

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

AMERICAN FINANCIAL GROUP INC  
Form S-4/A  
October 07, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 7, 2003

REGISTRATION NO. 333-107100

-----  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
-----

AMENDMENT NO. 3 TO

FORM S-4  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933  
AMERICAN FINANCIAL GROUP, INC.  
(Exact name of registrant as specified in its charter)

OHIO	6331	31-1544320
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

-----  
ONE EAST FOURTH STREET  
CINCINNATI, OHIO 45202  
(513) 579-2121

(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

-----  
JAMES C. KENNEDY, ESQ.  
VICE PRESIDENT, SECRETARY AND DEPUTY GENERAL COUNSEL  
AMERICAN FINANCIAL GROUP, INC.

ONE EAST FOURTH STREET  
CINCINNATI, OHIO 45202  
(513) 579-2538

(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

-----  
COPIES TO:

MARK A. WEISS, ESQ.  
KEATING, MUETHING & KLEKAMP, P.L.L.  
1400 PROVIDENT TOWER  
ONE EAST FOURTH STREET  
CINCINNATI, OHIO 45202  
(513) 579-6599 (513) 357-9308

TIMOTHY E. HOBERG, ESQ.  
TAFT, STETTINIUS & HOLLISTER LLP  
SUITE 1800  
425 WALNUT STREET  
CINCINNATI, OHIO 45202

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective and all other conditions to the reorganization described in the enclosed proxy statement/prospectus have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

AMERICAN FINANCIAL CORPORATION  
ONE EAST FOURTH STREET  
CINCINNATI, OHIO 45202  
(513) 579-2121

October , 2003

Dear Shareholder:

You are invited to attend a special meeting of shareholders of American Financial Corporation to be held at the offices of the company at One East Fourth Street, Ninth Floor, Cincinnati, Ohio 45202 on Thursday, November 20, 2003 at 10:30 a.m., Eastern Time. The purposes of the special meeting are:

- To consider and act upon a proposal to approve an Amended and Restated Agreement and Plan of Reorganization and Merger, which we refer to as the merger agreement, pursuant to which American Financial Corporation and AFC Holding Company, American Financial Corporation's parent corporation, will each merge into American Financial Group, Inc., AFC Holding Company's parent corporation;
- To grant authority to American Financial Corporation to adjourn or postpone the special meeting; and
- To transact such other business as may properly come before the special meeting or any adjournment.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Holders of American Financial Corporation voting securities of record at the close of business on September 30, 2003 are entitled to receive notice of and to vote at the meeting or any adjournment thereof.

Ohio law requires the approval of the merger of American Financial Corporation into American Financial Group by the affirmative vote of both the holders of a majority of the total voting power of American Financial Corporation's stock and the affirmative vote of the holders of a majority of the 2,886,161 outstanding shares of American Financial Corporation's Series J Preferred Stock. Because American Financial Group holds approximately 79% of American Financial Corporation's voting power, the approval of a majority of the total voting power is assured but the approval of the holders of a majority of the Series J Preferred Stock is not assured.

In addition to the shareholder approvals required by Ohio law, the merger agreement also requires the additional approval by the holders of a majority of the outstanding Series J Preferred Stock voting at the special meeting, excluding those shares beneficially owned by AFG, AFG's directors, executive officers, Carl H. Lindner and certain of their respective affiliates.

This proxy statement/prospectus is being sent to holders of Series J Preferred Stock to provide them with information concerning American Financial Group, which we refer to as AFG, American Financial Corporation, which we refer to as AFC, AFC Holding Company, which we refer to as AFC Holding, and the proposed reorganization. The companies urge you to read the entire document, including the section entitled, "Risk Factors" beginning on page 12.

Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy form and return it in the enclosed envelope. If you attend the special meeting, you may vote in person, even if you have previously returned your proxy form. We would appreciate your prompt consideration.

By Order of the Board of Directors,

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

Date: October , 2003

This proxy statement/prospectus and proxy card are dated October , 2003 and were mailed to shareholders of American Financial Corporation beginning on or about October , 2003.

