subsidiaries	$21,845	$16,142	$19,851
Accrued distributions by subsidiaries on preferred securities:			
Trust issued securities	28,181	24,599	2,780
AFC preferred stock	5,772	13,715	25,190
	$55,798	$54,456	$47,821

I. Shareholders' Equity At December 31, 1998, there were 60,928,322 shares of AFG Common Stock outstanding, including 1,367,472 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. In 1996, 212,698 shares of convertible preferred stock were converted into 446,799 shares of AFG Common Stock. Prior to conversion, the preferred stock had a carrying value of $9.4 million and was included in Capital Surplus at $469,000 (net of $8.9 million in related notes receivable).

Stock Options At December 31, 1998, there were 4.7 million shares of AFG Common Stock reserved for issuance under AFG's Stock Option Plan. Options are granted with an exercise price equal to the market price of AFG Common Stock at the date of grant. Options generally become exercisable at the rate of 20% per year commencing one year after grant; those granted to nonemployee directors of AFG are fully exercisable upon grant. All options expire ten years after the date of grant. Data for AFG's Stock Option Plan is presented below:

	1998		1997		1996	
	Shares	Average Exercise Price	Shares	Average Exercise Price	Shares	Average Exercise Price
Outstanding at beginning of year	3,687,635	$28.73	3,331,947	$26.53	3,939,986	$25.72
Granted	466,250	$41.13	770,500	$37.54	75,000	$32.47
Exercised	(296,416)	$27.96	(413,312)	$27.32	(664,639)	$22.33
Forfeited	(49,100)	$33.79	(1,500)	$37.88	(18,400)	$30.06
Outstanding at end of year	3,808,369	$30.25	3,687,635	$28.73	3,331,947	$26.53
Options exercisable at year-end	2,085,873	$27.06	1,774,280	$26.03	1,379,182	$24.60

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Average Exercise Price	Average Remaining Life	Shares	Average Exercise Price
$17.24 - $20.00	99,405	$18.22	2.0 years	99,405	$18.22
$20.00 - $25.00	1,271,850	$23.95	5.0	952,577	$23.94
$25.00 - $30.00	291,864	$27.16	5.0	257,791	$27.26
$30.00 - $35.00	1,013,250	$30.34	7.1	597,900	$30.22
$35.00 - $45.19	1,132,000	$39.09	8.6	178,200	$37.81
	3,808,369	$30.25	6.6	2,085,873	$27.06

No compensation cost has been recognized for stock option grants. Had compensation cost been determined for stock option awards based on the fair values at grant dates consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, AFG's net income and earnings per share would not have been materially different from amounts reported. For SFAS No. 123 purposes, calculations were determined using the Black-Scholes option pricing model and the following assumptions: dividend yield of 2%; expected volatility of 21% for 1998 and 1997 and 20% for 1996; risk-free interest rate of 4.8% for 1998, 5.8% for 1997 and 6.2% for 1996; and expected life of 7.3 years for 1998, 6.7 years for 1997 and 7.5 years for 1996.

Unrealized Gain on Marketable Securities The change in net unrealized gain on marketable securities included the following (in millions):

	Pretax	Tax Effects	Minority Interest	Net
1998				
Unrealized holding gains (losses) on securities arising during the period	($ 50.5)	$ 19.0	$ .6	($ 30.9)
Unrealized gain on securities transferred from held to maturity	87.0	(30.4)	(7.0)	49.6
Less reclassification adjustment for realized gains included in net income and unrealized gains of subsidiaries sold	(20.4)	7.1	3.2	(10.1)
Change in net unrealized gain on marketable securities	$ 16.1	($ 4.3)	($ 3.2)	$ 8.6
1997				
Unrealized holding gains (losses) on securities arising during the period	$320.2	($112.2)	($15.1)	$192.9
Less reclassification adjustment for realized gains included in net income	(51.5)	18.0	1.5	(32.0)
Change in net unrealized gain on marketable securities	$268.7	($ 94.2)	($13.6)	$160.9
1996				
Unrealized holding gains (losses) on securities arising during the period	($ 94.3)	$ 21.5	$ 6.3	($ 66.5)
Less reclassification adjustment for realized gains included in net income	4.7	(1.7)	-	3.0
Change in net unrealized gain on marketable securities	($ 89.6)	$ 19.8	$ 6.3	($ 63.5)

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

	1998	1997	1996
Earnings before income taxes and extraordinary items	$204,754	$319,610	$353,244
Extraordinary items before income taxes	(1,265)	(11,287)	(35,670)
Adjusted earnings before income taxes	$203,489	$308,323	$317,574
Income taxes at statutory rate	$ 71,221	$107,912	$111,151
Effect of:			
Minority interest	9,438	10,058	15,112
Losses utilized	(6,572)	(3,164)	(43,302)
Amortization of intangibles	4,482	3,362	3,065
Dividends received deduction	(2,189)	(2,002)	(7,450)
Other	2,709	(93)	5,698
Total provision	79,089	116,073	84,274
Amounts applicable to extraordinary items	495	4,054	7,003
Provision for income taxes as shown on the Statement of Earnings	$ 79,584	$120,127	$ 91,277

Adjusted earnings before income taxes consisted of the following (in thousands):

	1998	1997	1996
Subject to tax in:			
United States	$196,020	$317,615	$331,842
Foreign jurisdictions	7,469	(9,292)	(14,268)
	$203,489	$308,323	$317,574

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

	1998	1997	1996
Current taxes (credits):			
Federal	$63,368	$ 35,495	$22,450
Foreign	94	-	(1,735)
State	652	(2,544)	6,369
Deferred taxes:			
Federal	14,553	83,581	56,869
Foreign	422	(459)	321
	$79,089	$116,073	$84,274

For income tax purposes, certain members of the AFC consolidated tax group had the following carryforwards available at December 31, 1998 (in millions):

	Expiring	Amount
{	1999 - 2003	$70
Operating Loss {	2004 - 2008	56
Capital Loss	1999	68
Other - Tax Credits		15

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

	1998	1997
Deferred tax assets:		
Net operating loss carryforwards	$ 44.3	$ 66.6
Capital loss carryforwards	23.7	32.0
Insurance claims and reserves	291.2	287.5
Other, net	110.0	148.8
	469.2	534.9
Valuation allowance for deferred tax assets	(88.6)	(97.9)
	380.6	437.0
Deferred tax liabilities:		
Deferred acquisition costs	(121.3)	(127.4)
Investment securities	(267.9)	(268.2)
	(389.2)	(395.6)
Net deferred tax asset (liability)	($ 8.6)	$ 41.4

The gross deferred tax asset has been reduced by a valuation allowance based on an analysis of the likelihood of realization. Factors considered in assessing the need for a valuation allowance include: (i) recent tax returns, which show neither a history of large amounts of taxable income nor cumulative losses in recent years, (ii) opportunities to generate taxable income from sales of appreciated assets, and (iii) the likelihood of generating larger amounts of taxable income in the future. The likelihood of realizing this asset will be reviewed periodically; any adjustments required to the valuation allowance will be made in the period in which the developments on which they are based become known. The aggregate valuation allowance decreased by $9.3 million in 1998 due primarily to the utilization of net operating loss carryforwards previously reserved.

Cash payments for income taxes, net of refunds, were $45.9 million, $51.6 million and $40.2 million for 1998, 1997 and 1996, respectively.

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

	1998	1997	1996
Holding Companies:			
AFC (parent)	($ 77)	($5,395)	($ 9,672)
APU (parent)	(44)	(588)	(3,254)
Subsidiaries:			
AAG	(649)	(1,250)	(7,159)
Other	-	-	57
Investee:			
Chiquita	-	-	(8,639)
	($770)	($7,233)	($28,667)

L. Commitments and Contingencies Loss accruals (included in other liabilities) have been recorded for various environmental and occupational injury and disease claims and other contingencies arising out of the railroad operations disposed of by American Premier's predecessor, Penn Central Transportation Company ("PCTC"), prior to its bankruptcy reorganization in 1978. Under purchase accounting in connection with the Mergers, any such excess liability will be charged to earnings in AFG's financial statements.

American Premier's liability for environmental claims of $32.4 million at December 31, 1998, consists of a number of proceedings and claims seeking to impose responsibility for hazardous waste remediation costs at certain railroad sites formerly owned by PCTC and certain other sites where hazardous waste was allegedly generated by PCTC's railroad related operations. It is difficult to estimate remediation costs for a number of reasons, including the number and financial resources of other potentially responsible parties, the range of costs for remediation alternatives, changing technology and the time period over which these matters develop. American Premier's liability is based on information currently available and is subject to change as additional information becomes available.

American Premier's liability for occupational injury and disease claims of $48.1 million at December 31, 1998, includes pending and expected claims by former employees of PCTC for injury or disease allegedly caused by exposure to excessive noise, asbestos or other substances in the workplace. Anticipated recoveries of $29.5 million on these liabilities are included in other assets. Recorded amounts are based on the accumulation of estimates of reported and unreported claims and related expenses and estimates of probable recoveries from insurance carriers.

AFG has accrued approximately $10.6 million at December 31, 1998, for environmental costs and certain other matters associated with the sales of former operations.

In management's opinion, the outcome of the items discussed under "Uncertainties" in Management's Discussion and Analysis and the above claims and contingencies will not, individually or in the aggregate, have a material adverse effect on AFG's financial condition or results of operations.

M. Quarterly Operating Results (Unaudited) The operations of certain of AFG's business segments are seasonal in nature. While insurance premiums are recognized on a relatively level basis, claim losses related to adverse weather (snow, hail, hurricanes, tornadoes, etc.) may be seasonal. Historically, Chiquita's operations are significantly stronger in the first and second quarters than in the third and fourth quarters. Quarterly results necessarily rely heavily on estimates. These estimates and certain other factors, such as the nature of investees' operations and discretionary sales of assets, cause the quarterly results not to be necessarily indicative of results for longer periods of time. The following are quarterly results of consolidated operations for the two years ended December 31, 1998 (in millions, except per share amounts).

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
Revenues	$1,016.8	$1,037.8	$1,031.8	$ 963.6	$4,050.0
Earnings (loss) before extraordinary items	66.9	40.6	56.4	(38.7)	125.2
Extraordinary items	(.7)	(.1)	-	-	(.8)
Net earnings (loss)	66.2	40.5	56.4	(38.7)	124.4
Basic earnings per common share:					
Before extraordinary items	$1.09	$.66	$.92	($.63)	$2.04
Loss on prepayment of debt	(.01)	-	-	-	(.01)
Net earnings (loss) available to Common Shares	1.08	.66	.92	(.63)	2.03
Diluted earnings per common share:					
Before extraordinary items	$1.08	$.65	$.91	($.63)	$2.01
Loss on prepayment of debt	(.01)	-	-	-	(.01)
Net earnings (loss) available to Common Shares	1.07	.65	.91	(.63)	2.00
Average number of Common Shares:					
Basic	61.1	61.4	61.4	61.1	61.2
Diluted	62.1	62.6	62.2	61.8	62.2

1997					
Revenues	$945.8	$987.6	$1,034.8	$1,052.5	$4,020.7
Earnings before extraordinary items	63.2	61.2	33.7	41.4	199.5
Extraordinary items	(.1)	-	(7.0)	(.1)	(7.2)
Net earnings	63.1	61.2	26.7	41.3	192.3
Basic earnings per common share:					
Before extraordinary items	$1.03	$1.03	$.57	$ .69	$3.34
Loss on prepayment of debt	-	-	(.12)	-	(.12)
Premium on redemption of preferred stock	-	-	-	(2.58)	(2.57)
Net earnings (loss) available to Common Shares	1.03	1.03	.45	(1.89)	.65
Diluted earnings per common share:					
Before extraordinary items	$1.02	$1.02	$.56	$ .68	$3.28
Loss on prepayment of debt	-	-	(.12)	-	(.12)
Premium on redemption of preferred stock	-	-	-	(2.54)	(2.52)
Net earnings (loss) available to Common Shares	1.02	1.02	.44	(1.86)	.64
Average number of Common Shares:					
Basic	61.1	59.2	58.9	59.4	59.7
Diluted	62.0	60.2	60.3	60.4	60.7

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

In the second quarter of 1998, AFG recorded approximately $41 million of losses due to severe storms in the midwestern part of the country. In the fourth quarter of 1998, AFG increased A&E reserves by recording a noncash, pretax charge of $214 million. In the fourth quarter of 1997, AFG increased California workers' compensation reserves by approximately $25 million due to increased claims severity related to business written in 1996 and 1997.

