AMERICAN FINANCIAL GROUP, INC.

ANNUAL REPORT 2008

Property & Casualty –
Specialty Commercial Insurance

Annuities and
Supplemental Insurance

AMERICAN FINANCIAL GROUP, INC.

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

OUR VISION

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

OUR PURPOSE

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

GREAT AMERICAN INSURANCE GROUP

AMERICAN EMPIRE GROUP

Marketform

MID-CONTINENT

NATIONAL INTERSTATE

Republic Indemnity

GREAT AMERICAN FINANCIAL RESOURCES

Annuity Investors LIFE INSURANCE COMPANY

GREAT AMERICAN LIFE INSURANCE COMPANY

GREAT AMERICAN PLAN ADMINISTRATORS

UNITED TEACHER ASSOCIATES INSURANCE COMPANY

The family of companies that make up AFG's insurance operations do business under several brands in a variety of markets.

Co-Chief Executive Officers **Carl H. Lindner III** and **S. Craig Lindner**

TO OUR SHAREHOLDERS

2008 was a challenging year for the insurance industry with unprecedented turbulence in the worldwide financial markets, unusually high catastrophe losses, and major disruption in certain insurance segments. In this environment, we are very pleased with American Financial Group's performance. AFG's financial condition is strong and its liquidity is sufficient to satisfy its financial obligations. We are well-positioned to react to the challenging market conditions and are optimistic about the company's long-term business and financial outlook.

The global credit crisis, precipitated by the subprime mortgage meltdown, led to a "financial hurricane" and dominated the headlines since mid-2007. The forces behind this hurricane were primarily investment-related, coupled with weak controls within certain banking and financial institutions. All of these events contributed to a massive lack of consumer confidence in our economy that evolved throughout 2008. These factors have impacted the financial markets as well as AFG's stock price over the last two years.

In the 30 years that we have been working in the insurance business, we have not seen such a swift and powerful confluence of events impacting our business. Through all of these events, AFG has performed better than the overall market and the insurance sector. The annual compounded growth rate of AFG's common stock plus dividends over the past five years was 7% compared with negative returns in the S&P 500 Index of –2% and the S&P Property/Casualty Insurance Index of –3%. Furthermore, the annual compounded growth rate of AFG's book value per share, excluding unrealized gains and losses on fixed income securities, was 10% over the past five years.

OUR STRATEGY

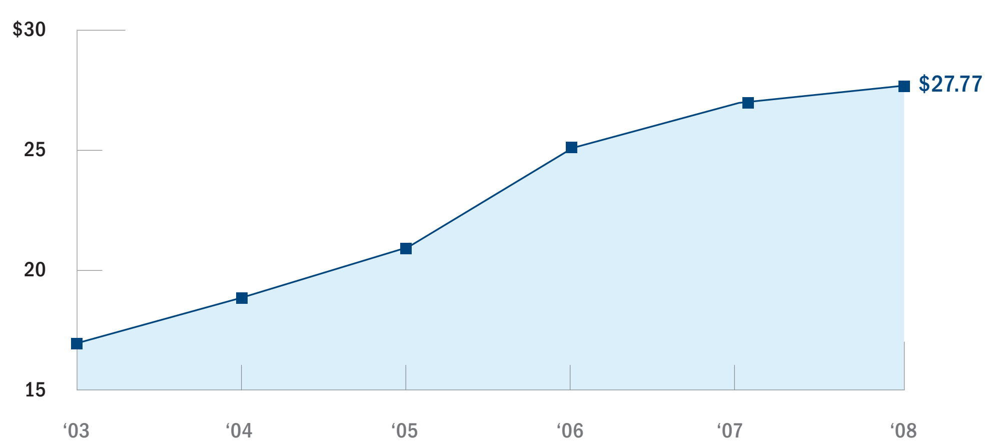
AFG is a premier specialty insurer. We offer a diverse set of financial solutions, focused on specialty commercial property and casualty niches and on annuities and supplemental insurance products for targeted customer groups. We are in the business of managing risk. Expert underwriting—knowing which risks—at what price—and how much to assume—as well as skillful and prudent investing, and objective and fair claims handling are fundamental to our long-term success.

Our overriding goal is to increase long-term shareholder value. The significant ownership of AFG's stock by our management team and employees provides alignment of interests with our public shareholders. The following key aspects of our strategic focus will help us increase shareholder value over the long run:

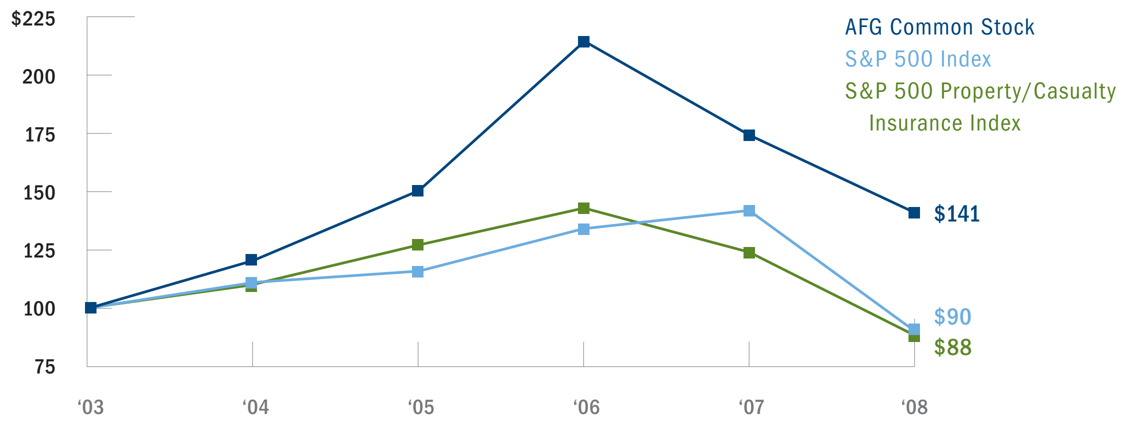
- Operate in specialty niches where we have significant expertise.
- Maintain our strong underwriting culture through astute risk selection, pricing discipline and risk management practices.
- Reduce business volume in select lines if needed to achieve appropriate underwriting results.
- Maintain financial leverage and capital adequacy that are consistent with our commitments to rating agencies and the market.
- Nurture relationship-based distribution networks that result in strong, mutually beneficial partnerships and contribute to business retention and continuity.
- Focus on achieving investment returns over the long-term that outperform market indices while effectively managing our portfolio risk.
- Identify, develop and appropriately reward business leaders who will enhance the Company's intellectual capital.