-----  
Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

TABLE OF CONTENTS

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

	PAGE
	----
QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION.....	4
SUMMARY.....	7
RISK FACTORS.....	12
FORWARD LOOKING STATEMENTS.....	17
AMERICAN FINANCIAL CORPORATION SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA.....	19
AMERICAN FINANCIAL GROUP SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA.....	20
UNAUDITED PRO FORMA FINANCIAL INFORMATION.....	22
STOCK PRICE AND DIVIDEND INFORMATION.....	26
THE SPECIAL MEETING.....	27
Introduction.....	27
Matters to be Considered; Special Committee Recommendation.....	27
Record Date and Voting.....	27
Vote Required.....	27
Voting Agreement.....	28
Revocability of Proxies.....	29
Solicitation of Proxies.....	29
Adjournment of the Special Meeting.....	29
Dissenters' Rights.....	29
THE REORGANIZATION.....	29
Form of the Reorganization.....	29
AFG's Reasons for the Reorganization.....	30
Material U.S. Federal Income Tax Consequences.....	30
U.S. Federal Income Tax Implications to Holders of AFC Series J Preferred Stock.....	31
Federal Securities Law Consequences.....	32
Conduct of Business if Reorganization Not Consummated.....	33
SPECIAL FACTORS.....	33
Appointment of the Special Committee.....	33
Meetings of the Special Committee.....	33
Recommendations of the Special Committee and the Board of Directors of AFC; Recommendation of the Board of Directors of AFG; Reasons for Recommendations.....	40
Opinion of Special Committee's Financial Advisor.....	43
Valuation Methodologies.....	43
THE MERGER AGREEMENT.....	49
Terms of the Reorganization.....	49
Exchange of Certificates.....	50
Dissenter's Rights.....	51
Representations and Warranties.....	51
Voting of AFC Common Stock.....	51

	PAGE
	----
Conditions to the Reorganization.....	51

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

RIGHTS OF DISSENTING SHAREHOLDERS.....	53
AMERICAN FINANCIAL GROUP, INC.....	54
AMERICAN FINANCIAL CORPORATION.....	55
AFC HOLDING COMPANY.....	55
DESCRIPTION OF AFG CAPITAL STOCK.....	55
COMPARISON OF SHAREHOLDER RIGHTS.....	56
SECURITY OWNERSHIP OF BENEFICIAL OWNERS AND MANAGEMENT.....	57
LEGAL MATTERS.....	58
EXPERTS.....	58
SHAREHOLDER PROPOSALS FOR 2004 ANNUAL MEETING.....	58
WHERE YOU CAN FIND MORE INFORMATION.....	59
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND FINANCIAL STATEMENTS OF AMERICAN FINANCIAL CORPORATION.....	F-1

- ANNEX A - Amended and Restated Agreement and Plan of Reorganization  
Among American Financial Group, Inc., AFC Holding Company  
and American Financial Corporation
- ANNEX B - Opinion of Duff & Phelps, LLC dated October 1, 2003
- ANNEX C - Section 1701.84 and 1701.85 of the Ohio Revised Code

3

### QUESTIONS AND ANSWERS ABOUT THE REORGANIZATION

Q: WHAT WILL OCCUR IN THE REORGANIZATION?

A: In the reorganization, AFC will merge into AFG. We refer to this merger as the AFC merger. In addition, immediately before the merger of AFC into AFG, AFC Holding will merge into AFG. We refer to this merger as the AFC Holding merger. We refer to the AFC merger and the AFC Holding merger collectively as the reorganization.

Q: WHO IS ENTITLED TO VOTE ON THE REORGANIZATION?

A: Holders of common stock and Series J Preferred Stock of AFC are entitled to vote on the AFC merger. Because AFC Holding is a wholly-owned subsidiary of AFG, no shareholder vote is required to effect the AFC Holding merger.

Q: WHAT WILL I RECEIVE FOR MY SHARES OF SERIES J PREFERRED STOCK?

A: \$26.00 in value of AFG common stock for each share of Series J Preferred Stock you own. We will pay cash instead of a fractional share. The November 1, 2003 dividend on the Series J Preferred Stock will be paid in cash to holders of record on October 15, 2003. Accrued dividends from November 1, 2003 to the date of the merger will be paid in cash. The number of AFG shares you will receive in exchange for each share of Series J Preferred

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Stock will be equal to the result obtained by dividing \$26.00 by the lesser of (i) the average of the mean of the daily high sales price and daily low sales price of the AFG common stock on the New York Stock Exchange for the 20 consecutive days in which such shares are trading or (ii) \$27.00, as more fully described on page 50 of this document.

Q: WHAT WILL YOUR VOTING RIGHTS BE IN AFG?

A: Subsequent to the reorganization and assuming an average price for AFG common stock of \$23.00, you and the other former Series J holders will own approximately 4.5% of the issued and outstanding common stock of AFG. Non-affiliates of AFG currently hold approximately 2,704,031 shares (93.7%) of the Series J Preferred Stock. Based on the same price assumption, approximately 4% of AFG's common stock outstanding subsequent to the reorganization will have been issued as a result of the reorganization to the Series J holders who are not affiliated with AFG.

Q: WHY DID AFC APPOINT A SPECIAL COMMITTEE OF ITS BOARD OF DIRECTORS?

A: AFG owns all outstanding shares of common stock of AFC Holding which owns all outstanding shares of common stock of AFC. Also, the boards of directors and senior executive officers of AFG, AFC Holding and AFC were identical until three members of the AFC board resigned and three new members, none of whom was employed or affiliated with any of AFG, AFC, AFC Holding or any of their respective subsidiaries, were elected to the board, after which the negotiation of the merger agreement began. These three newly-elected members of AFC's board of directors serve as the special committee. This special committee was appointed to evaluate and negotiate the terms of the AFC merger on behalf of the public holders of the Series J Preferred Stock before recommending to AFC's full board of directors whether to proceed with the proposed AFC merger.