AFG has realized substantial gains on sales of subsidiaries and investees in recent years. See Note B for a more detailed description of these and other transactions. Sales of subsidiaries also includes pretax charges of $10.5 million and $5.0 million in the third and fourth quarters of 1998, respectively, and $17.0 million in the fourth quarter of 1997 relating to operations expected to be disposed of. Realized gains on sales of securities, affiliates and other investments amounted to (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
1998	$22.0	$8.9	$25.4	$123.4	$179.7
1997	2.5	4.2	29.7	54.6	91.0

N. Insurance Securities owned by insurance subsidiaries having a carrying value of approximately $900 million at December 31, 1998, were on deposit as required by regulatory authorities.

Insurance Reserves The liability for losses and loss adjustment expenses for certain long-term scheduled payments under workers' compensation, auto liability and other liability insurance has been discounted at rates ranging from 3.5% to 8%. As a result, the total liability for losses and loss adjustment expenses at December 31, 1998, has been reduced by $41 million.

The following table provides an analysis of changes in the liability for losses and loss adjustment expenses, net of reinsurance (and grossed up), over the past three years on a GAAP basis (in millions):

	1998	1997	1996
Balance at beginning of period	$3,489	$3,404	$3,393
Provision for losses and LAE occurring in the current year	2,059	2,045	2,179
Net increase (decrease) in provision for claims of prior years	156	31	(48)
	2,215	2,076	2,131
Payments for losses and LAE of:			
Current year	(885)	(840)	(999)
Prior years	(1,110)	(1,151)	(1,121)
	(1,995)	(1,991)	(2,120)
Reserves transferred to Ohio Casualty	(481)	-	-
Reclassification of allowance for uncollectible reinsurance	77	-	-
Balance at end of period	$3,305	$3,489	$3,404
Add back reinsurance recoverables, net of allowance in 1998	1,468	736	720
Gross unpaid losses and LAE included in the Balance Sheet	$4,773	$4,225	$4,124

Reinsurance Recoverable Balance sheet amounts for reinsurance recoverable and prepaid reinsurance premiums at December 31, 1998, include amounts recoverable related to (i) the transfer of the Commercial lines business to Ohio Casualty under a reinsurance contract ($644 million), (ii) additional A&E reserves recorded ($121 million) and (iii) the ceding of 30% of California workers' compensation business ($38 million).

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

	1998	1997	1996
Insurance group investment income:			
Fixed maturities	$849.6	$830.6	$817.8
Equity securities	9.1	6.4	8.2
Other	12.1	10.6	13.5
	870.8	847.6	839.5
Insurance group investment expenses (*)	(42.6)	(37.3)	(38.5)
	$828.2	$810.3	$801.0

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

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

	Net Earnings			Policyholders' Surplus	
	1998	1997	1996	1998	1997
Property and casualty companies	$261	$159	$276	$1,840	$1,916
Life insurance companies	41	74	67	365	324

Reinsurance In the normal course of business, AFG's insurance subsidiaries assume and cede reinsurance with other insurance companies. The following table shows (in millions) (i) amounts deducted from property and casualty premiums in connection with reinsurance ceded, (ii) amounts included in income for reinsurance assumed and (iii) reinsurance recoveries deducted from losses and loss adjustment expenses.

	1998	1997	1996
Reinsurance ceded	$788	$614	$518
Reinsurance assumed - including involuntary pools and associations	37	89	58
Reinsurance recoveries	651	296	306

O. Additional Information Total rental expense for various leases of office space, data processing equipment and railroad rolling stock was $41 million, $36 million and $34 million for 1998, 1997 and 1996, respectively. Sublease rental income related to these leases totaled $5.4 million in 1998, $5.4 million in 1997 and $6.1 million in 1996.

Future minimum rentals, related principally to office space and railroad rolling stock, required under operating leases having initial or remaining noncancelable lease terms in excess of one year at December 31, 1998, were as follows: 1999 - $40 million; 2000 - $35 million; 2001 - $31 million; 2002 - $25 million; 2003 - $19 million; and $19 million thereafter. At December 31, 1998, minimum sublease rentals to be received through the expiration of the leases aggregated $9 million.

Other operating and general expenses included charges for possible losses on agents' balances, reinsurance recoverables, other receivables and other assets in the following amounts: 1998 - $14.0 million; 1997 - $7.6 million; and 1996 - $0. The aggregate allowance for such losses amounted to approximately $149 million and $131 million at December 31, 1998 and 1997, respectively.

Summary Financial Information of AFC Holding AFG has guaranteed the obligations of AFC Holding relating to the preferred securities issued by a wholly-owned subsidiary trust. Summarized consolidated financial information for AFC Holding is as follows (in millions):

	1998	1997	1996*
Cash and Investments	$11,748	$12,290	
Other Assets	4,116	3,482	
Insurance Claims and Reserves	11,797	11,792	
Debt	492	481	
Minority Interest	600	590	
Shareholders' Equity	1,754	1,607	
Revenues	$ 4,056	$ 4,021	$4,115
Income before Extraordinary Items	133	199	262
Extraordinary Item - Loss on Prepayment of Debt	(1)	(7)	(29)
Net Income	132	192	233

(*) AFC Holding is the predecessor of AFG; data for 1996 represents that of AFG.

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

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Fixed maturities	$10,324	$10,324	$10,861	$10,952
Other stocks	430	430	446	446
Investment in investee corporation	192	229	201	391
Liabilities:				
Annuity benefits accumulated	$ 5,450	$ 5,307	$ 5,528	$ 5,319
Long-term debt:				
Holding companies	415	428	387	401
Subsidiaries	177	176	194	195
Minority Interest:				
Trust preferred securities	$ 325	$ 336	$ 325	$ 339
AFC preferred stock	72	80	72	74
Shareholders' Equity	$ 1,716	$ 2,673	$ 1,663	$ 2,461

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

Financial Instruments with Off-Balance-Sheet Risk On occasion, AFG and its subsidiaries have entered into financial instrument transactions which may present off-balance-sheet risks of both a credit and market risk nature. These transactions include commitments to fund loans, loan guarantees and commitments to purchase and sell securities or loans. At December 31, 1998, AFG and its subsidiaries had commitments to fund credit facilities and contribute limited partnership capital totaling up to $80 million.

Restrictions on Transfer of Funds and Assets of Subsidiaries Payments of dividends, loans and advances by AFG's subsidiaries are subject to various state laws, federal regulations and debt covenants which limit the amount of dividends, loans and advances that can be paid. Under applicable restrictions, the maximum amount of dividends available to AFG in 1999 from its insurance subsidiaries without seeking regulatory clearance is approximately $281 million. Total "restrictions" on intercompany transfers from AFG's subsidiaries cannot be quantified due to the discretionary nature of the restrictions.

Benefit Plans AFG expensed approximately $22 million in 1998, $21 million in 1997 and $17 million in 1996 for contributions to its retirement and employee savings plans.

Transactions With Affiliates AFG owns a $3.7 million minority interest in a residential homebuilding company. A brother of AFG's Chairman also owns a minority interest. AAG has extended a line of credit to this company under which the homebuilder may borrow up to $8 million at 13% with interest deferred and added to principal. At December 31, 1998, $6.1 million was due under the credit line.

In a 1997 transaction, AAG purchased for $4.9 million a minority ownership position in a company engaged in the production of ethanol. AFG's Chairman purchased the remaining ownership. During 1998, this company borrowed $4.0 million from AAG under a subordinated note bearing interest at 14% and paid a $6.3 million capital distribution, including $3.1 million to AAG. AAG's equity investment in this company at December 31, 1998 was $1.8 million. In addition, AAG and Great American have each extended a $5 million line of credit to this company; no amounts have been borrowed under the credit lines.

P. Subsequent Event (Unaudited) In January 1999, AFG agreed to acquire Worldwide Insurance Company (formerly Providian Auto and Home Insurance Company) from AEGON Insurance Group for approximately $160 million. Worldwide is a provider of direct response private passenger automobile insurance and generated net written premiums in 1998 of approximately $121 million. Completion of the transaction is expected to occur in the first half of 1999.

PART IV

ITEM 14

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

(a) Documents filed as part of this Report:
1. Financial Statements are included in Part II, Item 8.

2. Financial Statement Schedules:
   A. Selected Quarterly Financial Data is included in Note M to the Consolidated Financial Statements.

   B. Schedules filed herewith for 1998, 1997 and 1996:

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

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

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

(b) Reports on Form 8-K: None

AMERICAN FINANCIAL GROUP, INC. - PARENT ONLY (*)
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(In Thousands)

Condensed Balance Sheet

	December 31, 1998	December 31, 1997
Assets:		
Cash and short-term investments	$ 6,777	$ 25,890
Receivables from affiliates	270,500	352,766
Investment in subsidiaries	1,612,674	1,473,261
Other assets	44,502	41,690
	$1,934,453	$1,893,607
Liabilities and Shareholders' Equity:		
Accounts payable, accrued expenses and other liabilities	$ 1,659	$ 8,131
Long-term debt	100,000	100,000
Payables to affiliates	116,617	122,767
Shareholders' equity	1,716,177	1,662,709
	$1,934,453	$1,893,607

Condensed Statement of Earnings

	Year Ended December 31, 1998	1997	1996
Income:			
Dividends from subsidiaries	$ 282	$ 281	$693,758
Equity in undistributed earnings of subsidiaries	209,453	301,385	(345,484)
Investment and other income	22,367	35,470	11,723
	232,102	337,136	359,997
Costs and Expenses:			
Interest charges on borrowed money	18,748	9,702	1,805
Other operating and general expenses	8,600	7,824	4,948
	27,348	17,526	6,753
Earnings before income taxes and extraordinary items	204,754	319,610	353,244
Provision for income taxes	79,584	120,127	91,277
Earnings before extraordinary items	125,170	199,483	261,967
Extraordinary items - loss on prepayment of debt	(770)	(7,233)	(28,667)
Net Earnings	$124,400	$192,250	$233,300

(*) The Parent Only Financial Statements include the accounts of AFG and its predecessor, AFC Holding Company, a wholly-owned subsidiary.