Our long-term financial objectives are to achieve returns on equity between 12% and 15% and maintain a strong balance sheet and adequate liquidity to provide financial flexibility.

Book Value Per Share (as of December 31, excluding unrealized gains and losses on fixed maturities)



5 Year Cumulative Total Shareholder Return
on AFG Common Stock vs. S&P Indices



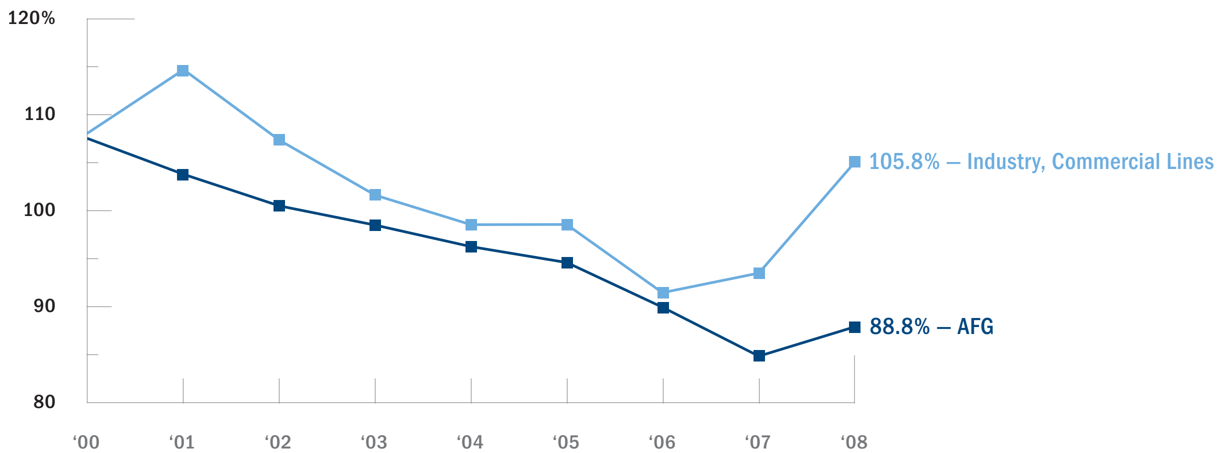
This graph assumes $100 invested on December 31, 2003 in AFG's common stock, the Standard & Poor's ("S&P") 500 Index and the S&P 500 Property/Casualty Insurance Index, including reinvestment of dividends.

2008 HIGHLIGHTS

2008 was a challenging year. Our record core insurance operating results of $4.08 per share were 4% higher than 2007, surpassing our expectations, and reflecting the successful execution of our long-term strategy. The 2008 core operating earnings generated a return on equity of 17%. We believe that the underwriting margins of our property and casualty insurance operations will continue to outperform industry averages, as they have for each of the last ten years. The dramatic changes in the investment markets were somewhat of a two-edged sword from an earnings perspective. Spreads in our annuity businesses benefitted from the increased investment yields available in the markets during the year. However, net earnings were 49% lower than 2007 resulting from net realized losses on investments, including other than temporary impairments. Nevertheless, AFG's 2008 net earnings generated a return on equity of 7% and over the last five years it has averaged 12%, including realized gains and losses.

The 2008 underwriting profit for the specialty property and casualty insurance operations was strong, generating a combined ratio of 87% (statutory combined ratio of 88.8%). The combined ratio increased from 2007 as a result of the effects of depressed economic conditions, higher catastrophe losses and a more competitive insurance market. Our run-off automobile residual value insurance (RVI) business incurred significantly higher losses than we anticipated from our final contract. We had not incurred losses on this contract prior to 2008. The vast majority of vehicles in a loss position will come off lease by the third quarter of 2009. Better than expected results in many of our other operations helped to offset the RVI losses.

Specialty Group — Statutory Combined Ratio (COR)



2004–2008 Industry CORs exclude A&E losses.

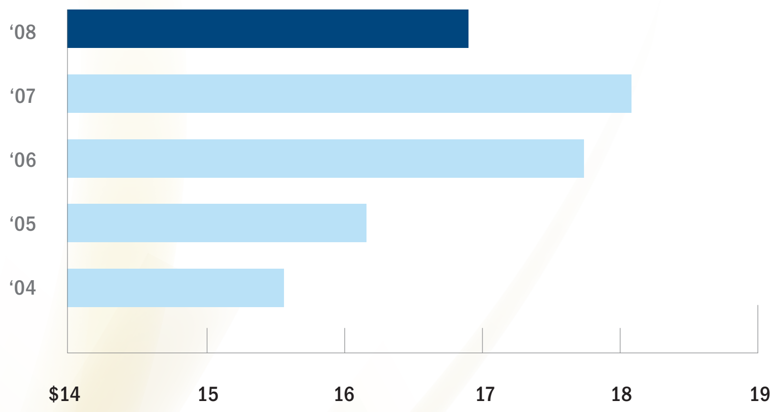
* The Industry Source is A.M. Best and Company, Inc. and 2008 Commercial Industry COR is estimated.

Most of our businesses had profitable underwriting margins and our returns were consistent with our objectives in these businesses. Despite competitive pressures, we were pleased that our overall net written premium growth was in line with our stated expectations for the year. The acquisitions of Marketform Group Limited, which includes a Lloyd's insurer, and Strategic Comp Holdings, LLC, a provider of workers' compensation programs, in the early part of 2008 also contributed to our premium growth. Both of these business units have transitioned smoothly into the AFG organization and we expect healthy returns from them in the long run.

Core pre-tax operating earnings of the annuity and supplemental insurance operations were 25% higher than in 2007. Our concentration in fixed annuities is particularly advantageous in an investment environment where the spread between U.S. government bonds and other fixed maturities widens. Earnings in our supplemental insurance business were also higher than 2007 due primarily to favorable results in our long-term care business.

The Annuity and Supplemental Group's 2008 statutory premiums increased to $2.1 billion, 5% higher than the record level achieved in 2007. Increased sales of traditional fixed annuities were partially offset by lower sales of indexed annuities in the single premium market.