Q: WHEN DO YOU EXPECT THE REORGANIZATION TO BE COMPLETED?

A: We hope to complete the reorganization as quickly as possible after the special meeting. In order to complete the reorganization, we need approval of the AFC merger by AFC's Series J Preferred shareholders.

Q: WHEN AND WHERE WILL THE SPECIAL MEETING TAKE PLACE?

A: AFC will hold the special meeting at 10:30 a.m. Eastern Time on Thursday, November 20, 2003 at AFC's offices, One East Fourth Street, Ninth Floor, Cincinnati, Ohio.

Q: WHAT IS THE VOTE REQUIRED AT THE SPECIAL MEETING?

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

A: Ohio law requires that AFC's shareholders must approve the merger by a vote of a majority of AFC's total outstanding voting power and a majority of AFC's outstanding shares of Series J Preferred Stock. AFG, which owns 79% of AFC's total outstanding voting power, has indicated that it will vote in favor of the AFC merger, assuring the approval of a majority of AFC's total voting power. For the approval of the AFC merger by a majority of the Series J Holders, 1,443,081 shares of the 2,886,161 Series J Preferred Stock must vote in favor of the merger.

In addition to the shareholder approvals required by Ohio law, the merger agreement also requires the approval of a majority of the outstanding Series J Preferred Stock voting on the AFC merger, excluding those shares beneficially owned by AFG, AFG's directors, executive officers, Carl H. Lindner and certain of their respective affiliates. The number of shares of Series J Preferred Stock held by non-affiliates required to approve the merger depends on the number of shares held by non-affiliates that are voted at the special meeting.

Q: WHAT DO I NEED TO DO NOW?

A: After reviewing this proxy statement/prospectus, mail your completed, signed and dated proxy card in the enclosed return envelope as soon as possible so that your shares will be represented at the special meeting.

Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A: Your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your brokerage firm regarding how to instruct them to vote your shares.

Q: MAY I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. You can do this in three ways. First, you can send AFC a written statement that you would like to revoke your proxy. Second, you can send AFC a new signed and later-dated proxy card. Third, you can attend AFC's special meeting and vote in person. However, your attendance at the special meeting alone will not revoke your proxy.

Q: HOW WILL MY SHARES BE VOTED IF I RETURN A BLANK PROXY CARD?

A: If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the reorganization.

Q: WHAT WILL BE THE EFFECT IF I DO NOT VOTE?

A: Of the three voting requirements to approve the AFC merger, the approval of

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

a majority of AFC's total voting power is assured. With respect to the requirement that the AFC merger be approved by a majority of AFC's outstanding shares of Series J Preferred Stock, not voting will have the same effect as voting against the reorganization. With respect to the requirement that the AFC merger be approved by a majority of shares of Series J Preferred Stock (other than shares owned by certain affiliates) actually voting, not voting will have no effect. As a result, shareholders wishing to reject the AFC merger should vote against the proposition, and shareholders wishing to approve the AFC merger should vote for the proposition.

Q: SHOULD I SEND IN MY SERIES J PREFERRED STOCK CERTIFICATE NOW?

A: No. If the reorganization is completed, you will receive written instructions for exchanging your stock certificates.

Q: WHO CAN ANSWER MY QUESTIONS ABOUT THE REORGANIZATION?

A: If you have more questions about the reorganization, please call Karl J. Grafe, Assistant General Counsel and Assistant Secretary, at (513) 579-2540.

5

In addition, the firm of Morrow & Co. will be assisting AFC in soliciting proxies from holders of Series J Preferred Stock for the special meeting. You can also call Morrow & Co. toll free at (800) 607-0088 with questions regarding voting.

6

### SUMMARY

#### THE COMPANIES

AMERICAN FINANCIAL GROUP, INC.  
One East Fourth Street  
Cincinnati, Ohio 45202  
(513) 579-2121

AFG is a holding company which, through AFC Holding, AFC and their subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of retirement annuities, life, and supplemental health insurance products. AFG was incorporated as an Ohio corporation in 1997 for the purpose of merging predecessor holding companies, one of which was AFC, which was originally incorporated in 1955. Our insurance subsidiaries have been operating as far back as the 1800s.

AFC HOLDING COMPANY  
One East Fourth Street  
Cincinnati, Ohio 45202  
(513) 579-2121



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

AFC Holding Company is a wholly-owned, intermediate-level holding company of AFG. AFC Holding directly owns all outstanding shares of common stock of AFC.