AMERICAN FINANCIAL GROUP, INC. - PARENT ONLY (*)
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT - CONTINUED
(In Thousands)

Condensed Statement of Cash Flows

	Year Ended December 31,		
	1998	1997	1996
Operating Activities:			
Net earnings	$124,400	$192,250	$233,300
Adjustments:			
Equity in earnings of subsidiaries	(127,547)	(180,581)	(230,019)
Change in balances with affiliates	76,116	54,620	(91,453)
Increase (decrease) in payables	(2,612)	881	(958)
Dividends from subsidiaries	282	281	-
Other	(2,882)	2,275	1,311
	67,757	69,726	(87,819)
Investing Activities:			
Purchases of subsidiaries and other investments	-	(24,872)	(69)
Financing Activities:			
Additional long-term borrowings	-	98,987	-
Issuance of subordinated notes to subsidiary trust	-	-	96,464
Issuances of common stock	13,238	13,845	26,296
Repurchases of common stock	(20,651)	(97,320)	(8,563)
Cash dividends paid	(79,457)	(77,941)	(79,051)
	(86,870)	(62,429)	35,146
Net Decrease in Cash and Short-term Investments	(19,113)	(17,575)	(52,742)
Cash and short-term investments at beginning of period	25,890	43,465	96,207
Cash and short-term investments at end of period	$ 6,777	$ 25,890	$ 43,465

(*) The Parent Only Financial Statements include the accounts of AFG and its predecessor, AFC Holding Company, a wholly-owned subsidiary.

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
SCHEDULE V - SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS
THREE YEARS ENDED DECEMBER 31, 1998
(IN MILLIONS)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
AFFILIATION WITH REGISTRANT	DEFERRED POLICY ACQUISITION COSTS	(a) RESERVES FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES	(b) DISCOUNT DEDUCTED IN COLUMN C	(c) UNEARNED PREMIUMS
CONSOLIDATED PROPERTY-CASUALTY ENTITIES				
1998	$217	$4,773	$41	$1,233
1997	$260	$4,225	$60	$1,329
1996				

	COLUMN F	COLUMN G	COLUMN H		COLUMN I	COLUMN J	COLUMN K
			CLAIMS AND CLAIM ADJUSTMENT EXPENSES INCURRED RELATED TO				
	EARNED PREMIUMS	NET INVESTMENT INCOME	CURRENT YEARS	PRIOR YEARS	AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS	PAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES	PREMIUMS WRITTEN
1998	$2,699	$324	$2,059	$156	$589	$1,995	$2,609(d)
1997	$2,824	$316	$2,045	$ 31	$620	$1,991	$2,858
1996	$2,845	$335	$2,179	($ 48)	$628	$2,120	$2,788

(a) Grossed up for reinsurance recoverables of $1,468 and $736 at December 31, 1998 and 1997, respectively.
(b) Discounted at rates ranging from 3.5% to 8%.
(c) Grossed up for prepaid reinsurance premiums of $314 and $189 at December 31, 1998 and 1997, respectively.
(d) Before a reduction of $138 million for unearned premium transfer related to the sale of the Commercial lines division.

Signatures

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

American Financial Group, Inc.

Signed: March 29, 1999

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

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

Signature	Capacity	Date
s/CARL H. LINDNER Carl H. Lindner	Chairman of the Board of Directors	March 29, 1999
s/THEODORE H. EMMERICH Theodore H. Emmerich	Director*	March 29, 1999
s/JAMES E. EVANS James E. Evans	Director	March 29, 1999
s/S. CRAIG LINDNER S. Craig Lindner	Director	March 29, 1999
s/WILLIAM R. MARTIN William R. Martin	Director*	March 29, 1999
s/FRED J. RUNK Fred J. Runk	Senior Vice President and Treasurer (principal financial and accounting officer)	March 29, 1999

* Member of the Audit Committee

INDEX TO EXHIBITS

AMERICAN FINANCIAL GROUP, INC.

Number	Exhibit Description	
3(a)	Amended and Restated Articles of Incorporation, filed as Exhibit 3(a) to AFG's Form 10-K for 1997.	(*)
3(b)	Code of Regulations, filed as Exhibit 3(b) to AFG's Form 10-K for 1997.	(*)
4	Instruments defining the rights of security holders.	Registrant has no outstanding debt issues exceeding 10% of the assets of Registrant and consolidated subsidiaries.
	Management Contracts:	
10(a)	Stock Option Plan, as amended.	_____
10(b)	Form of stock option agreements.	_____
10(c)	1998 Bonus Plan.	_____
10(d)	Nonqualified Auxiliary RASP, as amended.	_____
10(e)	Retirement program for outside directors, filed as Exhibit 10(e) to AFG's Form 10-K for 1995.	(*)
10(f)	Directors' Compensation Plan, filed as Exhibit 10(f) to AFG's Form 10-K for 1995.	(*)
12	Computation of ratios of earnings to fixed charges.	_____
21	Subsidiaries of the Registrant.	_____
23	Consent of independent auditors.	_____
27	Financial data schedule.	(**)

(*) Incorporated herein by reference.
(**) Copy included in Report filed electronically with the Securities and Exchange Commission.

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

EXHIBIT 12 - COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Dollars in Thousands)

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Pretax income	$203,489	$308,323	$317,574	$247,455	$ 26,376
Minority interest in subsidiaries having fixed charges (*)	55,646	54,163	46,689	33,190	8,565
Less undistributed equity in (earnings) losses of investees	17,997	10,363	31,353	(1,559)	49,010
Fixed charges:					
Interest expense	58,925	53,578	78,048	124,633	114,803
Debt discount (premium) and expense	(504)	(701)	(1,174)	(1,023)	1,240
One-third of rentals	11,883	10,152	9,279	9,471	5,119
EARNINGS	$347,436	$435,878	$481,769	$412,167	$205,113
Fixed charges:					
Interest expense	$ 58,925	$ 53,578	$ 78,048	$124,633	$114,803
Debt discount (premium) and expense	(504)	(701)	(1,174)	(1,023)	1,240
One-third of rentals	11,883	10,152	9,279	9,471	5,119
Pretax preferred dividend requirements of subsidiaries	37,628	46,578	27,970	25,376	-
FIXED CHARGES	$107,932	$109,607	$114,123	$158,457	$121,162
Ratio of Earnings to Fixed Charges	3.22	3.98	4.22	2.60	1.69
Earnings in Excess of Fixed Charges	$239,504	$326,271	$367,646	$253,710	$ 83,951

(*) Amounts include subsidiary preferred dividends and accrued distributions on trust preferred securities.

AMERICAN FINANCIAL GROUP, INC.

EXHIBIT 21 - SUBSIDIARIES OF THE REGISTRANT

The following is a list of subsidiaries of AFG at December 31, 1998. All corporations are subsidiaries of AFG and, if indented, subsidiaries of the company under which they are listed.

Name of Company	State of Incorporation	Percentage of Common Equity Ownership
AFC Holding Company	Ohio	100
American Financial Capital Trust I	Delaware	100
American Financial Corporation	Ohio	100
American Premier Underwriters, Inc.	Pennsylvania	100
Pennsylvania Company	Delaware	100
Atlanta Casualty Company	Illinois	100
Infinity Insurance Company	Indiana	100
Leader Insurance Company	Ohio	100
Republic Indemnity Company of America	California	100
Windsor Insurance Company	Indiana	100
Great American Insurance Company	Ohio	100
American Annuity Group, Inc.	Delaware	82
AAG Holding Company, Inc.	Ohio	100
American Annuity Group Capital Trust I	Delaware	100
American Annuity Group Capital Trust II	Delaware	100
American Annuity Group Capital Trust III	Delaware	100
Great American Life Insurance Company	Ohio	100
Loyal American Life Insurance Company	Ohio	100
Prairie National Life Insurance Company	South Dakota	100
American Empire Surplus Lines Insurance Company	Delaware	100
American National Fire Insurance Company	New York	100
Brothers Property Corporation	Ohio	80
Mid-Continent Casualty Company	Oklahoma	100
National Interstate Corporation	Ohio	52
Stonewall Insurance Company	Alabama	100
Transport Insurance Company	Ohio	100

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

AMERICAN FINANCIAL GROUP, INC.

EXHIBIT 23 - CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements and related prospectuses of American Financial Group, Inc. of our report dated March 19, 1999, with respect to the consolidated financial statements and schedules of American Financial Group, Inc. included in the Annual Report on Form 10-K for the year ended December 31, 1998.

Form	Registration Number	Description
S-8	33-58825	Stock Option Plan
S-8	33-58827	Employee Stock Purchase Plan
S-3	33-62459	Dividend Reinvestment Plan
S-8	333-10853	Nonemployee Directors' Compensation Plan
S-8	333-14935	Retirement and Savings Plan
S-3	333-21995	$500 million of Debt Securities, Common Stock and Trust Securities

ERNST & YOUNG LLP

Cincinnati, Ohio
March 24, 1999

AMERICAN FINANCIAL GROUP, INC.

STOCK OPTION PLAN

____

As amended and restated

effective May 28, 1998

AMERICAN FINANCIAL GROUP, INC. STOCK OPTION PLAN

1. PURPOSES

The American Financial Group, Inc. Stock Option Plan (the "Plan") is divided into two programs: a key employee stock option program (the "Key Employee Program") and an outside director stock option program (the "Outside Director Program").

The purposes of the Key Employee Program are to aid American Financial Group, Inc. (the "Company") and its Subsidiaries in attracting and retaining employees of outstanding competence and to enable selected key employees of the Company and any Subsidiary to acquire or increase ownership interests in the Company on a basis that will encourage them to perform at increasing levels of effectiveness and use their best efforts to promote the growth and profitability of the Company or any Subsidiary. Consistent with these objectives, the Plan authorizes the granting to selected key employees of options to acquire shares of Company stock ("Options") pursuant to the terms and conditions hereinafter set forth. As used herein, the term "Subsidiary" means any domestic or foreign corporation, at least 50% of the outstanding voting stock or voting power of which is beneficially owned, directly or indirectly, by the Company.

The purposes of the Outside Director Program are to provide to each of the Outside Directors added incentive to continue in the service of the Company and a more direct interest in the future success of the operations of the Company. Consistent with these objectives, the Plan authorizes the automatic granting to Outside Directors of Options pursuant to the terms and conditions hereinafter set forth. As used herein, the term "Outside Director" means a member of the Board of Directors of the Company who is not an employee of the Company or a Subsidiary.

2. EFFECTIVE DATE

The Plan became effective on September 9, 1980 (the "Effective Date"). The Plan was assumed by the Company from its Subsidiary, AFC Holding Company, which assumed the Plan from its Subsidiary, American Premier Underwriters, Inc. and amended and restated the Plan effective December 17, 1997.

3. ADMINISTRATION

(a) The Plan shall be administered by a committee of the Board of Directors of the Company (the "Board of Directors"), consisting of at least two directors designated by the Board of Directors (the "Committee"), each of whom shall be a

"disinterested person" as defined in Rule 16b-3(c)(2) under the Securities Exchange Act of 1934, as from time to time amended. All Committee members shall serve, and may be removed, at the pleasure of the Board of Directors.

(b) For purposes of administration of the Plan, a majority of the members of the Committee (but not less than two) eligible to serve as such shall constitute a quorum, and any action taken by a majority of such members of the Committee present at any meeting at which a quorum is present, or acts approved in writing by a majority of such members of the Committee, shall be the acts of the Committee.

(c) Subject to the express provisions of the Key Employee Program, the Committee shall have full and final authority to decide when Options will be granted under the Key Employee Program, to select the key employees to whom the Options will be granted, and to determine the number of Shares (as defined in Paragraph 4 hereof) to be covered by each Option, the price at which such Shares may be purchased and other terms and conditions of such purchase. In making these determinations, the Committee may take into account the key employee's present and potential contributions to the Company's or a Subsidiary's success and any other factors which the Committee may deem relevant.

