



2007 ANNUAL REPORT



Property & Casualty –
Specialty Commercial Insurance

Annuities and
Supplemental Insurance



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

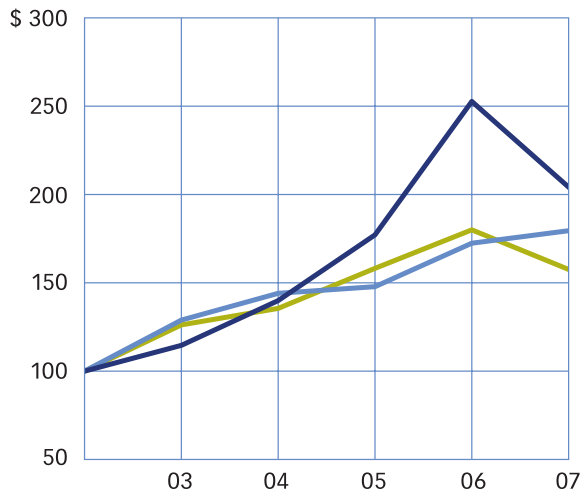
OUR VISION

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

OUR PURPOSE

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

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



\$204 – AFG COMMON STOCK

\$182 – S&P 500 INDEX

\$157 – S&P 500 PROPERTY/CASUALTY INSURANCE INDEX

This graph assumes \$100 invested on December 31, 2002 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.



CARL H. LINDNER III

Co-Chief Executive Officer

S. CRAIG LINDNER

Co-Chief Executive Officer

TO OUR SHAREHOLDERS:

American Financial Group's outstanding operating performance in 2007 continued the trend of the past several years. AFG has a strong balance sheet with excellent financial flexibility and liquidity. Due to our strong earnings, we are generating excess capital to provide us with a variety of investment and capital management options. We are pleased with our financial strength position and are confident with the company's long-term business and financial outlook. As a result, we increased our 2008 common stock dividend by 25%.

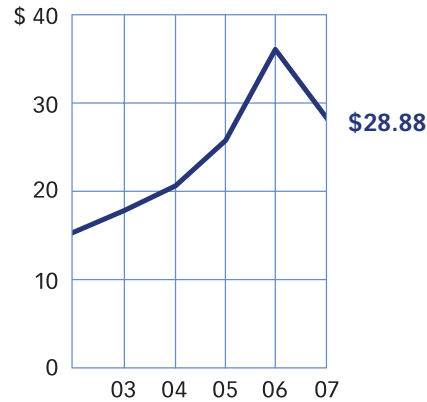
Notwithstanding the volatility of the equity markets and the impact on our stock price last year, we are pleased with the increase in our shareholder value over time. The annual compounded growth rate of AFG's stock price plus dividends over the past five years was 15% compared with the S&P 500 growth rate of just under 13% and the S&P Property/Casualty Insurance Index of 9.5%. Furthermore, the annual compounded growth rate of AFG's book value per share, excluding unrealized gains and losses on fixed income securities, was 14% over the past five years.

We took advantage of the opportunity provided by the decline in our stock price during the last half of 2007 through open market purchases of 6.9 million shares of AFG Common Stock at an average price of \$28.70 per share. We believe that repurchasing shares opportunistically is an effective use of our excess capital, which has a favorable effect on our return on equity.

Over the past five years, the annual compounded growth rate of AFG's stock price plus dividends was 15%, and the annual compounded growth rate of AFG's book value per share was 14%.

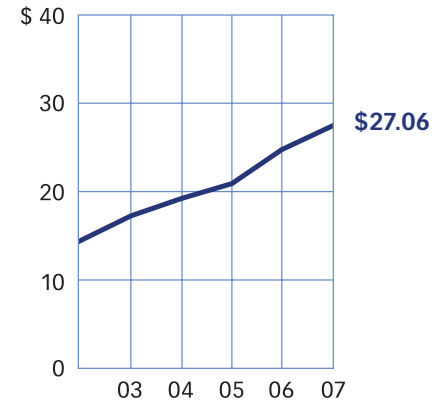
AFG Stock Price

(As of December 31)



Book Value Per Share

(As of December 31, excluding unrealized gains and losses on fixed maturities)



OUR PROFILE

AFG is one of the premier specialty insurers in the industry with a diversified portfolio of businesses focused on specialty commercial property and casualty niches, as well as annuities and supplemental insurance products.

The specialty property and casualty insurance (P&C) operations have grown and diversified over the years, entering new niches, adding to existing ones and making selective acquisitions. Each of our business units focuses on distinct markets with unique products, services and distribution. We seek to optimize our significant expertise in each of these markets. We have meaningful diversity and balance in our specialty operations and many of our businesses have leading market positions. We are pleased with the pricing adequacy across our businesses and continue to be encouraged by the stability of our overall rate levels. Many of our businesses are affected by fluctuations within their own specialized markets and are not subject to overall industry cycles. We believe this enables us to have greater pricing stability in our specialty operations. AFG is also a company with relatively low catastrophe volatility, which helps to reduce earnings fluctuations related to unusual catastrophic events.

We have meaningful diversity and balance in our specialty operations and many of our businesses have leading market positions.

The previously announced acquisitions of Marketform Group Limited, which includes a Lloyd's insurer, and Strategic Comp Holdings, LLC, were completed in the early part of 2008. The Marketform investment provides an excellent platform for AFG to grow its specialty P&C business internationally. The Strategic Comp acquisition supports our objectives of expanding our penetration in the workers' compensation market and increasing our domestic geographic coverage.