Invested Assets (as of December 31, in billions)



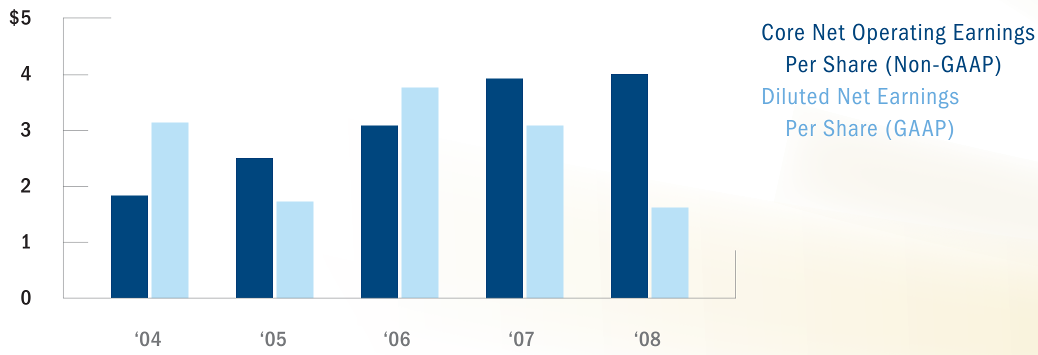
Our primary investment objective is to maximize total return from a long-term perspective rather than focusing on short-term performance. Over the years, the company's portfolio has generated solid returns and provided asset growth. Investment performance in 2008, however, was negatively impacted by $270 million of net realized investment losses, including other than temporary impairment charges. In addition, the steep declines in the financial markets significantly increased the net unrealized loss on our investment portfolio. Because of our high quality portfolio and strong liquidity, we have both the ability and intent to hold our fixed income investments to maturity, or until they recover in value. We believe, over time, values will be restored as spreads to treasuries narrow to more normal levels.

LOOKING AHEAD

Despite the challenges in the global credit markets which adversely impacted AFG's net earnings and the market values of many of its fixed maturity investments, we continue to believe that ongoing operations will be strong. The company's financial strength, diversified business model and our underwriting and risk management skills provide the foundation for lasting shareholder value.

Looking to 2009, we expect net written premiums of our specialty property and casualty operations to decline from 2008 levels primarily resulting from a greater use of reinsurance, particularly in our agricultural operations, and overall economic conditions. We expect a continuation of the healthy underwriting profits in these operations, albeit at a lower level than in 2008. We are, however, encouraged by early signs that the market for some of our products may be firming. In our annuity and supplemental operations, we expect solid growth in core operating earnings driven by the annuity operations.

Earnings Per Share



AFG's guidance for 2009 core net operating earnings is between $3.70 and $4.00 per share. This guidance reflects our expectation of strong earnings growth in our annuity and supplemental operations and increased yields in our investment portfolio. The 2009 expected results exclude the potential for significant catastrophe and crop losses, unforeseen major adjustments to asbestos and environmental reserves and large gains or losses from asset sales or impairments.

> AFG's guidance for 2009 core net operating earnings is between $3.70 and $4.00 per share.

Improvement in the current market conditions may take a prolonged period of time. As we examine our investment portfolio, we continue to believe that there are strong fundamentals in place and our long-term investment horizon will enable us to realize the underlying values of those investments.

Our strategy has served us well over the years and we remain optimistic about our business. We have a strong commitment to our fundamental principles. We acknowledge the challenges of a turbulent marketplace and are confident that our team has the expertise and judgment to seize those opportunities that lie ahead. We thank God for a successful year and our employees for their dedication, service and contributions to the company.

Finally, we express our appreciation to our policyholders, agents and brokers for their continuing business and to you, our shareholders, for your investment and support.

Carl H. Lindner III
Co-Chief Executive Officer

S. Craig Lindner
Co-Chief Executive Officer

Great American Insurance Company has maintained a financial strength rating of A (Excellent) or better from A.M. Best Company since 1908.

FINANCIAL HIGHLIGHTS (in millions, except per share data)

BALANCE SHEET DATA	2008	2007	2006
Cash and investments	**$16,871**	$18,054	$17,739
Total assets	**26,428**	25,808	25,101
Long-term debt, including payable to subsidiary trusts	**1,030**	937	921
Shareholders' equity	**2,490**	3,046	2,929
Book value per share	**$21.54**	$26.84	$24.55
Shareholders' equity [A]	**3,210**	3,071	2,955
Book value per share [A]	**$27.77**	$27.06	$24.77
Ratio of debt to total capital [B]	**24%**	23%	22%
Cash dividends per share	**$0.50**	$0.40	$0.37
Shares outstanding	**115.6**	113.5	119.3

SUMMARY OF OPERATIONS			
Total revenues	**$4,293**	$4,379	$4,225
Components of net earnings:			
Core net operating earnings [C]	**$476.8**	$486.4	$379.9
Major gains on real estate sales [D]	—	—	54.8
Major A&E reserve increases	**(9.8)**	(56.4)	—
Realized investment gains (losses)	**(270.1)**	(46.5)	18.6
Other	**(1.1)**	(.3)	.1
Net earnings – GAAP	**$195.8**	$383.2	$453.4
Return on Equity:			
Net Earnings	**7.1%**	12.8%	16.8%
Core Net Operating Earnings	**17.2%**	16.3%	14.1%
Components of diluted earnings per share:			
Core net operating earnings [C]	**$4.08**	$3.94	$3.14
Major gains on real estate sales [D]	—	—	.45
Major A&E reserve increases	**(.09)**	(.46)	—
Realized investment gains (losses)	**(2.31)**	(.38)	.16
Other	**(.01)**	—	—
Diluted earnings per share – GAAP	**$1.67**	$3.10	$3.75

A Excludes unrealized gains and losses on fixed maturity investments.

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

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

D Reflects after-tax gains from the sales of certain New York assets and Chatham Bars Inn in Cape Cod in 2006.