(d) The Committee shall have no authority or discretion or power to select the participants who will receive Options under the Outside Director Program, to set the number of Shares to be covered by each Option under the Outside Director Program, or to set the Option price or the period within which the Options granted under the Outside Director Program may be exercised or to alter any other terms or conditions specified in the Outside Director Program.

(e) Subject to the express provisions of the Plan, and, in particular, the limitations set forth in Paragraph 3(d) hereof, the Committee shall have full authority to interpret the Plan and any stock option agreements evidencing Options granted hereunder, to issue rules for administering the Plan, to change, alter, amend or rescind such rules, and to make all other determinations necessary or appropriate for the administration of the Plan. All determinations, interpretations and constructions made by the Committee pursuant to this Paragraph 3 shall be final and conclusive. No member of the Board of Directors or the Committee shall be liable for any action, determination or omission taken or made in good faith with respect to the Plan or any Option granted hereunder.

4. OPTION SHARES

(a) The stock subject to the Options granted under the Plan shall be shares of Common Stock, without par value, of the Company ("Shares") and except as otherwise required by Subparagraph (b) of this Paragraph 4, the aggregate number of Shares with respect to which Options may be granted under the Plan shall not exceed 13,237,163 Shares, consisting of 9,237,613 Shares with respect to which Options had been exercised or were outstanding as of April 3, 1995 plus 4,000,000 Shares with respect to which Options may be granted after April 3, 1995, provided, however, that Options to acquire no more than 250,000 Shares may be granted pursuant to the Outside Director Program. Options to acquire no more than 500,000 Shares may be granted to any participant in the Plan in any twelve-month period, except as otherwise required by Subparagraph (b) of this Paragraph 4. If an Option expires, terminates, or is otherwise surrendered, in whole or in part, the Shares allocable to the unexercised portion of such Option shall again become available for grants of Options under the Plan. As determined from time to time by the Board of Directors, the Shares available under the Plan for grants of Options may consist either in whole or in part of authorized but unissued Shares or Shares which have been reacquired by the Company or a Subsidiary following original issuance.

(b) The aggregate number of Shares purchasable under Options pursuant to the provisions of the Plan and the number of Shares and the Option price for Shares covered by each outstanding Option shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from any stock dividend, stock split or similar event, any other capital adjust ment (including a reclassification of Shares or recapitalization or reorganization of the Company), or the distribution to holders of Shares of rights, warrants, assets or evidences of indebtedness (other than regular cash dividends) in such manner as the Committee in its sole judgment determines to be equitable.

5. KEY EMPLOYEE PROGRAM

The provisions of this Paragraph 5 are applicable only to Options granted pursuant to the Key Employee Program and Options to key employees shall be granted only in accordance with the provisions of this Paragraph 5.

(a) Effective Date. The Key Employee Program became effective on September 9, 1980.

(b) Eligibility. Grants of Options under the Key Employee Program shall be confined to key employees of the Company or a Subsidiary (including officers and directors who are also employees of the Company or a Subsidiary) who can make a meaningful contribution to the Company's or Subsidiary's success; provided, however, that no Option under the Key Employee Program shall be granted to any member of the Committee.

(c) Incentive and Non-Incentive Options.

(i) Subject to the provisions of Paragraphs 5(c)(ii) and 5(e), Options granted under the Key Employee Program shall be designated either (A) "Incentive Options" (which term, as used herein, shall mean stock options intended to be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) or (B) "Non-Incentive Options" (which term, as used herein, shall mean stock options not intended to be "incentive stock options" within the meaning of said Section 422). In the case of Options granted prior to January 1, 1987, the aggregate fair market value of the Shares (determined as of the date the Option is granted) for which an Optionee may, in any calendar year, be granted "incentive stock options" under this Key Employee Program and all other option plans of the Company and its subsidiaries (and any other corporation that may become a "parent corporation" of the Company within the meaning of "Section 424(e) of the Code) shall not exceed $100,000 plus any applicable unused limit carryover to such calendar year. In the case of Options granted after December 31, 1986, the preceding sentence shall not apply. The limitations of the preceding sentences shall not apply to the grant of Options designated Non-Incentive Options under the Plan.

For purposes of the Key Employee Program: (1) the "fair market value" of a Share shall be the mean between the high and the low prices of the Shares on such date on the New York Stock Exchange Composite Tape (or the principal market in which the Shares are traded, if the Shares are not listed on that Exchange on such date) or, if the Shares were not traded on such date, the mean between the high and the low prices of the Shares on the next preceding trading day during which the Shares were traded, (2) the "fair market value" of any other stock shall be such amount as determined by the Committee in accordance with the provisions of the Code and the Income Tax Regulations thereunder then in effect with respect to "incentive stock options" and (3) the "unused limit carryover" from a calendar year shall be 1/2 of the amount (determined as of the time the option is granted) by which $100,000 exceeds the aggregate fair market value of the stock for which an Optionee (as defined in Paragraph 5(d) below) was granted "incentive stock options" (within the meaning of said Section 422) in such calendar year under all plans of the Company and its Subsidiaries (and any corporation that may become a "parent corporation" of the Company within the meaning of Section 424(e) of the Code), provided that there will be no unused limit carryover from any calendar year prior to 1981.

No Incentive Option may be granted to any individual who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary (or any corporation that is a "parent corporation" of the Company (within the meaning of Section 424(e) of the Code)).

To the extent that any provisions of the Key Employee Program relate to Incentive Options, such provisions shall be interpreted in a manner consistent with the requirements of Section 422 of the Code, so that Incentive Options will qualify as "incentive stock options" under said Section 422.

(ii) Each Option granted under the Key Employee Program prior to January 1, 1982 shall (A), if the aggregate fair market value of the Shares covered thereby shall be $100,000 or less, be designated an Incentive Option or (B), if the aggregate fair market value of the Shares covered thereby shall exceed $100,000, be split into (1) an Incentive Option for Shares having an aggregate fair market value as close as practicable to, but not exceeding, $100,000 and (2) a Non-Incentive Option for the remaining Shares which are not covered by the Incentive Option; provided that the Optionee shall, prior to August 13, 1982, have entered into an amended stock option agreement (or, if the Optionee's Option shall have been split as aforesaid, separate amended stock option agreements) with the Company providing for Incentive and Non-Incentive Options as aforesaid. In the event that the Optionee shall not have entered into an amended stock option agreement (or agreements) prior to August 13, 1982, any Option granted to such Optionee prior to January 1, 1982 shall be a Non-Incentive Option.

(d) Terms and Conditions of Options Granted to Key Employees.

Each Option granted pursuant to the Key Employee Program shall be evidenced by a written stock option agreement between the Company and the key employee to whom the Option is granted (the "Optionee") in such form or forms as the Committee, from time to time, shall prescribe, which agreements need not be identical to each other but shall comply, inter alia, with and be subject to the terms and conditions of this Paragraph 5(d). In addition, the Committee may, in its absolute discretion, include in any such stock option agreement other terms, conditions and provisions that are not inconsistent with the express provisions of the Key Employee Program. Separate forms of stock option agreements shall be used to evidence Incentive Options and Non-Incentive Options.

(i) Option Price. The price at which each Share may be purchased pursuant to an Option granted under the Key Employee Program shall be not less than 100% of the higher of the "fair market value" for each such Share (A) on the date the Committee approves the granting of such Option (the "Date of Grant") or (B) on a future date if such is fixed on the Date of Grant by the Committee, and in no event shall such price be less than the par value of such Shares. The "fair market value" of the Shares on any date shall be the mean between the high and the low prices of the Shares on such date on the New York Stock Exchange Composite Tape (or the principal market in which the Shares are traded, if the Shares are not listed on that Exchange on such date), or if the Shares were not traded on such date, the mean between the high and the low prices of the Shares on the next preceding trading day during which the Shares were traded. Anything contained in this Subparagraph (i) of Paragraph 5(d) to the contrary notwithstanding, in the event that the number of Shares subject to any Option is adjusted pursuant to Paragraph 4(b)

hereof, a corresponding adjustment shall be made in the price at which the Shares subject to such Option may there after be purchased.

(ii) Duration of Options. Each Option granted under the Key Employee Program shall expire and all rights to purchase Shares pursuant thereto shall cease on the date (the "Expiration Date") which shall be the tenth anniversary of the Date of Grant of the Option; provided, however, that the Expiration Date of any Non-Incentive Option granted on or after May 17, 1984 shall be the third day after the tenth anniversary of the Date of Grant of such Non-Incentive Option; provided, further, that the Committee may specify for any Option on the Date of Grant of the Option any shorter period than the foregoing.

(iii) Vesting of Options. Each Option granted hereunder may only be exercised to the extent that the Optionee is vested in such Option. An Optionee shall vest separately in each Option granted hereunder in accordance with a schedule determined by the Committee in its sole discretion, which will be appended to the stock option agreement. In the absence of any special circumstances, the Committee will cause the Options to vest in accordance with the following schedule:

Number of years the Optionee has remained in the employ of the Company or a Subsidiary following the grant of the Option	Extent to which the Option is vested
Under one	0%
At least one but less than two	20%
At least two but less than three	40%
At least three but less than four	60%
At least four but less than five	80%
Five or more	100%

In the event that an Incentive Option and a Non-Incentive Option have been granted simultaneously to an Optionee, they shall be considered a single Option for (but only for) purposes of the foregoing schedule and the portion thereof attributable to the Incentive Option shall vest in accordance with such schedule before any of the portion attributable to the Non-Incentive Option shall vest. Anything contained in this Subparagraph (iii) of Paragraph 5(d) to the contrary notwithstanding, an Optionee shall become fully (100%) vested in each of his or her Options upon his or her termination of employment with the Company or a Subsidiary for reasons of death or Disability, upon his or her termination of employment by the Company or a Subsidiary for a reason other than discharge for cause within one year of the merger of the Company into, consolidation of the Company with, or sale or transfer of all or substantially all the Company's assets to, another corporation or the acquisition of effective voting control of the Company by any individual or company or by any individuals or companies acting in concert (a good faith determination by the Board of Directors that such control has been acquired shall be final and conclusive); if in the sole discretion of the Committee, the Committee determines that acceleration of the Option vesting schedule would be desirable for the Company; or if such Options vest pursuant to Paragraph 7 of the Plan.

(iv) Exercise of Options. A person entitled to exercise an Option may exercise it in whole at any time, or in part from time to time, by delivering to the Secretary of the Company written notice specifying the number of Shares with respect to which the Option is being exercised, together with payment in full of the purchase price of such Shares plus any applicable federal, state or local taxes for which the Company (or a Subsidiary) has a withholding obligation in connection with such exercise. Such payment shall be made in whole or in part (A) in cash or by certified check or bank draft to the order of the Company, or (B) in the case of either an Incentive Option granted after March 23, 1983 which so provides at the time of grant or any Non-Incentive Option, by personal check or money market check to the order of the Company or the exchange of Common Stock of the Company acquired by the person entitled to exercise the Option more than 6 months prior to the date of exercise and having a "fair market value" on the date of exercise at least equal to the price for which the Shares may be purchased pursuant to the Option plus any applicable federal, state or local taxes for which the Company (or a Subsidiary) has a withholding obligation as noted above (including any such taxes with respect to income recognized by the Optionee upon the disposition of the Common Stock of the Company used to effect such exchange). Notwithstanding the foregoing, the Committee may, in its sole discretion, authorize such payment, in whole or in part, in any other form. Each Incentive Option granted under the Plan before January 1, 1987 shall by its terms provide that it may not be exercised while there is outstanding any "incentive stock option" (within the meaning of Section 422 of the Code) which was granted to the Optionee at any earlier time to purchase stock in the Company or in a corporation which, at the time of the granting of such Incentive Option, is a Subsidiary (or a corporation that is a "parent corporation" of the Company within the meaning of Section 424(e) of the Code) or in a predecessor corporation of any such corporation. For purposes of the preceding sentence, any "incentive stock option" (within the meaning of Section 422 of the Code) which has not been exercised in full (including an "incentive stock option" which has been "modified," within the meaning of Section 424(h)(3) of the Code, prior to being exercised in full) shall be considered outstanding until the expiration of the period during which under its initial terms it could have been exercised.