AMERICAN FINANCIAL CORPORATION  
One East Fourth Street  
Cincinnati, Ohio 45202  
(513) 579-2121

AFC is a holding company, majority-owned subsidiary of AFG. All of the outstanding shares of common stock, representing approximately 79% of the voting power of AFC, is owned by AFC Holding. The Series J Preferred Stock of AFC is publicly traded through the Archipelago system on the Pacific Stock Exchange and represents the remaining 21% of the voting power of AFC.

### THE REORGANIZATION

In the AFC merger, AFC will merge into AFG. The holders of Series J Preferred Stock will receive \$26.00 in value of AFG common stock plus an amount in cash representing accrued dividends for each share of preferred stock owned calculated as provided in the Amended and Restated Agreement and Plan of Reorganization, and all shares of common stock of AFC will be canceled. Immediately before the merger of AFC into AFG, AFC Holding, a wholly-owned subsidiary of AFG, will merge into AFG. The reorganization will be effected through the Amended and Restated Agreement and Plan of Reorganization among AFC, AFC Holding and AFG, which we refer to as the merger agreement.

### REASONS FOR THE REORGANIZATION

The reorganization will simplify AFG's corporate structure in a manner that provides the following benefits:

- Improve AFG's leverage ratios and cash flow;
- Facilitate future capital raising;
- Simplify AFG's tax structure; and
- Eliminate AFC as a reporting company.

7

### MATERIAL ADVANTAGES AND DISADVANTAGES OF THE AFC MERGER TO THE AFC SERIES J PREFERRED SHAREHOLDERS

The following are material advantages of the AFC merger to the AFC Series J Preferred shareholders that were considered by the special committee as discussed in this document.

- The lack of liquidity for the shares of Series J Preferred Stock makes it difficult for shareholders to sell their shares for cash and diversify their holdings without affecting adversely the trading price of the shares of Series J Preferred Stock;
- Because the trading volume of the shares of AFG common stock is substantially greater than that of the Series J Preferred Stock, current holders of shares of Series J Preferred Stock will have the option of either holding the shares of AFG common stock which they receive in the AFC merger, or selling them if they wish to receive cash;

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- The terms of the AFC merger permit holders of Series J Preferred Stock to receive shares of AFG common stock in a tax-free transaction;
- Holders of shares of Series J Preferred Stock will be entitled to exercise "dissenters' rights" under Ohio law;
- The value of the AFC merger consideration of \$26.00 plus accrued dividends per share of Series J Preferred Stock, along with the \$1.00 per share dividend to be paid in cash on November 1, 2003: (i) exceeds the estimated present value (including future dividends as of September 19, 2003) of the price in cash at which the Series J Preferred Stock may be called in 2005, based on a range of current yields for comparable preferred securities with a Standard & Poor's credit rating of BB; (ii) exceeds the cash liquidation preference of the shares of Series J Preferred Stock; and (iii) exceeds the price at which the Series J Preferred Stock may be "cashed out" now in a merger transaction; and
- The exchange value of \$26.00 plus accrued dividends is higher than the average reported closing price of the Series J Preferred Stock of \$20.67 over the past three years, exceeds the closing price of \$19.00 on March 12, 2003, the last day on which the Series J Preferred Stock traded prior to April 17, 2003, the day of the announcement of the proposed AFC merger, and exceeds \$24.00, the highest reported per share closing price at which the Series J Preferred Stock traded during the past three years preceding April 17, 2003.

The following is the material disadvantage of the AFC Merger to the AFC shareholders that was considered by the special committee.

- As holders of preferred securities of AFC, holders of shares of Series J Preferred Stock have a superior credit position to holders of common stock of AFC and are structurally favored over creditors and common stock holders of AFG, which advantages will be lost in the AFC merger.

### STOCK OWNERSHIP

As of September 30, 2003, Carl H. Lindner, S. Craig Lindner, Carl H. Lindner III, Keith E. Lindner and trusts for their benefit (collectively, the "Lindner Family") were the beneficial owners of approximately 44% of the AFG common stock. The Lindner Family may be deemed to be controlling persons of AFG. AFG beneficially owns all outstanding shares of AFC common stock, representing approximately 79% of the outstanding total voting power of AFC.

In addition to the shareholder approvals required by Ohio law, the merger agreement also requires the additional approval of a majority of outstanding Series J Preferred Stock voting on the AFC merger, excluding those shares beneficially owned by AFG, AFG's directors, executive officers, Carl H. Lindner, and certain related persons. At September 30, 2003, the persons described in the preceding sentence collectively beneficially owned 182,130 shares, or 6.3%, of the outstanding Series J Preferred Stock.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

### SPECIAL COMMITTEE OF AFC'S BOARD OF DIRECTORS

The AFC board of directors appointed a special committee of the board of directors, consisting of three newly-elected members of the board who are not employees of, or otherwise affiliated with, either AFG or AFC. This special committee was appointed to evaluate and negotiate the terms of the AFC merger on behalf of the public holders of the Series J Preferred Stock and make a recommendation to the public shareholders with respect to the AFC merger.