AMERICAN FINANCIAL GROUP *AT A GLANCE*

SPECIALTY PROPERTY & CASUALTY INSURANCE (P&C) GROUP

Financial Strength Ratings	A.M. Best	Standard & Poor's
Great American Insurance Company	A (Excellent)	A (Strong)
American Empire Surplus Lines Insurance Company	A+ (Superior)	A (Strong)
Mid-Continent Casualty Company	A (Excellent)	A (Strong)
National Interstate Insurance Company	A (Excellent)	Not Rated
Republic Indemnity Company of America	A (Excellent)	A (Strong)
Marketform/Lloyd's Syndicate	A (Excellent)	A+ (Strong)

Group Components

Property and Transportation

Inland and Ocean Marine
Builders' risk, contractors' equipment, property, motor truck cargo, marine cargo, boat dealers, marina operators/dealers and excursion vessels.

Agricultural-related
Federally reinsured multi-peril crop insurance covering most perils as well as crop-hail, equine mortality and other coverages for full-time operating farms/ranches and agribusiness operations on a nationwide basis.

Commercial Automobile
All types of vehicles in a broad range of businesses and customized insurance programs for various transportation operations (buses and trucks) and a specialized physical damage product for the trucking industry.

Specialty Financial

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

Lease & Loan Services
Coverage for insurance risk management programs for lending and leasing institutions, including vehicle and equipment leasing and collateral and mortgage protection.

Specialty Casualty

Executive and Professional Liability
Liability coverage for directors and officers of businesses and non-profit organizations and non-U.S. medical malpractice insurance.

Umbrella and Excess Liability
Higher layer liability coverage in excess of primary layers.

Excess and Surplus
Liability, umbrella and excess coverage for unique, volatile or hard-to-place risks, using rates and forms that generally do not have to be approved by state insurance regulators.

General Liability
Contractor-related businesses and energy development and production risks.

Targeted Programs
Coverage for social service agencies, leisure, entertainment and non-profit organizations, customized solutions for other targeted markets and alternative risk programs using agency captives.

California Workers' Compensation

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

ANNUITY AND SUPPLEMENTAL INSURANCE (A&S) GROUP

Financial Strength Ratings	A.M. Best	Standard & Poor's
Great American Financial Resources:		
Great American Life Insurance Company	A (Excellent)	A (Strong)
Annuity Investors Life Insurance Company	A (Excellent)	A (Strong)
United Teacher Associates Insurance Company	A- (Excellent)	Not Rated
Loyal American Life Insurance Company	A (Excellent)	Not Rated

Group Components

Fixed, Indexed and Variable Annuities
Sold primarily to teachers and public school employees and non-profit organizations.

Fixed and Indexed Annuities
Sold primarily to the single premium market.

Medicare Supplement, Long-Term Care, Cancer and Other Supplemental Health Products
Sold primarily to the senior and worksite markets.

BUSINESS SUMMARY

American Financial Group is committed to providing insurance products that meet the unique risk management needs of businesses and financial planning needs of individuals.

COMMITTED TO THE INSURANCE INDUSTRY

American Financial Group is committed to providing insurance products that meet the unique risk management needs of businesses and financial planning needs of individuals. Today's insurance operations consist of approximately 25 niche insurance businesses, which are focused on serving the markets we know best.

During 2008, we faced an ever-changing economic environment that has led to unprecedented industry challenges and opportunities. We never ceased in our efforts to anticipate our customers' needs and meet their expectations, which we believe are key elements of our success. Our commitment to underwriting discipline, sound risk management practices and a culture built on specialization, accountability and customer focus have enabled us to succeed and differentiate our company from our competitors. We know that positive customer experiences happen when knowledgeable professionals provide high quality, reliable service and that a strong brand evolves from repeated positive experiences.

Our business model is founded on an entrepreneurial approach that allows "local" decision-making for underwriting, claims and policy servicing in each of our niche operations. These operations provide specialty property and casualty insurance products for businesses and retirement annuities and supplemental insurance products for individuals. Each business operation designs products, builds relationships and creates distribution synergies in the markets they know and serve.

Insurance is a knowledge and service business. Our 7,400 employees located in over 100 locations throughout North America and Western Europe are critical to the success of our business. Talent management programs and succession planning have been instrumental in building and protecting our intellectual capital as we expand our knowledge and expertise in the specialty insurance marketplace.

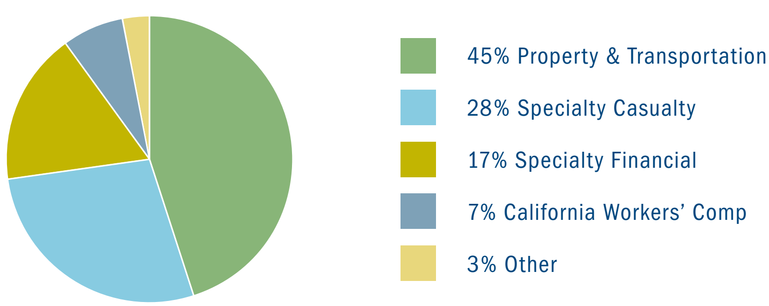
OPERATIONAL OVERVIEW

SPECIALTY PROPERTY AND CASUALTY INSURANCE OPERATIONS

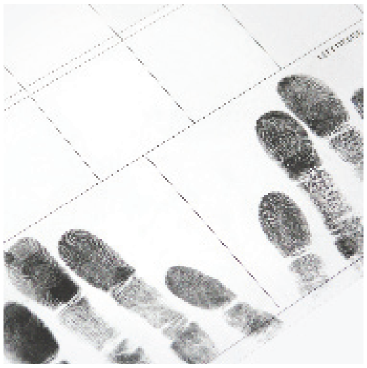
Our Specialty P&C operations consist of a highly diversified group of businesses offering a wide range of commercial coverages, managed by experts in particular lines of business or customer groups. The underwriting results of these businesses have consistently outperformed the industry.

During 2008, gross and net written premiums were up 7% and 6%, respectively, over 2007. Significantly higher premiums in our crop operations and additional premiums from our Marketform operations (acquired in early 2008) were the primary sources of our profitable growth. These were partially offset by the effects of an increasingly competitive market. Disciplined underwriting processes and established pricing objectives remained priorities over top-line growth.

Specialty Group – 2008 Net Written Premium Distribution



Underwriting profits in 2008 were strong, although lower than 2007's record year. Losses from run-off businesses, lower crop underwriting profits and higher catastrophe losses more than offset an increase in favorable prior year reserve development. Proven underwriting and risk management strategies, as well as effective claims handling, have contributed to our excellent results.