Our Annuity and Supplemental (A&S) insurance operations have also grown and diversified over the years through acquisitions, new product initiatives and expanded distribution channels. The annuity business comprises the vast majority of this group and includes traditional fixed, indexed and variable annuities. We remain a leader in the 403(b) annuity business, serving teachers in the kindergarten through high school retirement annuity market, a long-standing niche business for us. In recent years, we've experienced strong growth in our indexed annuity product line. During 2007, we initiated a new variable annuity product and we will launch an annuity distribution channel through financial institutions this year. With the acquisition of the Ceres Group in 2006, we became a major player in the Medicare supplement market and expanded our distribution network. We continue to focus on relationship-based distribution, maintaining financial discipline in our pricing and increasing the returns on equity of these operations.

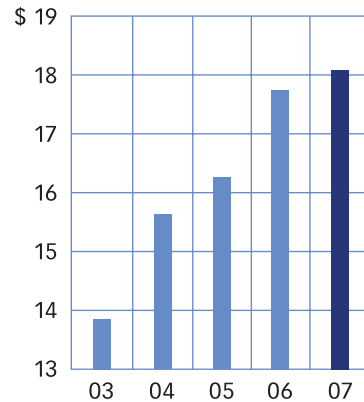
In September of 2007, we completed the purchase of the shares of Great American Financial Resources, Inc. that we did not own, making it a wholly owned subsidiary of AFG. This acquisition is accretive to earnings and provides us with expense savings through the elimination of a public company. In addition, we have further simplified our organizational structure.



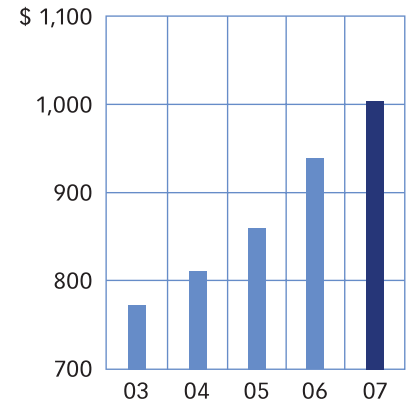
This original watercolor, by artist Violet Bellingham, depicts Marketform's office at 8 Lloyd's Avenue in London.

Invested Assets

(As of December 31, in billions)



Investment Income (in millions)



Our primary investment goal is to maximize total return from a long-term perspective rather than focusing on short-term performance.

Investment management is a key element of our profitability model and a driver of our book value growth. Our investment portfolio is managed internally by a very talented group of investment professionals who have outperformed various market indices over time and developed a strong expertise in asset-backed securities. Over this last year, a considerable amount of attention and concern has been focused on mortgage-backed securities (MBS), in particular securities with subprime securitizations. Our investment philosophy with respect to the securities that make up our MBS portfolio has been very conservative and cushioned us against significant market value declines. Our primary investment objective is to maximize total return from a long-term perspective rather than focusing on short-term performance. Over the years, our portfolio has generated solid returns and provided asset growth. In addition, we have been very successful in buying and selling real estate and have harvested significant gains from opportunistic sales. We believe that we have significant unrecognized appreciation in a number of our real estate investments. Over the last ten years, sales of investments combined with real estate sales have generated about \$820 million of net pre-tax gains for the Company.

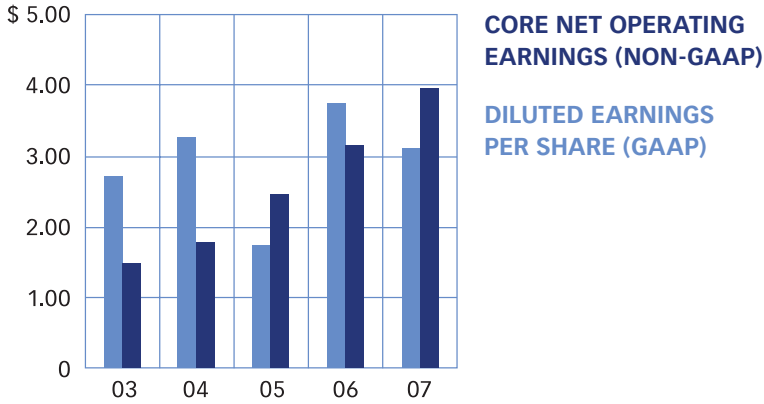
OUR STRATEGY

First and foremost, our goal is to increase long-term shareholder value. We believe that the significant ownership of AFG's stock by our management team and employees provides alignment with that goal. We are committed to the following strategic objectives and believe they will help us increase shareholder value:

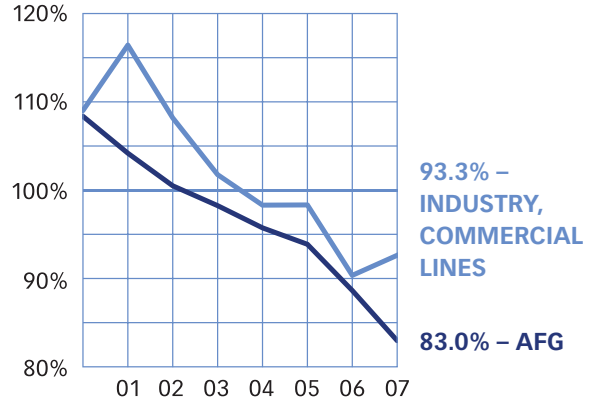
- We are focused on specialty niche markets within the property and casualty insurance and annuity and supplemental insurance industries where we have significant expertise.
- We will pursue appropriate uses of our excess capital, including:
 - internal growth opportunities within our existing portfolio of insurance businesses,
 - acquisition and start-up opportunities that meet our specialty strategy and financial objectives, focusing on underserved markets and on opportunities to improve our geographic spread, both domestically and internationally, achieve economies of scale or improve market position, and
 - opportunistic share repurchases and changes in dividend policy.
- We remain committed to our strong underwriting culture, pricing discipline and risk management philosophy and continually monitor the adequacy of our rates in all markets. We will reduce business volume in lines as needed to achieve appropriate underwriting results.
- We will nurture relationship-based distribution networks that will result in strong and lasting partnerships and contribute to business retention and continuity.
- Our investment group will focus on achieving returns over the long term that outperform various market indices while effectively managing our portfolio risk.
- We will continue to acquire, renovate and develop real estate assets to increase their market value and evaluate ways to unlock gains from these real estate assets over time.
- We will continue to identify and develop 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 attain compound growth in book value in excess of 10% per year. We plan to maintain a strong balance sheet and adequate liquidity that will continue to provide financial flexibility.

Net Earnings Per Share



**Specialty Group –
Statutory Combined Ratio**



2007 HIGHLIGHTS

AFG's success in 2007 reflects the continuing execution of our long-term strategy by our people and our persistent focus on financial and pricing discipline and profitable growth. Our focus on the fundamentals—People, Performance and Profit—contributed to these outstanding 2007 results:

- Record core net operating earnings were 28% higher than the previous year and generated a return on equity of 16%.
- Book value per share, excluding unrealized gains and losses on fixed maturities, of \$27.06 was up 9%, versus \$24.77 at year-end 2006.
- Record underwriting profit in the specialty P&C operations was 57% higher than in 2006.

Net earnings were 15% lower than 2006 due to 2007 charges for strengthening our asbestos and environmental reserves and write-downs in our equity portfolio. The 2006 net earnings benefited from major gains on real estate sales which did not occur in 2007. Nevertheless, AFG's 2007 net earnings generated a return on equity of 13% and over the last five years it has averaged 14%.

The 2007 record underwriting profit for the specialty P&C operations reflects very favorable reserve development, unusually strong results in our crop insurance operations and minimal catastrophe losses. While at varying levels, all of our major groups produced profitable underwriting margins, including several of our businesses in targeted growth areas. Despite increasing competitive pressures, we were pleased that our overall net written premium growth was in line with our stated expectations for the year, resulting primarily from targeted growth within the Property and Transportation and Specialty Financial groups. However, our willingness to reduce the size of our excess and surplus and general liability businesses is a result of our continuing philosophy that we will sacrifice volume for profitability.

The A&S Group continued to grow its premiums, reaching a record level of \$2 billion. Premium growth was driven by substantially increased sales of indexed annuities and higher supplemental insurance premiums resulting from the acquisition of the Ceres Group in August 2006. The A&S Group's core operating earnings were lower than in 2006. Higher earnings in the fixed annuity business due primarily to premium and asset growth were more than offset by the effect of higher mortality in the run-off life operations. Although the interest rate environment over the past few years has been a challenge in our annuity business, the group continues to maintain its pricing discipline. The integration of Ceres is proceeding well even though their results were negatively impacted in 2007 due to increased competition from the government-sponsored Medicare Advantage product. Our other acquisitions of blocks of business have continued to meet or exceed our expectations. We have continued to introduce new products in order to address the needs of our distribution partners and their customers.

Even though our investment returns outperformed market indices over a longer term, our investment performance in 2007 was negatively impacted by impairment charges primarily related to our investments in financial institutions. Investment income for 2007 was up 7% compared to 2006 primarily due to growth in invested assets.

Record underwriting
profit for the specialty
P&C operations was 57%
higher than in 2006.

LOOKING AHEAD

We are very pleased with our performance in 2007 and believe that the Company is well positioned for continued growth and profitability. At the end of 2007, we announced AFG's 2008 core net operating earnings guidance of between \$3.75 and \$3.95 per share. This guidance assumes that the specialty P&C operations will generate net written premium growth in the range of 4% to 7%, generate strong underwriting profit with a combined ratio in the high 80s, and increase investment income by 2% to 4%. It also assumes higher operating earnings in our A&S group, which should represent about one-fifth of AFG's core net operating earnings. These targeted earnings exclude the potential for significant catastrophe and crop losses, unforeseen major adjustments to asbestos and environmental reserves, or large gains or losses from asset sales.

We believe that
with the right
people in place,
performance and
profit should follow.

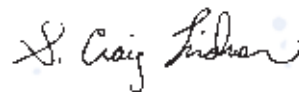
Our strategy has served us well over the years. Its implementation is the reason for our excellent results and is a reflection of the contributions of our employees and business partners. In addition, our people are given incentives that are directly aligned with the achievement of our financial and operational objectives. This alignment strengthens our ability to hire, train, motivate, and retain the talent needed to successfully implement our strategy. We believe that with the right people in place, performance and profit should follow. We want to thank our employees for their contributions to the Company's success.