#### RECOMMENDATION TO SHAREHOLDERS

The board of directors of AFC, based on the unanimous recommendation of the special committee, unanimously recommends that holders of AFC Series J Preferred Stock adopt the merger agreement at the special meeting so that the reorganization may be completed.

#### VOTE REQUIRED

Ohio law requires that AFC's shareholders must approve the AFC merger by a vote of a majority of AFC's outstanding total voting power and a majority of AFC's outstanding shares of Series J Preferred Stock. In addition to the shareholder approvals required by Ohio law, the merger agreement also requires the additional approval of a majority of outstanding Series J Preferred Stock voting on the AFC merger, excluding those shares beneficially owned by AFG, AFG's directors, executive officers, Carl H. Lindner, and certain of their respective affiliates. AFG, which owns 79% of AFC's outstanding voting power, has indicated that it will vote in favor of the AFC merger, assuring the approval of a majority of AFC's total voting power. Because AFC Holding is a wholly-owned subsidiary of AFG, no shareholder approval is required for the AFC Holding merger.

#### VOTING AGREEMENT

AFG has entered into a voting agreement with subsidiaries of The Commerce Group, Inc., collectively the beneficial holders of a total of approximately 287,000 shares (10%) of Series J Preferred Stock, providing that such beneficial holders will vote their shares of Series J Preferred Stock in favor of the AFC merger. AFG has also come to an understanding with ALLETE, Inc., the beneficial owner of approximately 75,000 shares (2.6%) of the Series J Preferred Stock, that such shares will be voted in favor of the AFC merger. AFG and the shareholders entered into these arrangements in connection with the amendment and restatement of the merger agreement which resulted in an increase in the merger consideration to be paid to holders of Series J Preferred Stock as discussed under, "The Special Meeting -- Voting Agreement" on page 28.

#### CONDITIONS TO COMPLETING THE REORGANIZATION

To complete the AFC merger, AFG and AFC must satisfy a number of conditions including:

- No legal impediment;
- Effectiveness of registration statement, of which this proxy statement/prospectus is a part;
- Approval by AFC shareholders;

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- Approval by holders of Series J Preferred Stock excluding certain affiliates; and
- Receipt of a tax opinion.

AFC's obligation to complete the AFC merger also requires compliance with a number of additional conditions including:

- Receipt of the fairness opinion;
- Representations of AFG remain true;

9

- Compliance by AFG with agreements;
- Receipt of regulatory approvals; and
- Listing of AFG common stock to be issued.

AFG's obligation to complete the AFC merger also requires compliance with a number of additional conditions including:

- Representations of AFC remain true;
- Compliance by AFC with agreements;
- Receipt of required documents; and
- Receipt of regulatory approvals.

AFG and AFC have received the tax opinion described above. AFC or AFG could decide to complete the AFC merger even though one or more of these other conditions has not been met, except that AFC will not be able to complete the AFC merger if the fairness opinion of Duff & Phelps is withdrawn for any reason before the merger occurs. Neither AFC nor AFG can be certain when or if the conditions to the AFC merger will be satisfied or waived, or that the AFC merger will be completed.

### TERMINATION OF THE MERGER AGREEMENT

The merger agreement may be terminated by AFG or AFC (acting through the special committee) under certain circumstances including:

- by mutual agreement;
- if the closing date is later than December 31, 2003;
- if a court issues a permanent, non-appealable ruling permanently prohibiting the reorganization;
- if the merger agreement is not approved by the required votes;
- upon the breach of a representation or warranty of the other;
- by AFC if any events, changes or developments have occurred which, individually or in the aggregate, have materially adversely affected, or are reasonably likely to materially adversely affect, the financial condition of AFG and its subsidiaries, taken as a whole;

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- by AFC if the special committee determines, after consultation with and based on the written legal advice of its legal counsel, that as a result of an event or condition which existed before the date of the merger agreement and should have been disclosed by AFG in its filings under the Securities Exchange Act of 1934 but was not so disclosed or which occurs after the date of the merger agreement, the special committee would violate its fiduciary duties in accordance with applicable law if AFC did not terminate the merger agreement; or
- by AFG if the average closing price of the AFG common stock is less than \$19.00 per share during a specified period prior to the special meeting.

### FEDERAL INCOME TAX CONSIDERATIONS

AFC has received an opinion of tax counsel, which is an annex to the merger agreement, stating that the merger will constitute a reorganization and holders of Series J Preferred Stock will not recognize any gain or loss for U.S. federal income tax purposes, except to the extent they receive cash for a fractional share or because they exercise dissenters' rights. AFG, AFC and holders of AFG common stock, will not recognize gain or loss as a result of the merger. Nonetheless, because tax matters are complicated, and tax results may vary among shareholders, AFG urges you to contact your own advisor to understand fully how the reorganization will affect you.