Specialty Property and Casualty Insurance Group Year ended December 31 (in millions)	**2008**	**2007**	**2006**
Gross Written Premiums	**$4,266**	$3,980	$3,920
Net Written Premiums	**2,886**	2,712	2,657
GAAP Combined Ratio	**87.3%**	81.3%	87.5%

Our Property and Transportation Group produced outstanding underwriting profits despite increased catastrophe losses, primarily from Hurricanes Gustav and Ike. The Crop Division's 2008 underwriting profits were excellent, but were about 40% lower than its 2007 record results. Although our insureds experienced one of the best years in corn and soybean crop yields in our company's history, declines in commodity prices around harvest time generated higher claims in revenue coverages, impacting underwriting profits. Our other property and transportation businesses reported strong underwriting profits, but lower than in 2007, due primarily to catastrophe losses and soft market conditions. Gross and net written premiums increased 18% and 14%, respectively, over 2007. This growth was driven primarily by higher spring commodity pricing affecting our crop operations, partly offset by lower premiums in other businesses in this group that were the result of a competitive marketplace. Virtually all businesses in this group experienced rate pressure, and overall rates were down about 3% from 2007.

For 2009, we expect this group to produce excellent underwriting margins, with a combined ratio in the 86% to 90% range. We expect net written premiums to decrease by approximately one-fourth as a result of lower net retention in our crop operations and decreases in spring commodity prices. Excluding this decrease in crop, we expect net written premiums for this group to increase between 2% and 5%.

Property and Transportation Group Year ended December 31 (in millions)	**2008**	**2007**	**2006**
Gross Written Premiums	**$2,160**	$1,834	$1,657
Net Written Premiums	**1,292**	1,132	1,036
GAAP Combined Ratio	**87.9%**	77.9%	82.3%

Our Specialty Casualty Group maintained excellent underwriting profitability throughout 2008, primarily due to favorable prior year reserve development within our general liability, excess and surplus and executive liability operations. The increase in net written premiums resulting from the January 2008 acquisition of Marketform more than offset premium declines resulting from strong competition in our excess and surplus lines and softening in the homebuilders market for our general liability products. Keeping rates at levels that support our profit objectives has allowed this group to produce excellent underwriting results, despite declines in premiums. This group's average rates on renewal for 2008 were about 4% below the same period a year earlier.

For 2009, we are projecting a 4% to 7% decline in net written premiums as pricing pressures in some of our operations will offset growth from our new initiatives. We expect the Specialty Casualty Group to generate strong underwriting profit with a combined ratio in the 86% to 90% range.

Specialty Casualty Group Year ended December 31 (in millions)	**2008**	**2007**	**2006**
Gross Written Premiums	**$1,273**	$1,309	$1,426
Net Written Premiums	**816**	789	839
GAAP Combined Ratio	**75.2%**	74.7%	84.9%

Our Specialty Financial Group recognized significant losses from the run-off automobile residual value insurance business as a result of sharp declines in used car sale prices under a policyholder contract that had not produced losses prior to 2008. We have reserved for losses based on current facts and circumstances, assuming some further deterioration. Underwriting profits in our other specialty financial businesses improved compared to 2007, and produced a combined ratio of approximately 87%, a two point improvement over 2007's results. Net written premiums were relatively flat compared to 2007, while gross written premiums increased slightly. Rates in this group were down slightly in 2008.

Looking to 2009, we expect improved results as the vast majority of the leases in a loss position under our RVI contract expire by the third quarter of 2009. We project net written premium declines of 10% to 13% as we expect to further reduce our exposure to auto-related risks in 2009. We project a combined ratio between 92% and 96%.

Specialty Financial Group Year ended December 31 (in millions)	**2008**	**2007**	**2006**
Gross Written Premiums	**$596**	$585	$535
Net Written Premiums	**492**	488	424
GAAP Combined Ratio	**109.2%**	94.6%	110.2%
GAAP Combined Ratio (excluding RVI business in run-off)*	**86.8%**	88.9%	88.7%

* Ceased writing new RVI business in 2006.

Our California Workers' Compensation Group produced excellent profitability throughout 2008, reflecting the improved claims environment resulting from the California workers' compensation reform legislation. Decreases in gross and net written premiums for the year were driven by rate reductions in our traditional workers' compensation business, but were offset somewhat by increased sales of our recently targeted excess workers' compensation products.

Although we have seen rate decreases in California average approximately 14% during the year, these decreases began to moderate in the fourth quarter, and were only 2% in January of 2009. Our Republic Indemnity subsidiary filed for a 5% rate increase effective January 1, 2009, consistent with the increase approved by the California Insurance Commissioner. Despite the expansion of our excess workers' compensation program and a filed rate increase, we anticipate net written premiums to be down 10% to 13% this year due to the economy. The combined ratio is expected to be between 83% and 87%, still producing excellent returns on this business.

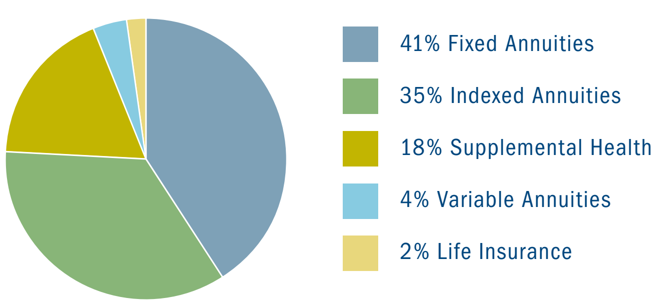
California Workers' Compensation Year ended December 31 (in millions)	**2008**	**2007**	**2006**
Gross Written Premiums	**$238**	$249	$302
Net Written Premiums	**213**	233	285
GAAP Combined Ratio	**78.2%**	78.3%	74.1%

ANNUITY AND SUPPLEMENTAL INSURANCE OPERATIONS

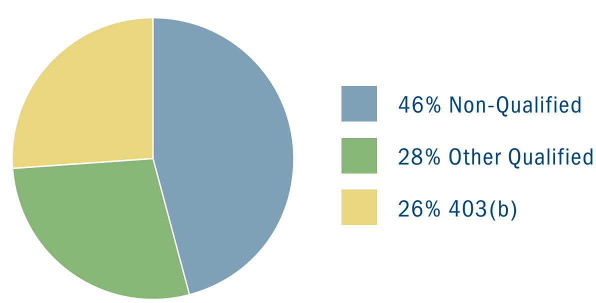
Our A&S Insurance Group markets traditional fixed, indexed and variable annuities and various forms of supplemental insurance.