(v) Termination of Employment. Unless otherwise determined by the Committee, the following rules shall apply in the event of an Optionee's termination of employment with the Company or a Subsidiary:

(A) Except as provided in Subparagraph (v)(D) hereof, in the event of an Optionee's termination of employment with the Company or a Subsidiary either (1) for cause or (2) voluntarily on the part of the Optionee and without the written consent of the Company, his or her Option shall terminate on the 30th day after the date of such termination.

(B) In the event of an Optionee's termination of employment with the Company or a Subsidiary under circumstances other than those specified in Subparagraph (v)(A) hereof and for reasons other than death, Disability or Retirement (as defined in Subparagraph (v)(D) hereof), such Option shall terminate on the date which is 90 days from the date of such termination of employment or on its Expiration Date, whichever shall first occur, provided, however, that if (x) the Optionee is a former officer of the Company subject to the provisions of Section 16(a) of the Securities Exchange Act of

1934 and (y) such Option is an Incentive Option granted on or after March 28, 1985 or a Non-Incentive Option, such Option shall terminate on (1) the date which is the later of (a) 90 days from the date of such termination of employment or (b) six months and ten days after such officer's last purchase or sale of Shares prior to his or her ceasing to be such an officer or (2) its Expiration Date, which ever shall first occur, and provided further that the Committee may, in its sole discretion if determined by the Committee that it would be desirable for the Company, fix a date for termination of such Option which is not later than the third anniversary of such termination of employment or on its Expiration Date, whichever shall first occur.

(C) In the event of the death of an Optionee and either while he or she is employed by the Company or a Subsidiary or, if Subparagraph (v)(B) or (v)(D) hereof is applicable, during a period of time following his or her termination of employment, such Option shall terminate on the first anniversary of the Optionee's death or on its Expiration Date, whichever shall first occur.

(D) In the event of the Optionee's termination of employment with the Company or a Subsidiary for reasons of the inability, due to mental or physical infirmity, of the Optionee to discharge the regular responsibilities and duties of his or her employment with the Company or a Subsidiary, as the case may be ("Disability"), or at or after age 55, other than a discharge for cause ("Retirement"), such Option shall terminate (i) on the date which is one year after the date of such termination of employment or on its Expiration Date, whichever shall first occur, in the case of an optionee who has been employed by the Company or any of its Subsidiaries for less than ten full years, or (ii) on the date which is two years after the date of termination of employment or on its Expiration Date, whichever shall first occur, in the case of an Optionee who has been employed by the Company or any of its Subsidiaries for twenty full years or more.

(E) An Optionee's transfer of employment between the Company and a Subsidiary or between Subsidiaries shall not constitute a termination of employment and the Committee shall determine in each case whether an authorized leave of absence for military service or otherwise shall constitute a termination of employment.

(F) For purposes of this Subparagraph (v) of Paragraph 5(d), employment with any corporation that is a "parent corporation" of the Company (within the meaning of Section 424(e) of the Code) shall be treated in the same manner as employment with a Subsidiary and, with respect to any Incentive Option, the term "employment" shall be defined in accordance with Section 1.421-7(h) of the Income Tax Regulations (or any successor regulations).

(vi) Surrender of Options. The Committee may permit the voluntary surrender of all or a portion of any Option to be conditioned upon the granting to the Optionee under this Key Employee Program of a new Option for the same or a different number of Shares as the Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Option to such Optionee. Such new Option shall be exercisable at the price, during the period, and in accordance with any other terms or conditions specified by the Committee at the time the new Option is granted, all determined in accordance with the provisions of this Key Employee

Program without regard to the price, period of exercise, or any other terms or conditions of the Option surrendered except as provided in the final proviso in Paragraph 5(d)(iv) above.

6. OUTSIDE DIRECTOR PROGRAM

The provisions of this Paragraph 6 are applicable only to Options granted pursuant to the Outside Director Program and Options to Outside Directors shall be granted only in accordance with the provisions of this Paragraph 6.

(a) Effective Date. The Outside Director Program became effective on October 27, 1988.

(b) Terms and Conditions of Options Granted to Outside Directors.

Each Option granted pursuant to the Outside Director Program shall be evidenced by a written stock option agreement between the Company and the Outside Director to whom the Option is granted (the "Optionee") in such form or forms as the Committee, from time to time, shall prescribe, which agreements need not be identical to each other but shall comply, inter alia, with and be subject to the terms and conditions of this Paragraph 6(b). In addition, the Committee may, in its absolute discretion, but subject to the provisions of Paragraph 3(d), include in any such stock option agreement other terms, conditions and provisions that are not inconsistent with the express provisions of the Outside Director Program.

(i) Initial Automatic Grant. Each Outside Director shall be granted an Option designated a Non-Incentive Option for 5,000 Shares on the later of (A) October 27, 1988 or (B) the effective date of such Outside Director's initial election as a member of the Board of Directors. Such grant shall occur automatically without any further action by the Board of Directors.

(ii) Subsequent Automatic Annual Grant. On each June 1 occurring prior to the termination of the Plan, beginning June 1, 1989, each Outside Director who is in office on such June 1 shall be granted an Option designated a Non-Incentive Option for 1,000 Shares automatically without any further action by the Board of Directors.

(iii) Option Price. The price at which each Share may be purchased pursuant to an Option granted under the Outside Director Program shall be equal to the "fair market value" for each such Share as of the date on which the Option is granted (the "Date of Grant"), but in no event shall such price be less than the par value of such Shares. The "fair market value" of the Shares on any date shall be the mean between the high and the low prices of the Shares on such date on the New York Stock Exchange Composite Tape (or the principal market in which the Shares are traded, if the Shares are not listed on that Exchange on such date), or if the Shares were not traded on such date, the mean between the high and the low prices of the Shares on the next preceding trading day during which the Shares were traded. Anything contained in this Subparagraph (iii) of Paragraph 6(b) to the contrary notwithstanding, in the event that the number of Shares subject to any Option is adjusted pursuant to Paragraph 4(b) hereof, a corresponding adjustment shall be made in the price at which the Shares subject to such Option may thereafter be purchased.

(iv) Duration of Options. Each Option granted under the Outside Director Program shall expire and all rights to purchase Shares pursuant thereto shall cease on the date (the "Expiration Date") which shall be the third day after the tenth anniversary of the Date of Grant of such Option.

(v) Vesting of Options. Each Option granted under the Outside Director Program shall be fully exercisable and vested as of the Date of Grant.

(vi) Exercise of Options. A person entitled to exercise an Option may exercise it in whole at any time, or in part from time to time, by delivering to the Secretary of the Company written notice specifying the number of Shares with respect to which the Option is being exercised, together with payment in full of the purchase price of such Shares plus any applicable federal, state or local taxes for which the Company (or a Subsidiary) has a withholding obligation in connection with such exercise. Such payment shall be made in whole or in part (A) in cash or by personal check, money market check, certified check or bank draft to the order of the Company, or (B) by the exchange of Common Stock of the Company acquired by the person entitled to exercise the Option more than 6 months prior to the date of exercise and having a "fair market value" on the date of exercise at least equal to the price for which the Shares may be purchased pursuant to the Option plus any applicable federal, state or local taxes for which the Company (or a Subsidiary) has a withholding obligation as noted above (including any such taxes with respect to income recognized by the Optionee upon the disposition of the Common Stock of the Company used to effect such exchange). Notwithstanding the foregoing, the Committee may, in its sole discretion, authorize such payment, in whole or in part, in any other form.

(vii) Termination of Service. In the event of an Outside Director's termination of service as a member of the Board of Directors for any reason, his or her Option(s) granted pursuant to the Outside Director Program shall terminate on (A) the date which is the later of (1) 90 days from the date of such termination of service or (2) six months and ten days after such Outside Director's last purchase or sale of Shares prior to his or her ceasing to be a member of the Board of Directors or (B) its Expiration Date, whichever shall first occur.

(viii) Terms Control. Except as expressly provided in this Paragraph 6, grants of Options made pursuant to this Paragraph 6 shall be subject to the terms and conditions of the Plan; however, if there is a conflict between the terms and conditions of the Plan and this Paragraph 6, then the terms and conditions of this Paragraph 6 shall control.

7. MERGER, CONSOLIDATION, ETC.

In the event that the Company shall, pursuant to action by its Board of Directors, at any time propose to merge into, consolidate with, or sell or otherwise transfer all or substantially all of its assets to another corporation and provision is not made pursuant to the terms of such transaction for the assumption by the surviving, resulting or acquiring corporation of outstanding Options under the Plan, or for the substitution of new options therefor, the Committee shall cause written notice of the proposed transaction to be given to each Optionee not less than 40 days prior to the anticipated effective date of the proposed transaction, and his or her Option shall become fully (100%) vested and, prior to a date specified in such notice, which shall be not more than 10 days prior to the anticipated effective date of

the proposed transaction, each Optionee shall have the right to exercise his or her Option to purchase any or all Shares then subject to such Option, including those, if any, which by reason of other provisions of the Plan have not then become available for purchase. Each Optionee, by so notifying the Company in writing, may, in exercising his or her Option, condition such exercise upon, and provide that such exercise shall become effective at the time of, but immediately prior to, the consummation of the transaction, in which event such Optioneeneed not make payment for the Shares to be purchased upon exercise of such Option until 5 days after written notice by the Company to such Optionee that the transaction has been consummated. If the transaction is consummated, each Option, to the extent not previously exercised prior to the date specified in the foregoing notice, shall terminate on the effective date of such consummation. If the transaction is abandoned, (a) any Shares not purchased upon exercise of such Option shall continue to be available for purchase in accordance with the other provisions of the Plan and (b) to the extent that any Option not exercised prior to such abandonment shall have vested solely by operation of this Paragraph 7, such vesting shall be deemed annulled, and the vesting schedule set forth in Subparagraph (iii) of Paragraph 5(d) shall be reinstituted, as of the date of such abandonment.

8. NONTRANSFERABILITY

During the lifetime of an Optionee, an Option is not transferable voluntarily or by operation of law and may be exercised only by such individual. Upon the death of an Optionee, an Option may be transferred to the beneficiaries or heirs of the Optionee will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of ERISA. Notwithstanding the above, the Committee may, with respect to particular Options, establish or modify the terms of the Option to allow the Option to be transferred at the request of an Optionee to trusts established by an Optionee or as to which an Optionee is a grantor or to lineal descendents of an Optionee or otherwise for personal and tax planning purposes of an Optionee. If the Committee allows such transfer, such Options shall not be exercisable for a period of six months following the action of the Committee.