With the substantial ownership interest in AFG of our family, management team and employees, there is clear alignment between our shareholders' interests and us. We are all aware of the importance of increasing long-term shareholder value.

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



CARL H. LINDNER III
Co-Chief Executive Officer



S. CRAIG LINDNER
Co-Chief Executive Officer

FINANCIAL HIGHLIGHTS (In millions, except per share data)

BALANCE SHEET DATA	2007	2006	2005
Cash and investments	\$18,054	\$17,739	\$16,224
Total assets	25,808	25,101	22,816
Long-term debt, including payable to subsidiary trusts	937	921	1,000
Shareholders' equity ^A	3,071	2,955	2,442
Ratio of debt to total capital ^B	23%	22%	27%
Cash dividends per share	\$0.40	\$0.37	\$0.33
Book value per share ^A	\$27.06	\$24.77	\$20.85
Shares outstanding	113.5	119.3	117.1

SUMMARY OF OPERATIONS

Total revenues	\$4,405	\$4,250	\$3,984
Components of net earnings:			
Core net operating earnings ^C	\$486.4	\$379.9	\$294.2
Major gains on real estate sales	—	54.8	45.9
Major unlocking charges & write-off of deferred acquisition costs	—	—	(15.6)
Major A&E reserve increases	(56.4)	—	(121.6)
Realized investment gains (losses)	(46.5)	18.6	11.3
Other ^D	(.3)	.1	(7.6)
Net earnings – GAAP	\$383.2	\$453.4	\$206.6
Components of diluted earnings per share:			
Core net operating earnings ^C	\$3.94	\$3.14	\$2.49
Major gains on real estate sales	—	.45	.39
Major unlocking charges & write-off of deferred acquisition costs	—	—	(.13)
Major A&E reserve increases	(.46)	—	(1.03)
Realized investment gains (losses)	(.38)	.16	.10
Other ^D	—	—	(.07)
Diluted earnings per share – GAAP	\$3.10	\$3.75	\$1.75

A Excludes unrealized gains and losses on fixed maturity investments.

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

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

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

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+ (Excellent)	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 CASUALTY

Executive and Professional Liability	Liability coverage for directors and officers of businesses and non-profit organizations and for attorneys, and through Marketform, 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 do not have to be approved by state insurance regulators.
General Liability	Contractor-related businesses (primary homebuilders' liability), energy development and production risks, and underground storage tank installation and removal.
Targeted Programs	Includes coverage for social service agencies, leisure, entertainment and non-profit organizations, customized solutions for other targeted markets and alternative risk programs using agency captives.

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.

CALIFORNIA WORKERS' COMPENSATION

Workers' Compensation	Coverage for prescribed benefits payable to employees (principally in California) who are injured on the job.
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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
Continental General Insurance Company	B++ (Good)	Not Rated
Central Reserve Life Insurance Company	B++ (Good)	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.



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

COMMITTED TO COMMUNITY

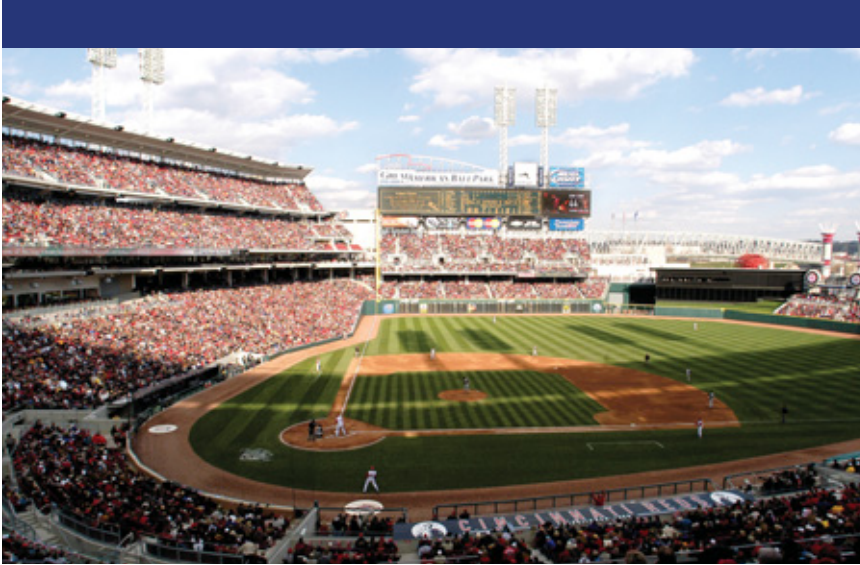
Investing in the
communities
where we live and
work serves the
best interests of
our companies,
employees and
shareholders.

AFG's rich history of corporate citizenship exemplifies our belief that investing in the communities where we live and work serves the best interests of our companies, employees and shareholders. AFG has been a long-time corporate supporter of organizations that serve our community, particularly those that provide education to underserved populations, improve health and welfare, serve the needs of children, enrich lives through art and culture and, recently, those that provide domestic disaster relief services. Each year, many of AFG's employees share their time, talent and resources to serve our communities through their own financial contributions and volunteer efforts. The employees who work together in support of community service activities create stronger working relationships and benefit personally and professionally.

AFG supports many community service organizations, including the American Red Cross "Ready When the Time Comes" disaster response program, the American Heart Association, the Leukemia/Lymphoma Society, the American Cancer Society, the American Diabetes Association, United Way of Greater Cincinnati and the Fine Arts Fund of Greater Cincinnati.