This segment has its roots in the 403(b) annuity business, and has been a market leader in serving teachers in the K-12 market, other employees of not-for-profit organizations, and other qualified markets since the early 1980's. Retirement annuities account for approximately 80% of this group's premium revenue, with tax-qualified annuities representing over half of all annuity premiums. The IRS announced 403(b) plan administration changes effective in early 2009 that place additional responsibilities on employers who make retirement annuity options available to their employees. Our A&S group has responded by offering a full complement of plan administration services to make this transition easier for our existing customers, primarily school districts, and to expand service offerings to increase market share.

2008 Statutory Premium Distribution – Total



2008 Statutory Premium Distribution – Annuities



The Company has also developed expertise in the non-qualified single premium market. Fixed, indexed and variable annuity product offerings are continually enhanced to best meet the needs of those in our target markets and to attract a high caliber agency force. Our experience in this market helps us to ensure that our product offerings align with the needs of our customers at various stages of their retirement planning.

Statutory premiums reached a record level of $2.1 billion, up 5% in 2008. This growth was the result of annuity sales through the new bank distribution channel and increased sales of traditional fixed annuities as customers returned to the stability of fixed-rate products, offset slightly by declines in sales of other annuity products. Operating earnings for the A&S Group increased over 2007 levels due to higher earnings in the fixed annuity operations (primarily the result of wider investment spreads), higher earnings in the supplemental insurance operations and improved results in the run-off life operations. These favorable results were partially offset by lower earnings in the variable annuity operations.

AFG's annuity liabilities remain very stable. Due to the two-tier nature and other surrender protection features in certain of its products, AFG continues to experience very strong persistency in its annuity businesses.

We expect the 2009 core pre-tax operating earnings of this group to be 15% to 20% higher than in 2008.

Annuity and Supplemental Insurance Group* Year ended December 31 (in millions)		**2008**	**2007**	**2006**
Statutory Net Premiums				
Annuities:	Fixed	**$858**	$479	$607
	Variable	**91**	81	87
	Indexed	**727**	1,012	682
Total Annuities		**1,676**	1,572	1,376
Supplemental Health and Life Premiums		**413**	423	351
Total Premiums		**$2,089**	$1,995	$1,727
Gross Investment Income		**$716**	$644	$606

* Excluding results of Puerto Rico subsidiary sold in January 2006.

INVESTMENTS

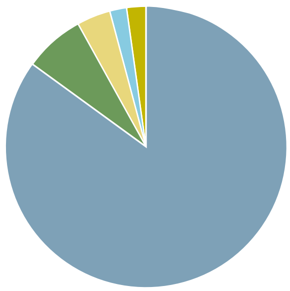
Our investment philosophy is to focus on high-quality, liquid, diversified investments and to maximize return on a long-term basis, rather than focusing on short-term performance. Fixed income securities, primarily investment grade bonds and mortgage-backed securities, account for approximately 96% of our total investments.

During 2008, a great deal of attention was focused on insurers' investment portfolios, particularly residential and commercial mortgage-backed securities. Our investment philosophy with respect to residential and commercial mortgage-backed securities has been consistent over many years. Our focus has been almost entirely on the senior tranches of these securities, which limits exposure to losses.

As a result of the economic downturn and financial market turmoil, we recorded after-tax losses on our investment portfolio of approximately $270 million during 2008. Spreads between U.S. government bonds and investment grade and high yield bonds widened to near all time highs during 2008, resulting in generally lower security prices. Our investment portfolio was impacted by these lower security prices, resulting in an after-tax net unrealized loss of $683 million as of December 31, 2008. Because of the quality of our investment portfolio and the company's strong liquidity, we have both the ability and intent to hold our fixed income investments to maturity, or until they recover in value.

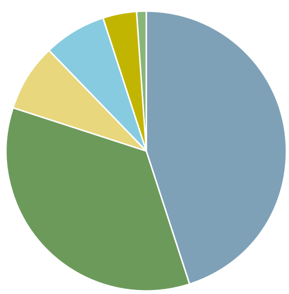
Stocks, real estate and other investments make up the remaining 4% of our portfolio. In order to lower risk in our investment portfolio, we significantly reduced our investments in common stocks during 2008. The majority of the reduction in common stock exposure was due to sales in the first nine months of last year, prior to the broader market's significant decline in the 2008 fourth quarter. We continue to have minimal exposure to other investments that have received widespread attention, and have less than $57 million in what would be deemed "alternative investments", principally private investment funds. In the aggregate, "alternative investments" represent less than 0.5% of our investment portfolio.

Investment Portfolio
(Composition at December 31, 2008)



- 85% Fixed Maturities:
  - 80% Investment Grade
  - 5% Non-Investment Grade
- 7% Cash and Short-Term
- 4% Policy and Mortgage Loans
- 2% Equities
- 2% Real Estate and Other

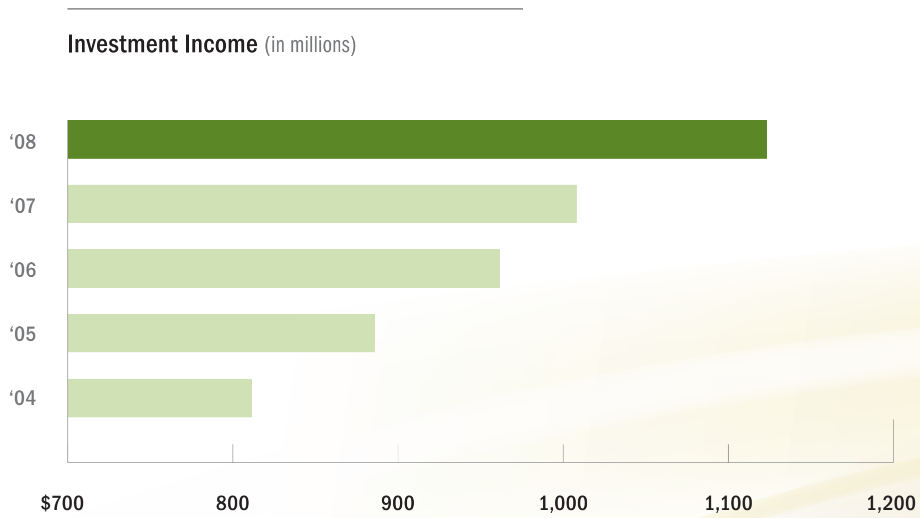
Fixed Maturities Portfolio
(Composition at December 31, 2008)



- 45% Corporates
- 35% Mortgage-backed
- 8% Public Utilities
- 7% States & Municipalities
- 4% U.S. Government
- 1% Foreign Government

Our real estate investments include a group of hotels, marinas and a resort in various parts of the United States as well as apartment developments. Our real estate investment strategy is based upon our history of buying underperforming or out-of-favor assets, developing and managing them "in house", and selling them when we believe value has been maximized. Over the past 10 years, we have realized net pre-tax gains of $336 million on sales of real estate properties.