9. NO RIGHTS AS STOCKHOLDER OR TO CONTINUED EMPLOYMENT

No Optionee shall have any rights as a stockholder of the Company with respect to any Shares prior to the date of issuance to him or her of the certificate or certificates for such Shares and neither the Plan nor any Option granted under the Plan shall confer upon an Optionee any right to continuance of employment by the Company or any Subsidiary or interfere in any way with the right of the Company or Subsidiary to terminate the employment of such Optionee.

10. ISSUANCE OF SHARES; RESTRICTIONS

(a) Subject to the conditions and restrictions provided in this Paragraph 10, the Company shall, within twenty business days after an Option has been duly exercised in whole or in part, deliver to the person who exercised the Option a certificate, registered in the name of such person, for the number of Shares with respect to which the Option has been exercised. The Company may legend any stock certificate issued hereunder to reflect any restrictions provided for in this Paragraph 10.

(b) Unless the Shares subject to Options granted under the Plan have been registered under the Securities Act of 1933, as amended (the "Act"), (and, in the case of any Optionee who may be deemed an "affiliate" of the Company as defined in Rule 405 under the Act, such Shares have been registered under

the Act for resale by such Optionee), or the Company has determined that an exemption from registration is available, the Company may require prior to and as a condition of the issuance of any Shares that the person exercising an Option hereunder furnish the Company with a written representation in a form prescribed by the Committee to the effect that such person is acquiring said Shares solely with a view to investment for his or her own account and not with a view to the resale or distribution of all or any part thereof and that such person will not dispose of any of such Shares otherwise than in accordance with the provisions of Rule 144 under the Act unless and until either the Shares are registered under the Act or the Company is satisfied that an exemption for such registration is available.

(c) Anything contained herein to the contrary notwithstanding, the Company shall not be obligated to sell or issue any Shares under the Plan unless and until the Company is satisfied that such sale or issuance complies with (i) all applicable requirements of the New York Stock Exchange (or the governing body of the principal market in which such Shares are traded, if such Shares are not then listed on that Exchange), (ii) all applicable provisions of the Act and (iii) all other laws or regulations by which the Company is bound or to which the Company is subject.

(d) Separate Share certificates shall be issued upon the simultaneous exercise of Incentive Options and Non-Incentive Options.

(e) Each Incentive Option shall require the Optionee to agree that if he shall make a disposition (within the meaning of Section 424(c) of the Code and the rules and regulations thereunder) of any Shares covered by such Incentive Option within one year after the date of transfer to him of such Shares or within two years from the date of grant of such Incentive Option, then in either such event the Optionee shall promptly notify the Company, by delivery of written notice to the Secretary of the Company, of (i) the date of such disposition, (ii) the number of Shares covered by such Incentive Option which were disposed of and (iii) the price at which such Shares were disposed of or the amount of any other consideration received on such disposition. Each Incentive Option granted under the Plan shall authorize the Company (or a Subsidiary) to make such provision as it may deem appropriate for the withholding of any applicable federal, state or local taxes that it determines it may be obligated to withhold or pay in connection with the exercise of such Incentive Option or the disposition of Shares acquired upon exercise of such Incentive Option.

11. SUBSTITUTE OPTIONS

Anything contained herein to the contrary notwithstanding, Options may, at the discretion of the Committee, be granted under the Plan in substitution for options to purchase shares of capital stock of another corporation which is merged into, consolidated with, or all or a substantial portion of the property or stock of which is acquired by, the Company or a Subsidiary. The terms, provisions and benefits to Optionees of such substitute Options shall in all respects be identical to the terms, provisions and benefits to optionees of the options of the other corporation on the date of substitution, except that such substitute Options shall provide for the purchase of Shares of the Company instead of shares of such other corporation.

12. TERM OF THE PLAN

Unless the Plan has been sooner terminated pursuant to Paragraph 13 hereof, the Plan shall terminate on, and no Options shall be granted after, September 9, 2000. The provisions of the Plan,

however, shall continue thereafter to govern all Options theretofore granted, until the exercise, expiration or cancellation of such Options.

13. AMENDMENT AND TERMINATION OF PLAN

The Board of Directors at any time may terminate the Plan or amend it from time to time in such respects as it deems desirable; provided that, without the further approval of the shareholders of the Company by the affirmative vote of shareholders entitled to cast at least the majority of the total number of votes represented (a quorum being present) at a meeting of shareholders of the Company, no amendment shall (i) increase the maximum aggregate number of Shares with respect to which Options may be granted under the Plan, (ii) change the Option price provided for in Paragraphs 5(d)(i) and 6(b)(iii) hereof, or (iii) change the eligibility provisions of Paragraphs 5(b) and 6 hereof; provided further that the provisions of the Plan applicable to the Outside Director Program may not be amended more than once every six months, other than to comport with changes in the Code, ERISA, or the rules thereunder; and provided moreover that, subject to the provisions of Paragraph 10 hereof, no termination of or amendment to the Plan shall adversely affect the rights of an Optionee or other person holding an Option theretofore granted hereunder without the consent of such Optionee or other person, as the case may be.

ISO

AMERICAN FINANCIAL GROUP, INC. ("AFG")

STOCK OPTION AGREEMENT

Subject and pursuant to the provisions of the AFG Stock Option Plan (the "Plan"), _____________(the "Optionee") is hereby granted the option (the "Option') to purchase _______________ (___) fully paid and non-assessable shares of AFG Common Stock, upon and subject to the following terms and conditions:

1. Effective Date of Grant: ________________

2. Option Price: $_______________

3. Duration of Option: Expires on _______________ or sooner. Please see the enclosed Plan for further explanation.

4. Option Type: ISO (which term as used herein shall mean an option intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

5. Vesting: 20% per year as follows:

____ on __________________
____ on __________________
____ on __________________
____ on __________________
____ on __________________

See Section 5(d)(iii) of the Plan for further vesting information.

6. Exercise of Option. Optionee must send to AFG's Corporate Secretary (a) written notice specifying the number of shares for which the option is exercised and (b) payment of the option price plus applicable withholding taxes, if necessary. Among other payment methods, you may pay for option shares with certain shares of AFG common stock which you already own. See Section 5(d)(iv) of the Plan for further explanation.

7. Termination of Employment. See Section 5(d)(v) of the Plan for further explanation.

Please read the enclosed Plan for a full explanation of the conditions and terms of this stock option grant.

Optionee acknowledges receipt of a copy of the Plan dated 5/28/98. Optionee hereby agrees to accept this ISO agreement as a brief description of terms and conditions of the Plan and also agrees to accept as final and conclusive all determinations, interpretations and constructions made by the Committee pursuant to the Plan and the Option.

AMERICAN FINANCIAL GROUP, INC.

By:____
James C. Kennedy, Vice President, Deputy
General Counsel & Secretary

____
Optionee

NON-ISO

AMERICAN FINANCIAL GROUP, INC. ("AFG")

STOCK OPTION AGREEMENT

Subject and pursuant to the provisions of the AFG Stock Option Plan (the "Plan"), ____________________(the "Optionee") is hereby granted the option (the "Option') to purchase _______________ (_______) fully paid and non-assessable shares of AFG Common Stock, upon and subject to the following terms and conditions:

1. Effective Date of Grant: ___________________

2. Option Price: $__________________

3. Duration of Option: Expires on ______________ or sooner. Please see the enclosed Plan for further explanation.

4. Option Type: NON-ISO (which term as used herein shall mean an option not intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

5. Vesting: 20% per year as follows:

____ on __________________
____ on __________________
____ on __________________
____ on __________________
____ on __________________

See Section 5(d)(iii) of the Plan for further vesting information.

6. Exercise of Option. Optionee must send to AFG's Corporate Secretary (a) written notice specifying the number of shares for which the option is exercised and (b) payment of the option price plus applicable withholding taxes. Among other payment methods, you may pay for option shares with certain shares of AFG common stock which you already own. See Section 5(d)(iv) of the Plan for further explanation.

7. Transferability. Non-transferable except as explained in Section 8 of the Plan.

8. Termination of Employment. See Section 5(d)(v) of the Plan for further explanation.

Please read the enclosed Plan for a full explanation of the conditions and terms of this stock option grant.

Optionee acknowledges receipt of a copy of the Plan dated 5/28/98. Optionee hereby agrees to accept this NON-ISO agreement as a brief description of terms and conditions of the Plan and also agrees to accept as final and conclusive all determinations, interpretations and constructions made by the Committee pursuant to the Plan and the Option.

AMERICAN FINANCIAL GROUP, INC.

By:____
James C. Kennedy, Vice President, Deputy
General Counsel & Secretary

____
Optionee

OUTSIDE DIRECTOR
NON-ISO

AMERICAN FINANCIAL GROUP, INC. ("AFG")

STOCK OPTION AGREEMENT

Subject and pursuant to the provisions of the AFG Stock Option Plan (the "Plan"), _____________________ (the "Optionee") is hereby granted the option (the "Option') to purchase __________________ (_______) fully paid and non-assessable shares of AFG Common Stock, upon and subject to the following terms and conditions:

1. Effective Date of Grant: _____________

2. Option Price: $____________

3. Duration of Option: Expires on _______________ or sooner. Please see the enclosed Plan for further explanation.

4. Option Type: NON-ISO (which term as used herein shall mean an option not intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

5. Vesting: 100% vested on date of grant.

6. Exercise of Option. Optionee must send to AFG's Corporate Secretary (a) written notice specifying the number of shares for which the option is exercised and (b) payment of the option price plus applicable withholding taxes. Among other payment methods, you may pay for option shares with certain shares of AFG common stock which you already own. See Section 6(b)(vi) of the Plan for further explanation.

7. Transferability. Non-transferable except as explained in Section 8 of the Plan.

8. Termination of Employment. See Section 6(b)(vii) of the Plan for further explanation.

Please read the enclosed Plan for a full explanation of the conditions and terms of this stock option grant.

Optionee acknowledges receipt of a copy of the Plan dated 5/28/98. Optionee hereby agrees to accept this NON-ISO agreement as a brief description of terms and conditions of the Plan and also agrees to accept as final and conclusive all determinations, interpretations and constructions made by the Committee pursuant to the Plan and the Option.

AMERICAN FINANCIAL GROUP, INC.

By:____
James C. Kennedy, Vice President, Deputy General Counsel & Secretary

____
Optionee

AMERICAN FINANCIAL GROUP, INC.

1998 ANNUAL BONUS PLAN

Adopted on April 9, 1998

AMERICAN FINANCIAL GROUP, INC.

1998 ANNUAL BONUS PLAN

1. PURPOSE

The purpose of the Annual Bonus Plan (the "Plan") is to further the profitability of American Financial Group, Inc. (the "Company") to the benefit of the shareholders of the Company by providing incentive to the Plan participants.

2. ADMINISTRATION

Except as otherwise expressly provided herein, the Plan shall be administered by the Compensation Committee or a successor committee or subcommittee (the "Committee") of the Board of Directors of the Company (the "Board") composed solely of two or more "outside directors" as defined pursuant to Section 162(m) of the Internal Revenue Code. No member of the Committee while serving as such shall be eligible to be granted a bonus under the Plan. Subject to the provisions of the Plan (and to the approval of the Board where specified in the Plan), the Committee shall have exclusive power to determine the conditions (including performance requirements) to which the payment of the bonuses may be subject and to certify that performance goals are attained. Subject to the provisions of the Plan, the Committee shall have the authority to interpret the Plan and establish, adopt or revise such rules and regulations and to make all determinations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's interpretation of the Plan and all of its actions and decisions with respect to the Plan shall be final, binding and conclusive on all parties.