AFG is proud to feature its insurance operating brand, Great American Insurance Group, through its naming rights sponsorship of Great American Ball Park, located in the heart of downtown Cincinnati and home to America's first professional baseball team, the Cincinnati Reds.

Demonstrating a shared passion for economic development in the community that serves as our headquarters remains a priority. We recently showcased this commitment by signing a 15-year lease in a new office tower to be constructed in downtown Cincinnati, Ohio. The architecturally distinctive building to be known as the "Great American Insurance Building at Queen City Square" will redefine Cincinnati's skyline with its 40 stories and prominent tiara, and will be home to around 1,800 AFG employees, representing about 25% of our total workforce. Construction is anticipated to begin in mid-2008, with completion in 2011.



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



(Above): The Great American Insurance Building at Queen City Square will redefine Cincinnati's skyline with its 40 stories and dramatic tiara.



(Above): Great American employees, trained to serve in the American Red Cross's "Ready When the Time Comes" disaster response program, are shown participating in a disaster simulation at a high school in Cincinnati.

OUR People,

TOGETHER WITH CONSISTENT

Performance,

HAVE ALLOWED US TO ACHIEVE RECORD

Profitability

AND SUPERIOR RESULTS.



BUSINESS SUMMARY

INSURANCE SPECIALISTS

We are market specialists who pride ourselves on providing insurance and financial products and services that help our customers achieve financial protection. We also understand that we serve our customers best when we know their businesses as well as they do. That's why many of our underwriters and claims professionals begin their careers in the markets that they now serve as insurance professionals. This expertise has helped us to achieve recognition as a premier provider of coverages in many niche markets from specialty property and casualty solutions for businesses to retirement annuities and supplemental insurance products for individuals.

Our employees know that people, performance and profit ("The Three P's") are the cornerstone of our business...we talk about them regularly. Our employees are committed to continual learning and professional development, and realize that their expertise and commitment to service will retain existing customer relationships and attract new ones. Solid underwriting, coupled with robust policyholder and agency services assure that our customers are well served and our agents and distribution partners are equipped to meet customer needs.

We nurture work environments and decision-making processes that reflect our overall approach to conducting business. Service, respect and integrity are the foundations of our corporate culture, and these core values are reflected in all that we do. We continue to build intellectual capital through the use of a talent management program and succession planning. Our 7,100 employees are located in over 100 locations throughout North America and Western Europe and are critical to the success of our business.

OUR COMMITMENT TO

Learning,

COUPLED WITH OUR SPECIALIZED

Knowledge,

HAS ENABLED US TO COMPETE AS

Industry-recognized

LEADERS IN MANY OF OUR MARKETS.

A PORTFOLIO OF BUSINESSES

Approximately 25 distinct business units comprise our portfolio of specialty insurance operations. Our operations focus on specialty niche markets where we have an advantage based on our expertise, unique products or distribution, and include property and casualty insurance, traditional fixed, indexed and variable annuities and a variety of supplemental insurance products. Our P&C underwriting results have consistently outperformed the industry and our investment returns have exceeded a number of market indices over time. The diversity of these operations positions us well and helps to smooth our results throughout changes in the economy and insurance market cycle. Demonstrated self-discipline, effective goal setting and attainment of desired results are behaviors that are recognized and rewarded. Building and nurturing strategic customer relationships is a priority, and is at the heart of our business strategy.

In addition to operations throughout the U.S., AFG has offices in Canada, Europe and Mexico, which are serviced by thousands of independent agents and brokers as well as selected agency captives.

During 2007, we acquired the minority shares that AFG did not already own of Great American Financial Resources, Inc., our A&S Insurance Group, making it a wholly owned subsidiary. We also announced other strategic acquisitions that will grow our business internationally in non-U.S. medical malpractice and other specialty P&C lines, as well as domestically in high-deductible workers' compensation. All of these transactions are expected to add to AFG's earnings in 2008. We continually look for opportunities such as these to expand our specialty niche insurance portfolio.

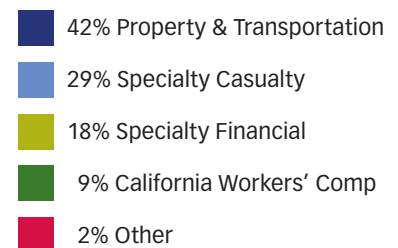
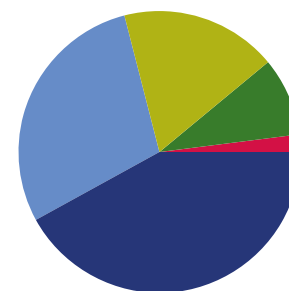
OPERATIONAL OVERVIEW

Specialty Property and Casualty Insurance Operations

Our Specialty P&C operations offer a wide range of specialty commercial coverages. Throughout 2007, these operations pursued strategic objectives for growth while maintaining pricing adequacy. We seek to grow our most profitable businesses through a combination of geographic penetration and targeted start-ups or acquisitions, yet remain committed to disciplined underwriting standards that yield profitable results.