We continue to look for attractive investment opportunities and will capitalize on our strong internal investment capabilities that we believe will give us a competitive advantage. We believe that our investment returns will continue to be a major contributor to our earnings and book value growth.



CAPITAL AND LIQUIDITY

At year end 2008, our capitalization was consistent with our current rating levels and our financial leverage was in line with the commitments we have made to rating agencies and the market in general. We also held approximately $190 million in parent company cash and investments at December 31, 2008, a large portion of which will be used to redeem the debt that matures in April 2009. Our liquidity is strong with cash and short-term

We anticipate continuing to generate additional capital and cash through operations during 2009.

investments of $1.1 billion in our operating companies at December 31, 2008. We anticipate continuing to generate additional capital and cash through operations during 2009. During these difficult times in the financial markets, we are committed to maintaining capital that supports our operations. Throughout 2009, our objective is to maintain at least $250 million in cash availability to the parent company and, of that, at least $100 million of parent company cash on hand.

FOUNDATIONS FOR THE FUTURE

We believe that an unwavering commitment to our customers, employees and community is critical to the financial and operational longevity of American Financial Group.

SERVING OUR CUSTOMERS

We strive to keep our customers' perspectives as the driving force behind our business activities. We build and nurture relationships that enable us to provide products and services that help them to meet today's needs and fulfill tomorrow's dreams. We understand that retaining our existing customers and gaining the trust of new ones is fundamental to our success and to the long-term future of our company.

As specialty insurance professionals, we provide an in-depth understanding of the unique risks in the markets we serve. Years of experience in specific industries and business segments have helped us to develop the service model, knowledge and relationships that distinguish our operations from those of our competitors.

INVESTING IN OUR PEOPLE

Our people are the catalyst behind the design of high caliber products and services that our customers desire. Protecting and growing intellectual capital is a cornerstone of our business. We foster a culture of learning through a range of courses offered at our Great American University. Robust training programs and incentives for those who achieve professional designations, degrees or other certifications are important aspects of our employees' development. Achievements of this nature are celebrated and rewarded. Our investments in talent management and succession planning programs help to ensure effective transfer of knowledge and infusion of new ideas into all aspects of our operations.

Our people are the catalyst behind the design of high caliber products and services that our customers desire.

Finalists August Melton (left) and Kim Randall (right), celebrate with Frank Kubik, Republic Indemnity Insurance Company, as he learns that he is the grand prize winner of the AFGreat Health Challenge.

We strive for a high level of employee engagement. We know that employees who see that their contributions and ideas are valued are more satisfied and productive. Regularly scheduled employee opinion surveys have led to dynamic changes in our Company's employee benefit programs, healthcare options and workforce policies. In fact, during our last survey, 85% of eligible employees participated, and 98% of those employees responded favorably to the statement, "I really care about the future of my Company."

During 2008, AFG introduced the AFGreat Health Challenge, an innovative program that rewarded employees for learning more about their individual health and for taking action to improve their overall wellness. This program included health screenings, walking

Volunteers wait for their assignments at the Greater Cincinnati *Great American Clean Up*™

and weight management programs. Employees competed for prizes at the same time that they improved their health scores and adopted healthy eating and exercise habits. The program was an overwhelming success. Over 75% of the Company's employees participated in some aspect of the Challenge. For some employees, the health screenings identified life threatening conditions not known to them. They were fortunate to catch the health issue in an early stage and take action.

These personal success stories and healthier employees demonstrate that the value of these programs is not measured solely in dollars and cents. However, we do believe that healthy employees are more productive and that prevention efforts will lower our health care expenses over the long term. The Company's health care costs per employee have increased at a rate below the national trend for each of the last four years.

Efforts like these have helped us maintain an average employee tenure of approximately 10 years with a voluntary turnover rate of less than 10% in 2008.

INVESTING IN OUR COMMUNITIES

AFG has been a long-time corporate supporter of organizations that serve our communities. We have focused our efforts on organizations that provide education to under-served populations, improve health and welfare, serve the needs of children, enrich lives through art and culture and provide domestic disaster relief services. We believe that AFG's rich history of corporate citizenship is exemplified by our contributions to create safe and healthy neighborhoods where we live and work, and that this serves the best interests of our companies, employees and shareholders.

Pete Titone, John Urrutia, Mat Dutkiewicz and representatives from Borrego Springs, CA School District at a Great American Classroom Makeover awards presentation.

Through a sponsorship of the Red Cross *Ready When the Time Comes* program, AFG's employees are trained to work in and/or manage shelters established to assist those affected by large scale disasters. As the Title Sponsor of the Greater Cincinnati *Great American Clean Up™*, our employees' efforts to beautify area neighborhoods helped to promote pride in those communities. A 2008 cell phone recycling campaign conducted through *Cell Phones for Soldiers™* not only promoted responsible recycling of cellular phones, but also produced close to 1,300 hours of "talk time" for U.S. military personnel and their families.

As a leading provider of 403(b) annuity products to educators, AFG and its subsidiary, Great American Financial Resources, are passionate about supporting programs that enhance learning opportunities for children. Through our Great American Classroom Makeover program, launched in 2008, teachers across the United States nominate their classrooms to receive cash awards to purchase needed supplies or equipment. Additionally, the Company's gifts to the Ron Clark Academy in Atlanta, Georgia, made possible the construction of a school library designed to create the positive, engaging learning environment that has become a model that educators across the country are emulating.

Ron Clark and several of his students from the Ron Clark Academy in Atlanta, GA.