3. PLAN TERM AND BONUS YEARS

The term of the Plan is one year, commencing January 1, 1998, which term shall be renewed from year to year unless and until the Plan shall be terminated or suspended as provided in Section 9. As used in the Plan the term "Bonus Year" shall mean a calendar year.

4. PARTICIPATION

Subject to the approval of the Committee and the Board of Directors (based on the recommendation of the Committee), management of the Company shall suggest those persons who are deemed to be key employees of the Company for participation in the Plan (the "Participants").

5. ESTABLISHMENT OF INDIVIDUAL BONUS TARGETS AND PERFORMANCE CRITERIA

The Committee shall establish the individual target amount of bonus (the "Bonus Target") that may be awarded to each Participant and recommend that the Board adopt such action. In no event shall the establishment of any Participant's Bonus Target give a Participant any right to be paid all or any part of such amount unless and until a bonus is actually awarded pursuant to Section 6.

The Committee shall establish the performance criteria, both subjective and objective, (the "Performance Criteria") that will apply to the determination of each Participant's bonus for that Bonus Year and recommend that the Board adopt such action. The individuals, their Bonus Targets and Performance Criteria set forth on Schedules I and II have been recommended by the Committee and approved by the Board.

6. DETERMINATION OF BONUSES AND TIME OF PAYMENT

As soon as practicable after the end of 1998, the Committee shall certify whether or not the performance criteria of each Participant has been attained and shall recommend to the Board, and the Board shall determine, the amount of the bonus, if any, to be awarded to each Participant for 1998 according to the terms of this Plan. Such bonus determinations shall be based on achievement of the Performance Criteria for 1998.

Once the bonus is so determined for a Participant, it shall be paid seventy-five percent in cash and twenty-five percent in Company Common Stock to the Participant (less any applicable withholding and employment taxes) as soon as practicable. The number of shares of Company Common Stock to be issued to a Participant shall be determined by dividing twenty-five percent of the bonus payable (before applicable taxes and deductions) by the average of the per share Fair Market Value of the Common Stock for the last twenty trading days of 1998; the resulting number shall then be rounded to the nearest hundred. Any shares of Company Common Stock issued pursuant to this Plan will be "restricted."

"Fair Market Value" means the last sale price reported on any stock exchange or over-the-counter trading system on which Company Common Stock is trading on the last trading day prior to a specified date or, if no last sales price is reported, the average of the closing bid and asked prices for a share of Common Stock on a specified date. If no sale has been made on any date, then prices on the last preceding day on which any such sale shall have been made shall be used in determining Fair Market Value under either method prescribed in the previous sentence.

7. TERMINATION OF EMPLOYMENT

If a Participant's employment with the Company or a subsidiary, as the case may be, is terminated for any reason other than discharge for cause, he may be entitled to such bonus, if any, as the Committee, in its sole discretion, may determine.

In the event of a Participant's discharge for cause from the employ of the Company or a Subsidiary, as the case may be, he shall not be entitled to any amount of bonus unless the Committee, in its sole discretion, determines otherwise.

8. MISCELLANEOUS

A. Government and Other Regulations. The obligation of the Company to make payment of bonuses shall be subject to all applicable laws, rules and regulations and to such approvals by governmental agencies as may be required.

B. Tax Withholding. The Company or a Subsidiary, as appropriate, shall have the right to deduct from all bonuses paid in cash any federal, state or local taxes required by law to be withheld with respect to such cash payments.

C. Claim to Bonuses and Employment Rights. The designation of persons to participate in the Plan shall be wholly at the discretion of the Board. Neither this Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ of the Company or a Subsidiary.

D. Beneficiaries. Any bonuses awarded under this Plan to a Participant who dies prior to payment shall be paid to the beneficiary designated by the Participant on a form filed with the Company. If no such beneficiary has been designated or survives the Participant, payment shall be made to the Participant's legal representative. A beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Company.

E. Nontransferability. A person's rights and interests under the Plan may not be assigned, pledged or transferred except, in the event of a Participant's death, to his designated beneficiary as provided in the Plan or, in the absence of such designation, by will or the laws of descent and distribution.

F. Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Company (to the extent permitted by the Articles of

Incorporation and Code of Regulations of the Company and applicable law) against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit or proceeding to which he may be a party or in which they may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him, in satisfaction of judgment in any such action, suit or proceeding against him. He shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person may be entitled under the Company's Articles of Incorporation or Code of Regulations, as a matter of law or otherwise or of any power that the Company may have to indemnify him or hold him harmless.

G. Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent certified public accountants of the Company or of its Subsidiaries or upon any other information furnished in connection with the Plan by any officer or director of the Company or any of its Subsidiaries. In no event shall any person who is or shall have been a member of the Committee or of the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

H. Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries in such proportions as shall be agreed upon by them from time to time.

I. Pronouns. Masculine pronouns and other words of masculine gender shall refer to both men and women.

J. Titles and Headings. The titles and headings of the sections in the Plan are for convenience of reference only, and, in the event of any conflict between any such title or heading and the text of the Plan, such text shall control.

9. AMENDMENT AND TERMINATION

The Board may at any time terminate the Plan. The Board may at any time, or from time to time, amend or suspend and, if suspended, reinstate the Plan in whole or in part. Notwithstanding the foregoing, the Plan shall continue

in effect to the extent necessary to settle all matters relating to the payment of bonuses awarded prior to any such termination or suspension.

Schedule I

Annual Bonus Plan
for 1998
Participants and
Bonus Targets

Name	Position	Total Bonus Target	EPS Component	Company Performance Component
Carl H. Lindner	Chairman of the Board & Chief Executive Officer			
Carl H. Lindner III	Co-President			
Keith E. Lindner	Co-President			
S. Craig Lindner	Co-President			
James E. Evans	Sr. Vice President & General Counsel			
Thomas E. Mischell	Sr. Vice President - Taxes			
Fred J. Runk	Sr. Vice President & Treasurer			

Schedule II

Annual Bonus Plan
1998 Performance Criteria for Participants

The overall bonus for 1998 for each Participant will be the sum of such Participant's bonuses for the following two Performance Criteria components:

	Weighting of Dollar Amount of Bonus Target (Assuming Schedule I indicates $925,000 Bonus Target)
Earnings Per Share ("EPS")- 50%	$462,500
Company Performance - 50%	$462,500

A. EPS Component.

Each participant's bonus will range from 0% to 150% of the dollar amount of the Bonus Target allocated to the EPS Component, based on the following levels of reported earnings per common share achieved by the Company and its consolidated subsidiaries for 1998:

Operating EPS	Percentage of Bonus Target to be paid for EPS Component
$2.19 or less	0
2.92	100%
more than 2.92	more than 100% up to 175%

Where the Operating EPS is above $2.19 and below $2.92, the Committee, in its discretion, shall determine the percentage of bonus below 100% and the percentage of bonus above 100% of EPS is above $2.92.

The Operating EPS to be considered is diluted EPS from the Company's insurance operations and not including investee results, realized gains and losses in the investment portfolio and unusual or non-recurring items. Additionally, the Committee shall have the power and authority, in its discretion, to adjust reported EPS upward or downward for purposes of the Plan to the extent the Committee deems equitable in the event of occurrences which might unfairly affect the computation of EPS for purposes of the Plan.

B. Company Performance Component

Each participant's bonus could range up to 175% of the dollar amount of the Bonus Target allocated to the Company Performance Component and will be determined by the Board, upon the Compensation Committee's recommendation, based on the Compensation Committee's subjective rating of the Company's relative overall performance for 1998. Such rating shall include a consideration of all factors deemed relevant, including financial (and non-financial) and strategic factors.

AMERICAN FINANCIAL GROUP, INC.

AUXILIARY RASP PLAN

AMENDED AND RESTATED

AS OF JANUARY 1, 1998

AMERICAN FINANCIAL GROUP, INC.
AUXILIARY RASP PLAN
AMENDED AND RESTATED
As of January 1, 1998

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APPENDIX I

AMERICAN FINANCIAL GROUP, INC.

AUXILIARY RASP PLAN
AMENDED AND RESTATED
As of January 1, 1998

ARTICLE 1. ESTABLISHMENT AND PURPOSE

The American Financial Group, Inc. Auxiliary RASP Plan ("Plan") was established as of January 1, 1997. It is amended and restated as of January 1, 1998. The purpose of the Plan is to enable eligible Employees of American Financial Group, Inc. ("AFG"), and certain of its subsidiaries and affiliates (collectively "Employers" and singularly "Employer"), who are eligible to participate in the Retirement Contribution portion of the American Financial Group Retirement and Savings Plan (the "RASP") or any other defined contribution plan sponsored by an AFG subsidiary to have an additional benefit to the RASP or such other plan.

The Plan is being established by AFG and the other Employers for the benefit of their respective eligible Employees who are not eligible for another nonqualified Plan of AFG or any other Employer. With respect to Employees not directly employed by AFG, such Employers shall annually forward the amount necessary to fund the contributions for the Account of each eligible Employee as determined pursuant to Section 4.2 and thereafter the Account (the investment return as determined pursuant to Section 4.4) of each Employee is the obligation of AFG.

ARTICLE 2. DEFINITIONS

2.1 "Account" means the account established by the Administrator pursuant to Section 3.1.

2.2 "Administrator" means the person or committee appointed by the President of AFG responsible for the administration of the Plan.

2.3 "AFG" means American Financial Group.

2.4 "AFG RASP" means the American Financial Group Retirement and Savings Plan.

2.5 "Agreement" means the written election of a Participant to participate in the Plan in the form attached hereto as Appendix I.

2.6 "American Financial Group" means American Financial Group, Inc., its successors and assigns.

2.7 "Code" means the Internal Revenue Code of 1986, as amended.

2.8 "Employee" means all common law employees of an Employer as further described in the AFG RASP.

2.9 "Employer" means AFG and certain of its subsidiaries and affiliates who have adopted the Plan.

2.10 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

2.11 "Expiration Date" means the date in which a Participant incurs five consecutive One Year Periods of Severance.

2.12 "Hour of Service" means each hour an Employee is entitled to payment by an Employer as further described in the AFG RASP.

2.13 "One Year Period of Severance" means any 12-month period during which a Participant does not complete a month of service pursuant to the terms of the RASP.

2.14 "Participant" means an Employee who becomes eligible pursuant to Article 3.

2.15 "Plan Year" means the twelve month period beginning each January 1 and ending December 31 on which the records of the Plan are kept.

2.16 "RASP" means the AFG RASP.

2.17 "Retirement Contribution" means the employer retirement contribution made by an Employer pursuant to the terms of the AFG RASP.

2.18 "Retirement Contributions Account" means the Retirement Contributions Account as defined in the RASP.

2.19 "Year of Service" means each 12-month period beginning on the Employee's employment commencement date during which a Participant completes at least one Hour of Service per month, as determined pursuant to the RASP.

ARTICLE 3. PARTICIPATION

3.1 Eligibility. The Employees who are eligible to become a Participant in the Plan are those officers and other key employees of an Employer who are authorized by the Board of Directors of AFG to participate in the Plan or have been specifically authorized to participate in the Plan by an employment agreement between an Employer and a person employed by an Employer.

3.2 Participation in the Plan. Effective January 1, 1998, a Participant shall automatically become a Participant in the Plan upon the authorization described in Section 3.1.

3.3 Vesting.

(a) A Participant's interest in his Account shall become vested and nonforfeitable to the extent of the following percentages based upon full Years of Service with an Employer:

Year of Service	Percentage Vested	Percentage Forfeited
Fewer than five years	0%	100%
At least five years	100%	0%

An Employee forfeits all non-vested rights to an Account after the Plan Year after five consecutive One Year Periods of Severance have occurred.