10

### TERMS OF SERIES J PREFERRED STOCK

Each share of Series J Preferred Stock receives an annual dividend of \$2.00 per share. On liquidation, the holder of each share of Series J Preferred Stock is entitled to \$25.00, plus accrued dividends. The Series J Preferred Stock votes on all matters voted upon by shareholders, with this series possessing approximately 21% of the voting power of AFC. AFC may, at its option, call for redemption all or part of the Series J Preferred Stock at specified times (beginning in 2005) and on specified terms. In addition, the terms of the Series J Preferred Stock permit AFC, at any time the statutory voting requirements are met, to engage in a merger with another party, including an affiliate of AFC, pursuant to which each share of Series J Preferred Stock would receive \$25.00 plus accrued dividends.

### TERMS OF AFG COMMON STOCK

Holders of AFG common stock are entitled to share in the dividends that the board of directors validly declares from legally available funds. Currently, AFG pays an annual dividend of \$0.50 per share. If AFG liquidates, holders of AFG common stock also are entitled to participate ratably in the assets remaining after AFG pays its liabilities and any preferred stock liquidation preferences (currently, AFG has no preferred stock outstanding). Holders of AFG common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. AFG common stock has no redemption provisions.

### COMPARATIVE STOCK PRICES

AFG common stock is traded on the New York Stock Exchange under the symbol "AFG". AFC's Series J Preferred Stock is traded through the Archipelago system on the Pacific Stock Exchange under the symbol "AFI-J". On October , 2003, the day before the date of this document, the last reported sales price for a share of AFG common stock was \$ and for a share of Series J Preferred Stock was \$ .

OPINION OF FINANCIAL ADVISOR

In deciding to recommend the AFC merger to the holders of Series J Preferred Stock, the special committee of AFC's board of directors considered the opinion of its financial advisor, Duff & Phelps, that the consideration to be received by holders of shares of Series J Preferred Stock in the AFC merger is fair, from a financial point of view, to the holders of Series J Preferred Stock. The written opinion of Duff & Phelps dated October 1, 2003, is attached as Annex B to this document. AFG encourages holders of Series J Preferred Stock to read this opinion.

DISSENTERS' RIGHTS

Under Ohio law, holders of Series J Preferred Stock may dissent from the AFC merger and have the fair cash value of their shares paid to them. To exercise this right, holders must follow a number of procedures. These procedures include filing a demand for payment of the fair cash value of their shares and not voting in favor of the reorganization. For more information on how to exercise these rights, see "Rights of Dissenting Shareholders" on page 53 and Annex C.

11

RISK FACTORS

Preferred shareholders of AFC have been subject to nearly all of the following risks related to AFG as a result of their ownership of preferred stock of AFC, a subsidiary of AFG. Following the completion of the AFC merger, however, holders of Series J Preferred Stock would become holders of AFG common stock. If the AFC merger is not completed, holders of Series J Preferred Stock would have a preference as to the liquidation value of their shares upon a liquidation of AFC over holders of AFG common stock. Holders of Series J Preferred Stock who receive AFG common stock in the AFC merger will therefore have more exposure to the risk factors set forth below than they had prior to the merger.

In considering whether to approve the reorganization, you should also consider, in addition to the other information contained in this document, the following matters.

HOLDERS OF SERIES J PREFERRED STOCK MAY EXPERIENCE DECREASED LIQUIDITY IF THE REORGANIZATION IS NOT COMPLETED

If the reorganization is not completed, AFG may seek alternatives to achieve some of the goals of the reorganization. Although AFG has no plans to do so, AFG may attempt to acquire sufficient shares of Series J Preferred Stock so that it owns 80% of the total voting power of AFC and AFC will become part of its consolidated tax group. Such acquisition of Series J Preferred Stock would further decrease the trading volume of the Series J Preferred Stock and make it difficult for you to sell shares when you want or at a price you find attractive.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

INTENSE COMPETITION COULD ADVERSELY AFFECT AFG'S PROFITABILITY.

The specialty insurance business is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. AFG competes with other individual insurers, state funds and insurance groups of varying sizes, some of which are mutual insurance companies possessing competitive advantages in that all their profits inure to their policyholders. AFG also competes with self-insurance plans, captive programs and risk retention groups. In some or all of AFG's specialty lines, AFG competes with American International Group Inc., Chubb Corp., W.R. Berkley Corp., CNA Financial Corp., Philadelphia Consolidated Holdings Corp., Markel Corp. and St. Paul Companies, Inc. Because of the specialty nature of these coverages, competition is based primarily on service to policyholders and agents, specific characteristics of products offered and reputation for claims handling. Price, commissions and profit sharing terms are also important factors. Some of AFG's competitors have more capital and greater resources than it has, and may offer a broader range of products and lower prices than AFG offers.