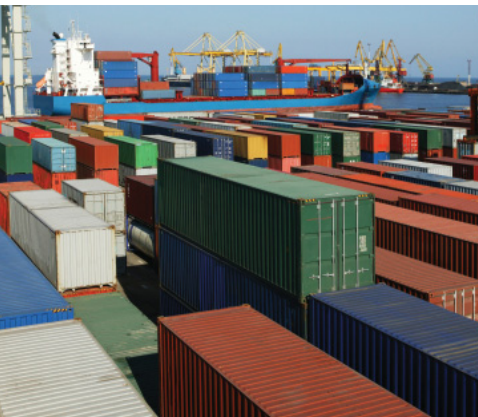
Record underwriting profits in 2007 were attributable to excellent results in each of our major business groups, favorable prior year reserve development and the absence of major catastrophe losses. Proven underwriting and risk management strategies, as well as effective claims handling, have contributed to increased profitability. Gross and net written premiums were up 2% over 2006. Strong premium growth within the Property and Transportation and Specialty Financial groups was largely offset by significant rate declines in our California workers' compensation business, softening market conditions within our Specialty Casualty group and the impact of the automobile residual value insurance ("RVI") and earthquake-exposed excess property operations previously placed in run off. Excluding the effect of the California workers' compensation business and the run-off operations, 2007 net written premiums were up 6% over 2006.

Specialty Group – 2007 Net Written Premium Distribution



Specialty Property & Casualty Insurance Group

<i>Year ended December 31 (in millions)</i>	2007	2006	2005
Gross Written Premiums	\$3,980	\$3,920	\$3,637
Net Written Premiums	2,712	2,657	2,445
Net Earned Premiums	2,702	2,561	2,363
GAAP Ratios:			
Loss and LAE	50.9%	57.7%	63.7%
Underwriting Expense	30.4%	29.8%	27.5%
Combined Ratio	81.3%	87.5%	91.2%



Property & Transportation Group

<i>Year ended December 31 (in millions)</i>	2007	2006	2005
Gross Written Premiums	\$1,834	\$1,657	\$1,357
Net Written Premiums	1,132	1,036	909
GAAP Combined Ratio	77.9%	82.3%	83.0%

Our **Property and Transportation Group** produced outstanding underwriting profits due primarily to significantly higher crop insurance earnings, improved results in the property and inland marine and transportation businesses and minimal catastrophe losses. Our crop insurance operations experienced another record year primarily due to favorable crop yields and pricing and the additional earnings contribution from the 2005 acquisition of Farmers Crop Insurance Alliance. Gross and net written premiums increased 11% and 9%, respectively, over 2006. This growth was driven primarily by our crop operations, new programs in our National Interstate subsidiary, and new business volume resulting from geographic penetration in our property and inland marine operations. Some of the businesses in this group experienced rate pressure, and overall rates were down slightly from 2006.

We expect this group to produce excellent underwriting margins, with a combined ratio in the mid to high 80s, and high single-digit net written premium growth in 2008, largely from the continued expansion of our property and inland marine and transportation operations.

Specialty Casualty Group

<i>Year ended December 31 (in millions)</i>	2007	2006	2005
Gross Written Premiums	\$1,309	\$1,426	\$1,406
Net Written Premiums	789	839	743
GAAP Combined Ratio	74.7%	84.9%	91.3%

Our **Specialty Casualty Group** maintained excellent underwriting profitability throughout 2007 resulting primarily from favorable reserve development within our Mid-Continent subsidiary's general liability operations and our American Empire excess and surplus operations. This group experienced declines in gross and net written premiums in 2007 reflecting stronger competition in our excess and surplus lines and softening in the homebuilders market that affects our general liability coverages. Keeping rates at levels that support our profit objectives has allowed this group to produce excellent underwriting results. Average renewal premium rates for the overall group declined slightly for the year.

While we expect increasing competitive pressures in certain operations within this group in 2008, we are projecting high single-digit growth in net written premiums. We are optimistic about growth opportunities in this group resulting from our new investment in Marketform, a Lloyd's insurer that focuses on specialty property and casualty insurance products outside of the United States, and is a market leader in the non-U.S. medical malpractice market. We believe this acquisition positions us to grow several of our specialty businesses in the international marketplace. Excluding the impact of the Marketform acquisition, business in this group is expected to be down mid-single digits. We also expect the acquisition of Strategic Comp Holdings, a leading provider of workers' compensation programs, will further expand our penetration and increase our geographic coverage into the workers' compensation market. We expect the Specialty Casualty group to generate strong underwriting profit with a combined ratio in the mid to high 80s.





Specialty Financial Group

<i>Year ended December 31 (in millions)</i>	2007	2006	2005
Gross Written Premiums	\$585	\$535	\$493
Net Written Premiums	488	424	384
GAAP Combined Ratio	94.6%	110.2%	121.3%

Our **Specialty Financial Group** produced solid underwriting results, fueled by robust premium growth. The group's operating results improved significantly, primarily due to lower losses in the run-off automobile RVI business. Each of this group's other insurance operations produced solid underwriting profits for the year. Excluding the effect of the RVI business, the combined ratio for this group was 88.9% for 2007, relatively unchanged from the prior year. Premium growth was driven by increases in our financial institutions operations, lease and loan, and fidelity and surety operations. Rates in this group were stable in 2007.

Looking to 2008, we expect underwriting margins will continue to improve, as substantially all of the vehicles in loss contracts completed their lease terms in 2007. We project net written premium growth in the mid-single digits as most of the specialty financial businesses are expected to grow modestly. We look for this group's combined ratio to be in the high 80s to low 90s.