(b) For purposes of vesting, a Year of Service means each consecutive 12-month period beginning on the Employee's employment commencement date and anniversaries thereof. A month of service means a calendar month during any part of which an Employee completes an Hour of Service. Vesting shall be calculated in the same manner as calculated in the RASP. In addition, each Employee participating in the Plan shall be credited, for Service purposes, for his employment with any subsidiary or affiliate of AFG.

(c) A former Participant shall become a Participant immediately upon the former Participant's return to the employ of an Employer if such former Participant had a nonforfeitable right to such Participant's Account. A former Participant who did not have a nonforfeitable right to his Account at the time of termination shall be considered a new Employee, for vesting purposes, if the number of consecutive One Year Periods of Severance equal or exceed the greater of (1) five

or (2) the aggregate number of Years of Service before such Period of Severance. If such former Participant's Years of Service prior to termination exceeds the number of consecutive One Year Periods of Severance after such termination, or if the number of consecutive One Year Periods of Severance is less than five, such Participant shall have all Years of Service counted.

(d) Participation in the Plan will continue until an Employee terminates his employment as provided for in Section 4.3 or for as long as he has an interest in the Plan that has not been distributed to him or for his benefit.

ARTICLE 4. COMPENSATION ALLOCATED

4.1 AFG Auxiliary RASP Account. An Account will be established for each Employee who elects to participate in the Plan. The Account will be maintained by the Administrator. All allocations on behalf of an Employee shall be deferred and all increases or decreases in the Account due to investment return of the Retirement Contribution in the AFG RASP (see Section 4.4), all distributions to the Employee or beneficiary or estate, and any other interest earned on the balance thereof, shall be reflected in the Account.

4.2 Amount of Allocation.

(a) Prior to January 1, 1998, the amount allocated to an Employee's Account shall be deferred and shall be the same percentage of an Employee's gross income (as defined in Section 61(a) of the Code) paid by any Employer as would have been allocated to an Employee's Retirement Contributions Account in the AFG RASP (or any other defined contribution plan sponsored by an AFG subsidiary) up to a maximum of $30,000, which amount shall be increased (but not decreased) with respect to adjustments allowed by Section 415 of the Code.

Provided, however, that the initial amount of compensation allocated and deferred shall include an amount equivalent to the amount that would have been allocated in an Employee's Retirement Contributions Account or predecessor defined contribution plan account for the Plan Year prior to participation in this Plan but for limitations and rules existing in the Code as of the date hereof.

(b) After December 31, 1997, the amount allocated to an Employee's Account shall be deferred and shall be the same percentage of an Employee's gross income (as defined in Section 61(a) of the Code) that would have been paid by an Employer under the allocation formula in the AFG RASP in excess of the amount of the contribution actually allocated to the Employee's Retirement Contributions Account in the AFG RASP (or any other defined contribution plan sponsored by an AFG subsidiary) provided there was no Compensation Limit, as defined in the RASP, imposed by the Code. The maximum amount of this contribution when added to the contribution allocated to the Employee's Retirement Contributions Account shall be $30,000, which amount shall be increased (but not decreased) with respect to adjustments allowed by Section 415 of the Code.

(c) Allocations under this Plan for any Plan Year shall be deemed to be credited to an Employee's Account as of December 31 of such Plan Year.

(d) A Participant's Accounts shall also include amounts previously credited under the AFC Auxiliary ESORP, if any.

4.3 Term of Deferral. The Agreement shall provide that all amounts posted to the Account may be paid upon the earlier of (1) retirement or termination of employment at age 60 or over, (2) death, (3) Total Disability or (4) the Expiration Date. Commencing in the first quarter of the year following an Expiration Date, payments from the Account shall be made in accordance with the provisions specified in Section 5.1(a) hereof.

4.4 Investment Return. The Participant's Account shall be credited (or charged) with interest at the same rate as earned on the Retirement Contributions Accounts under the RASP (investment income plus or minus "investment performance" under the Retirement Contributions account of the RASP) as of each December 31 prior to the Expiration Date or more frequently as determined by the Administrator. Such determination shall be final, binding and conclusive on all parties.

4.5 Statement of Account. A statement of Account will be sent to each Participant annually or more frequently as determined by the Administrator.

ARTICLE 5. PAYMENT OF ACCOUNT

5.1 Payment After the Expiration Date, Death, Retirement or Disability.

(a) Within 90 days following the end of the year in which the Expiration Date occurs, termination of employment after age 60, death or disability, the Participant, or in the event of death, the Beneficiary, may choose payment or distribution of the Account under one of the following payment options:

(1) The Account may be applied to the purchase of an immediate or deferred life annuity contract, on the sole life of the Participant, or jointly on the lives of the Participant and a beneficiary named by the Participant. The annuity contract shall be purchased from an insurance company to be determined at the sole discretion of AFG provided that such insurance company shall have a current rating of A (Excellent) or better from Bests' Insurance Reports.

(2) The Account may be paid out as if the Participant purchased an immediate or deferred life annuity contract, on the sole life of the Participant, or jointly on the lives of the Participant and the beneficiary named by the Participant. Such payment of the Account shall be as if AFG purchased an annuity contract from an insurance company to be determined at the sole discretion of AFG provided that such insurance company shall have a rating of A (Excellent) or better from Bests' Insurance Reports and using as the interest rate assumption, the same interest rate as such insurance company would provide.

(3) The Account may be paid in a lump sum in cash.

The Employer may take into consideration, but is not bound by, the Employee's preference as to the payment options.

The annuity contract provided for in paragraph 5.l(a)(l) shall provide for, and payments provided for in paragraph 5.l(a)(2) shall be made, in equal installments over the expected life span of Participant which shall be determined by standard actuarial tables then in existence.

(b) Within 30 days of AFG's choice of payment option, AFG will purchase such annuity, begin to make payments or make the lump sum payment.

(c) Notwithstanding the payment option chosen by AFG, after the commencement of payments from the Account, the Administrator, at his sole discretion, may accelerate payment of any amount remaining in the Account to the extent that the amounts being paid are not sufficiently large to warrant the administrative expense then being incurred to administer such payments.

(d) Any applicable federal, state and local taxes will be withheld from the gross amounts paid. Neither the Participant nor any designated beneficiary shall have any right, directly or indirectly, to alienate, assign, pledge or in any way encumber any amount that is payable from the Account.

(e) Notwithstanding the above, the Participant, or in the event of death, the Beneficiary, may choose to defer payment or distribution of the Account to a time not later than the first calendar quarter of the year following the year in which the Participant attains age 65, or in the event of death, would have attained age 65.

5.2 Hardship Distribution. Distribution of payments from a Participant's Account prior to the Expiration Date shall be made only if the Administrator, after consideration of an application by the Participant, determines that the Participant has sustained financial hardship caused by events beyond the Participant's control. In such event, the Administrator may, at his sole discretion, direct that all or a portion of the Account be paid to the Participant in such manner, and at such times as determined by the Administrator.

5.3 Beneficiary Designation and Payment.

(a) The Participant shall have the right to designate a beneficiary hereunder and to change any beneficiary previously designated. Such designation shall be made by the Participant delivering to the Administrator a writing setting forth the name and address of the person or persons so designated with a statement by the Participant of the intention that the person or persons so designated be the beneficiary or beneficiaries hereunder. The last-dated and filed beneficiary designation shall cancel all earlier filed designations. (Appendix I provides the acceptable form of beneficiary designation.)

(b) In the event of the Participant's death before or after the commencement of payments from the Account, then the amount otherwise payable to the Participant shall be paid to the designated

beneficiary or, if none, to the estate, which beneficiary or estate shall have all the rights conferred by Section 5.1 above.

ARTICLE 6. GENERAL PROVISIONS

6.1 Employee's Rights Unsecured. The right of any Employee to receive payments under the provisions of the Plan shall be an unsecured claim against the general assets of the Employers. It is not required or intended that the amounts credited to the Employee's Account be segregated on the books of AFG or be held by the Employers in trust for the Employee. All credits to the Account are for bookkeeping purposes only.

6.2 Non-Assignability. The right to receive payments hereunder shall not be transferable or assignable by an Employee, except by will or by the laws of descent and distribution. Any other attempted assignment or alienation of payments hereunder shall be void and of no force or effect.

6.3 Administration. The Administrator shall have the authority to adopt rules, regulations and interpret, construe and implement the provisions of the Plan according to the laws of the State of Ohio, to the extent not preempted by ERISA.

6.4 Amendment and Termination. The Plan may at any time or from time to time be amended or terminated by AFG. No amendment, modification or termination shall adversely affect the Employee's accrued rights under the Plan. Any such amendment, modification or termination shall be in a writing signed by an officer of AFG and approved by the Board of Directors of AFG.

6.5 Construction. The masculine gender, where appearing in this Plan, shall be deemed to also include the feminine and neuter genders. The singular shall also include the plural, and the plural, the singular, where appropriate.

6.6 Limitations. The Plan does not constitute a contract of employment, and participation in the Plan will not give any Employee the right to be retained in the employ of an Employer or any right or claim to any benefit under the terms of the Plan, unless such right or claim has specifically accrued pursuant to the provisions of his Agreement with the Employer. This Plan does not confer the right for an Employee to receive a bonus.

6.7 Subsidiaries. Each subsidiary of AFG who employs an Employee shall be obligated to make payments to AFG to fund each eligible Employee's

Account. The amount paid to AFG shall be in the proportion that such subsidiary's compensation paid to an Employee bears to an Employee's gross income determined under Section 4.2(a).

AMERICAN FINANCIAL GROUP, INC.

BY: ___________________________________

Its: ___________________________________

APPENDIX I

AMERICAN FINANCIAL GROUP, INC.
AUXILIARY RASP

DESIGNATION OF BENEFICIARY

TO: The Board of Directors
American Financial Group, Inc.

I hereby direct that upon my death all or any payments to be made or remaining to be paid in accordance with rights granted to me under the Auxiliary RASP Plan shall be paid as follows:

(A) Primary Beneficiary

Name or Names of Persons or Trust: ______________________________
____

Address: ______________________________
____

Date of Birth or of Trust: ______________________________

Name of Trustee if applicable: ______________________________

Telephone Number: ______________________________

Social Security Number or T.I.N.: ______________________________

(B) Alternative Beneficiary (in the event of the death or non-existence of the Primary Beneficiary listed above):

Name: ______________________________

Address: ______________________________
____

Date of Birth or of Trust: ______________________________

Name of Trustee if applicable: ______________________________

Telephone Number: ______________________________

Social Security Number or T.I.N.: ______________________________

The undersigned hereby reserves the right to change the beneficiary or beneficiaries designated herein at any time by filing in writing a new Designation of Beneficiary form with the Plan Administrator.

WITNESS:

________________________ ____________________________________
EMPLOYEE:
Date: ______________________________

ACKNOWLEDGMENT

AMERICAN FINANCIAL GROUP, INC.

Date: __________________ By: _________________________________

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This schedule contains summary financial information extracted from American Financial Group, Inc. 10-K for December 31, 1998 and is qualified in its entirety by reference to such financial statements.

1,000

YEAR
DEC-31-1998
DEC-31-1998
$296,721
10,946,827
618,198
0
0
0
0
0
15,845,203
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15,845,203
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4,050,034
0
0
350,282
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57,682
204,754
79,584
125,170
0
(770)
0
$124,400
2.03
2.00

Includes an investment in investee corporation of $192 million.