AFG'S RESULTS MAY FLUCTUATE AS A RESULT OF CYCLICAL CHANGES IN THE SPECIALTY INSURANCE INDUSTRY.

The underwriting profitability of the property and casualty insurance industry has been historically cyclical in nature. During periods when excess capital has been available, there has generally been increased price competition among insurers, often resulting in inadequately priced products and underwriting losses. Prolonged periods of underwriting losses tend to force some insurers to withdraw from the markets, decreasing available capital.

Excess capital and intense premium rate competition caused a cyclical downturn which began in the late 1980's and continued into 2000. Inadequate pricing during much of this period led to a significant inadequacy in carried loss reserves. In addition, the rise in asbestos and environmental liabilities, loss-cost inflation, catastrophe losses, unpredictable jury awards, losses related to September 11, declining equity markets and lower interest rates have all contributed toward capital shortages which exist in many sectors today, including many of the specialty lines. This decrease in capital has allowed insurers to increase premium rates over the last couple of years to more appropriate levels.

12

The trend of AFG's underwriting results typically follows that of the industry. The statutory combined ratios of AFG's property and casualty business were as follows:

2002	2001	2000	1999	1998
----	-----	-----	-----	-----
101.6%	109.7%	108.8%	103.7%	111.1%

Other major factors contributing to fluctuations in AFG's results include losses related to asbestos liabilities (1998, 2001 and 2002) and losses related to the terrorist attack on September 11, 2001. The improvement in underwriting results beginning in 2002 reflects the rise or hardening of prices in what is believed to be an upturn in the underwriting cycle for AFG and the industry.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

However, should capacity increase and price competition intensify, the cycle would reverse and negatively impact AFG's revenues and operating results.

AFG RELIES UPON INDEPENDENT AGENTS TO WRITE ITS INSURANCE POLICIES, AND IF AFG IS NOT ABLE TO ATTRACT AND RETAIN INDEPENDENT AGENTS, ITS RESULTS COULD BE NEGATIVELY AFFECTED.

AFG's reliance on the independent agency market makes it vulnerable to a reduction in the amount of business written by agents. Many of AFG's competitors, like AFG, rely significantly on the independent agency market. Accordingly, AFG must compete with other insurance carriers for independent agents' business. Some of AFG's competitors offer a wider variety of products, lower price for insurance coverage or higher commissions to agents. While AFG believes that the products, pricing, commissions and services it offers are competitive, AFG may not be able to continue to attract and retain independent agents to sell its products, in which case, its revenues and earnings could be negatively affected.

AFG IS SUBJECT TO COMPREHENSIVE REGULATION, AND ITS ABILITY TO EARN PROFITS MAY BE RESTRICTED BY THESE REGULATIONS.

AFG is subject to comprehensive regulation by government agencies in the states where its insurance company subsidiaries are domiciled and where these subsidiaries issue policies and handle claims, and AFG must obtain prior approval for certain corporate actions. The regulations may have the effect of limiting AFG's liquidity and may adversely affect AFG's results of operations. AFG must comply with regulations involving:

- transferring cash to the parent company through the payment of dividends;
- the acquisition or disposition of an insurance company or of any company controlling an insurance company;
- approval or filing of premium rates and policy forms;
- involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;
- minimum amounts of capital and surplus that must be maintained;
- limitations on types and amounts of investments;
- limitation of the right to cancel or non-renew policies;
- regulation of the right to withdraw from markets or terminate involvement with agencies;
- licensing of insurers and agents;
- reporting with respect to financial condition; and
- transactions between an insurance company and any of its affiliates.

In addition, state insurance department examiners perform periodic financial and market conduct examinations of insurance companies. Such regulation is generally intended for the protection of policyholders rather than securityholders.



There can be no assurance that existing insurance-related laws and regulations will not become more restrictive in the future or that new restrictive laws will not be enacted and, therefore, it is not possible to predict the potential effects of these laws and regulations on AFG. The costs of compliance or the failure to comply with existing or future regulations could harm AFG's financial results.

AS A HOLDING COMPANY, AFG IS DEPENDENT ON THE RESULTS OF OPERATIONS OF ITS INSURANCE COMPANY SUBSIDIARIES TO MEET ITS OBLIGATIONS AND PAY FUTURE DIVIDENDS.