LOOKING AHEAD

In 2009, we will continue our efforts to write quality, profitable business while maintaining a healthy balance between achieving profitable growth and conserving capital. Keeping some of our capital in reserve will help us to assure adequate liquidity and leverage ratios, as well as enable us to take advantage of attractive market opportunities.

We remain committed to astute risk selection, adequately pricing our P&C products, maintaining appropriate interest spreads on our annuity products, and outperforming the market in terms of investment returns. We are also committed to deriving value from new initiatives and recently acquired businesses to further enhance our existing portfolio of product offerings and our geographic penetration, both in the U.S. and internationally.

BOARD OF DIRECTORS

Carl H. Lindner
Chairman of the Board

Carl H. Lindner III
Co-Chief Executive Officer
American Financial Group, Inc.
Chairman and President, Great American Insurance Company

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

Kenneth C. Ambrecht [2, 3]
Principal, KCA Associates, LLC, an investment banking firm

Theodore H. Emmerich [1*]
Retired Managing Partner, Ernst & Young LLP, certified public accountants

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

Terry S. Jacobs [1, 2*]
Chairman and Chief Executive Officer, JFP Group, LLC, a real estate development company, and Jamos Capital, LLC, a private equity firm specializing in alternative investment strategies

Gregory G. Joseph [1, 3]
Executive Vice President and Principal, Joseph Automobile Group, an automobile dealership and real estate management company

William W. Verity [2, 3*]
President, Verity & Verity, LLC, an investment management company

John I. Von Lehman [1]
Retired Executive Vice President, Chief Financial Officer and Secretary, The Midland Company, an Ohio-based provider of specialty insurance products

Board of Directors Committees:
1 Audit Committee
2 Compensation Committee
3 Governance Committee
* Chairman of Committee

CORPORATE MANAGEMENT

Carl H. Lindner III
Co-Chief Executive Officer and Co-President

S. Craig Lindner
Co-Chief Executive Officer and Co-President

James E. Evans
Senior Vice President and General Counsel

Keith A. Jensen
Senior Vice President

Thomas E. Mischell
Senior Vice President – Taxes

Kathleen J. Brown
Vice President – Taxes

Robert E. Dobbs
Vice President – Internal Audit

Karl J. Grafe
Vice President and Assistant Secretary

Sandra W. Heimann
Vice President

Karen Holley Horrell
Vice President

James C. Kennedy
Vice President, Deputy General Counsel and Secretary

Robert H. Ruffing
Vice President and Controller

Piyush K. Singh
Vice President

Anne N. Watson
Vice President – Investor Relations

David J. Witzgall
Vice President and Treasurer

CORPORATE OFFICES

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

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting will be held at The Cincinnatian Hotel in Cincinnati on May 14, 2009. Notices will be mailed to all holders of the Company's voting stock.

COMMON STOCK MARKET INFORMATION

American Financial Group's Common Stock is traded on both the New York Stock Exchange (NYSE) and the NASDAQ Global Select Market (NASDAQ) under the symbol AFG. On February 1, 2009, approximately 8,200 holders of record own our shares.

COMMON STOCK SALES PRICE as reported on the NYSE Composite Tape

2008	High	Low	Dividends Paid
1st Quarter	29.30	24.19	0.125
2nd Quarter	30.45	25.23	0.125
3rd Quarter	32.00	24.58	0.125
4th Quarter	29.75	13.65	0.125
2007			
1st Quarter	36.84	32.87	0.100
2nd Quarter	36.30	33.33	0.100
3rd Quarter	34.92	23.94	0.100
4th Quarter	30.82	26.50	0.100

In 2009, the company began paying dividends at a rate of $0.13 per quarter, representing a 4% increase over the 2008 dividend.

DIVIDEND REINVESTMENT PLAN

This plan allows registered shareholders to automatically reinvest the dividends on their AFG Common Stock towards the purchase of additional shares of AFG Common Stock, at a 4% discount to the current market price. Dividend Reinvestment Plan information and enrollment forms may be obtained from the Company's Transfer Agent.

TRANSFER AGENT

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

ELECTRONIC DELIVERY OF SHAREHOLDER MATERIALS

AFG is pleased to take advantage of the Securities and Exchange Commission rules that allow public companies to provide proxy materials to their shareholders on the Internet. We believe these rules enable timely and efficient delivery of shareholder information, while lowering the cost of the delivery of the materials and reducing the environmental impact of printing and mailing paper copies.

Visit **www.AFGinc.com** and select "Investor Relations" for more details.

ADDITIONAL INFORMATION

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

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

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

CERTIFICATIONS

AFG has included as Exhibit 31 to its 2008 Annual Report on Form 10-K, certifications from its Co-Chief Executive Officers and Chief Financial Officer as to the integrity and quality of AFG's public disclosures. AFG's Co-Chief Executive Officers have also submitted to the NYSE a certification indicating that they are not aware of any violations by AFG of the NYSE corporate governance listing standards.

FORWARD-LOOKING STATEMENTS

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

- changes in financial, political and economic conditions, including changes in interest rates and extended economic recessions or expansions;
- performance of securities markets;
- our ability to estimate accurately the likelihood, magnitude and timing of any losses in connection with investments in the non-agency residential mortgage market, especially in the subprime and Alt-A sectors;
- new legislation or declines in credit quality or credit ratings that could have a material impact on the valuation of securities in our investment portfolio, including mortgage-backed securities;
- the availability of capital;
- regulatory actions;
- changes in the legal environment affecting AFG or its customers;
- tax law and accounting changes;
- levels of natural catastrophes, terrorist activities (including any nuclear, biological, chemical or radiological events), incidents of war and other major losses;
- development of insurance loss reserves and establishment of other reserves, particularly with respect to amounts associated with asbestos and environmental claims;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- the unpredictability of possible future litigation if certain settlements of current litigation do not become effective;
- trends in persistency, mortality and morbidity;
- competitive pressures, including the ability to obtain adequate rates;
- changes in AFG's credit ratings or the financial strength ratings assigned by major ratings agencies to our operating subsidiaries; and
- other factors identified in our filings with the Securities and Exchange Commission.

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

By using 30% post-consumer recycled content in place of only virgin fiber,
an environmental savings of 29 trees and 20 million BTUs of energy was achieved.
Source: www.NeenahPaper.com

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood fiber
www.fsc.org
Cert. no. SW-COC-000897

2008

ANNUAL REPORT

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