California Workers' Compensation

<i>Year ended December 31 (in millions)</i>	2007	2006	2005
Gross Written Premiums	\$249	\$302	\$382
Net Written Premiums	233	285	344
GAAP Combined Ratio	78.3%	74.1%	70.0%

Our **California Workers' Compensation Group** produced excellent profitability throughout 2007 on lower premium levels, resulting from a lower rate environment. Favorable reserve development due to improved frequency and severity of claims reflected the positive benefits of the California reform legislation.

While rate decreases in California averaged approximately 22% during the year, we are encouraged to see the market stabilizing, and expect to see rates stabilize in this business during 2008. As such, we anticipate net written premiums to be down 3% to 5% this year. The combined ratio is expected to increase somewhat, but should be in the mid to high 80s, still producing excellent returns on this business.





Annuity and Supplemental Insurance Group*

Year ended December 31 (in millions)	2007	2006	2005
Statutory Net Premiums			
Annuities			
Fixed	\$479	\$607	\$679
Variable	81	87	92
Indexed	1,012	682	78
Total Annuities	1,572	1,376	849
Supplemental Health and Life Premiums	423	351	298
Total Premiums	\$1,995	\$1,727	\$1,147
Gross Investment Income	\$644	\$606	\$563

*excluding results of Puerto Rico subsidiary sold in January 2006

Annuity and Supplemental Insurance Operations

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

Retirement annuities account for approximately 80% of this group's premium revenue. This segment has its roots in the 403(b) annuity business, serving teachers in the K-12 market and other employees in not-for-profit organizations as well as other qualified markets. Sales of qualified annuities comprise nearly 60% of all annuity sales. The Company has also developed expertise in the non-qualified single premium market. Fixed, indexed and variable

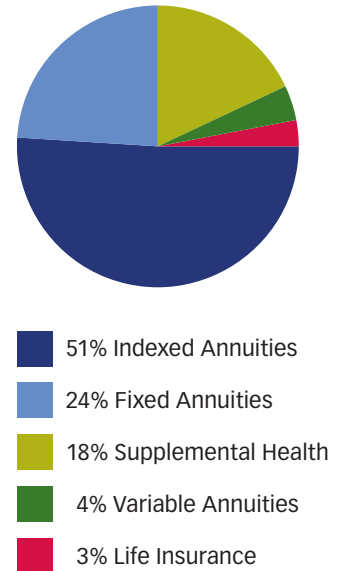
annuity product offerings are continually enhanced to best meet the needs of those in our target markets, and to attract a high caliber agency force. Strict underwriting guidelines and agent education help us to ensure that product offerings align with the needs of our customers at various stages of their retirement planning.

Statutory premiums reached a record level of \$2 billion, up nearly 16% in 2007. This growth was the result of increased sales of indexed annuities and annuities in the 403(b) segment, which more than offset declines in sales of other annuity products. Increases in supplemental insurance premiums were attributable to the acquisition of the Ceres Group during the 2006 third quarter, which positioned us as a major provider of Medicare Supplement insurance to the senior market. Operating earnings for the A&S Group were below 2006 levels as higher earnings in the fixed annuity business were more than offset by the impact of higher mortality in the run-off life operations.

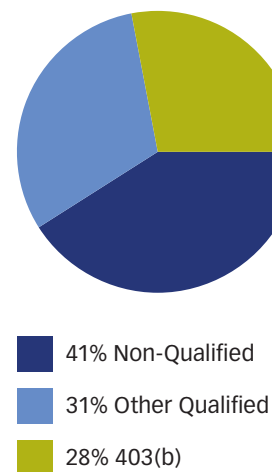
The supplemental insurance operations reflect a full year of earnings from the Ceres Group. However, these operations were negatively impacted by higher lapses and lower Medicare premiums due primarily to increased competition from the government-sponsored Medicare Advantage product.

The introduction of new products and distribution channels within our annuity and supplemental insurance group is expected to provide additional premium and earnings growth at low incremental costs during 2008. We initiated a new variable annuity product in 2007, and this year we will launch an annuity distribution channel through banks. We expect the 2008 core pre-tax operating earnings of this group to be 5% to 10% higher than in 2007.

2007 Statutory Premium Distribution – Total



2007 Statutory Premium Distribution – Annuities



The Cincinnati Hotel, Cincinnati



Mountain View Grand Resort, New Hampshire



Investments

Our investment portfolio is comprised of high-quality, liquid, diversified investments. Our investment philosophy is focused on maximizing return on an ongoing basis, rather than focusing on short-term performance. The fair value of approximately 98% of AFG's fixed maturity and equity security portfolio is based on values provided by pricing services or quotes from brokers.

In addition to producing a relatively predictable, steady stream of income, our portfolio has produced returns that have consistently outperformed various market indices over the long term. Over the last 10 years, we have generated about \$458 million in net pre-tax gains from sales of investments.

Fixed income securities, primarily investment grade bonds and mortgage-backed securities, account for approximately 94% of our total investments, with about 94% of the fixed maturity investments rated "investment grade." Mortgage-backed securities comprise just over one-fourth of our overall portfolio, with nearly all of these investments rated investment grade. The market turmoil spurred

Sailfish Marina and Resort, Palm Beach Shores



Le Pavillon Hotel, New Orleans



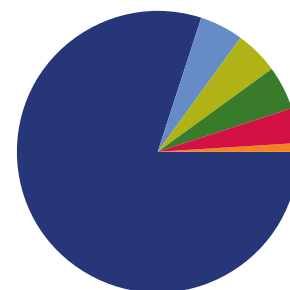
by subprime mortgage exposure provided an opportunity for us to demonstrate the strength of our portfolio. At the end of 2007, our subprime securities represented less than 3% of our investment portfolio and these securities' market value represented 94% of their amortized cost. Substantially all of the subprime portfolio was rated "AAA," with fixed rate collateral.

Stocks, real estate and other investments make up the remaining 6% of our portfolio. Our real estate investments include a group of hotels and resorts in various parts of the United States as well as apartment developments. We believe that we have significant unrecognized appreciation in our real estate investments, and estimate that the market value exceeds carrying value on the balance sheet by approximately \$100 million.

Our real estate investment strategy is based upon our history of buying underperforming or out-of-favor assets, developing and managing them "in house," and selling them when we believe value has been maximized. Over the past 10 years, we have realized net pre-tax gains of approximately \$364 million on sales of our real estate properties. We continue to look for attractive investment opportunities. We will continue to capitalize on our strong internal investment capabilities that we believe will give us a competitive advantage. We believe that our investment return will continue to be a major contributor to our earnings and book value growth.

Investment Portfolio

(Composition at December 31, 2007)



- 80% Fixed Maturities: Investment Grade
- 5% Fixed Maturities: Non-Investment Grade
- 5% Equities
- 5% Cash and Short-Term
- 4% Policy and Mortgage Loans
- 1% Real Estate and Other



LOOKING TO THE FUTURE

In 2008, we will continue our efforts to focus on writing quality, profitable business. We remain committed to adequately pricing and maintaining appropriate interest spreads on our products, and outperforming the market in terms of investment returns. We will focus on deriving value from new initiatives and newly acquired businesses that will further enhance our portfolio of product offerings and our geographic penetration both domestically and internationally. We recognize the importance of maintaining the financial strength and flexibility necessary to expand our businesses through internal growth and acquisitions that will enhance the overall value of our insurance portfolio.

BOARD OF DIRECTORS

CARL H. LINDNER

Chairman of the Board

CARL H. LINDNER III

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

S. CRAIG LINDNER

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

KENNETH C. AMBRECHT^{2,3}

Principal, KCA Associates, LLC, an investment banking firm

THEODORE H. EMMERICH^{1*}

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

JAMES E. EVANS

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

TERRY S. JACOBS^{1,3}

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

WILLIAM R. MARTIN^{1,2*,A}

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

WILLIAM W. VERITY^{2,3*}

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

Board of Directors Committees:

¹ Audit Committee

² Compensation Committee

³ Governance Committee

* Chairman of Committee

^A Mr. Martin will cease to be a Director as of the date of AFG's Annual Shareholders' Meeting on May 15, 2008.

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 is expected to be held at The Cincinnati Hotel in Cincinnati on May 15, 2008. Notices will be mailed to all registered holders of the Company's voting stock.

Common Stock Market Information

American Financial Group's Common Stock is traded on both the New York Stock Exchange ("NYSE") and the NASDAQ Global Select Market ("NASDAQ") under the symbol AFG. On February 1, 2008, approximately 8,500 holders of record own our shares. The following table sets forth the high and low sales prices of AFG's Common Stock as reported on the NYSE Composite Tape.

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

2007	HIGH	LOW	DIVIDENDS PAID
1 st Quarter	36.84	32.87	0.100
2 nd Quarter	36.30	33.33	0.100
3 rd Quarter	34.92	23.94	0.100
4 th Quarter	30.82	26.50	0.100

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 new Securities and Exchange Commission rules that allow public companies to provide proxy materials to their shareholders on the Internet. We believe these new rules will 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 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 **AFGinc.com**.

Certifications

AFG has included as Exhibit 31 to its 2007 Annual Report on Form 10-K, certifications from its Co-Chief Executive Officers and Chief Financial Officer as to the integrity and quality of AFG's public disclosures. AFG's Co-Chief Executive Officers have also submitted to the NYSE a certification indicating that they are not aware of any violations by AFG of the NYSE corporate governance listing standards.

Forward-Looking Statements

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

1. the unpredictability of possible future litigation if certain settlements do not become effective,
2. changes in general financial, political and economic conditions, including changes in interest rates and any extended national or regional economic recessions or expansions,
3. performance of securities markets,
4. our ability to estimate accurately the likelihood, magnitude and timing of any losses in connection with direct and indirect investments in the residential mortgage market, especially in the subprime sector,
5. the availability of capital,
6. regulatory actions and changes in the legal environment affecting AFG or its customers,
7. tax law changes,
8. levels of natural catastrophes, terrorist activities, including any nuclear, biological, chemical or radiological events, incidents of war and other major losses,
9. development of insurance loss reserves and other reserves, particularly with respect to amounts associated with asbestos and environmental claims,
10. availability of reinsurance and ability of reinsurers to pay their obligations,
11. trends in persistency, mortality and morbidity,
12. competitive pressures, including the ability to obtain rate increases,
13. changes in our credit ratings or the insurance financial strength ratings assigned by the major ratings agencies to our operating subsidiaries, and
14. 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.



One East Fourth Street
Cincinnati, Ohio 45202
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AFGinc.com