AFG is a holding company and a legal entity separate and distinct from its insurance company subsidiaries. As a holding company without significant operations of its own, AFG's principal sources of funds are dividends and other distributions from its insurance company subsidiaries. State insurance laws limit the ability of its insurance companies to pay dividends and require its insurance companies to maintain specified levels of statutory capital and surplus. Some states require that AFG give notice to the relevant state insurance commissioner prior to its insurance subsidiaries declaring any dividends and distributions payable to AFG. During the notice period, the state insurance commissioner may disallow all or part of the proposed dividend if it determines that the insurer's surplus as regards policyholders is not reasonable in relation to the insurer's liabilities and adequate to meet its financial needs. In addition, for competitive reasons, AFG's insurance companies need to maintain financial strength ratings which requires it to sustain capital levels in those subsidiaries. These restrictions affect the ability of AFG's insurance company subsidiaries to pay dividends and use their capital in other ways. AFG's rights to participate in any distribution of assets of its insurance company subsidiaries are subject to prior claims of policyholders and creditors (except to the extent that AFG's rights, if any, as a creditor are recognized). Consequently, AFG's ability to pay debts, expenses and cash dividends to AFG's shareholders may be limited.

AFG'S FAILURE TO MAINTAIN A COMMERCIALY ACCEPTABLE FINANCIAL STRENGTH RATING WOULD SIGNIFICANTLY AND NEGATIVELY AFFECT ITS ABILITY TO COMPETE SUCCESSFULLY.

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's sales. A.M. Best has currently assigned AFG's insurance company subsidiaries ratings of "A (Excellent)" and "A- (Excellent)". According to A.M. Best, "A" and "A-" ratings are assigned to insurers which have, on balance, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best and, in A.M. Best's opinion, have a strong ability to meet their ongoing obligations to policyholders. A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell or hold securities. There can be no assurance that AFG's rating or future changes to its rating will not affect its competitive position.

AFG MAY BE ADVERSELY IMPACTED BY A CHANGE IN ITS STANDARD & POOR'S OR MOODY'S RATINGS.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

On May 27, 2003, AFG was notified by Moody's Investors Service that its ratings were being placed under review for possible downgrade. On July 2, 2003, Moody's confirmed AFG's senior debt ratings at their current level but stated that the outlook for all of the ratings remains negative. Moody's has stated that its review for a possible downgrade was initiated due to Moody's continued concerns about AFG's holding company liquidity profile.

AFG is rated by Standard & Poor's and Moody's, both independent corporate credit rating agencies. AFG's senior indebtedness is currently rated BBB by Standard & Poors and Baa3 by Moody's. Securities ratings are subject to revision or withdrawal at any time by the assigning rating organization. A security rating is not a recommendation to buy, sell or hold securities. An unfavorable change in either of these ratings could make it more expensive for AFG to access capital markets and may increase the interest rate charged to AFG under its current multi-bank credit line. AFG can give no assurance that it will maintain its current Standard & Poor's or Moody's ratings.

14

AFG IS A PARTY TO LITIGATION WHICH, IF DECIDED ADVERSELY TO IT, COULD IMPACT AFG'S FINANCIAL RESULTS.

AFG and its subsidiaries are named as defendants in a number of lawsuits. Litigation, by its very nature, is unpredictable and the outcome of these cases is uncertain. Further, AFG is unable to predict the precise nature of the relief that may be sought or granted in any lawsuits or the effect that pending or future cases may have on its business, operations, profitability or financial condition.

LEGAL PRECEDENTS REGARDING POTENTIAL ASBESTOS LIABILITIES CONTINUE TO EVOLVE, AND ADVERSE DEVELOPMENTS COULD IMPACT AFG'S FINANCIAL RESULTS.

AFG, its insurance company subsidiaries and its subsidiary, American Premier Underwriters, Inc., which we refer to as American Premier, are parties to litigation and receive claims asserting alleged injuries and damages from asbestos and other hazardous and toxic substances and workplace hazards and have established loss accruals for such potential liabilities. The ultimate loss for these claims may vary materially from amounts currently recorded as the conditions surrounding resolution of these claims continue to change. AFG is unable to predict the precise nature of the relief that may be granted in any lawsuits or the effect that future cases may have on AFG's business, operations, profitability or financial condition. In 2002 and 2001, AFG increased reserves relating to prior year's asbestos and environmental claims by \$49 million and \$108 million, respectively. As of June 30, 2003, the aggregate net reserves held by AFG's insurance company subsidiaries for asbestos claims was \$290 million and for other environmental and mass tort claims was \$155 million.

AFG IS SUBJECT TO ENVIRONMENTAL CLAIMS THAT MAY IMPACT ITS FINANCIAL RESULTS.

American Premier is a party or named as a potentially responsible party in a number of proceedings and claims by regulatory agencies and private parties

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

under various environmental protection laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), seeking to impose responsibility on American Premier for hazardous waste remediation costs at certain railroad and manufacturing sites formerly owned by it or its predecessor, Penn Central Transportation Company, and at certain other sites where hazardous waste allegedly generated by Penn Central's railroad operations and American Premier's former manufacturing operations is present. As of June 30, 2003 American Premier had \$24 million reserved for environmental claims. It is difficult to estimate American Premier's liability for remediation costs at these sites for a number of reasons, including the number and financial resources of other potentially responsible parties involved at a given site, the varying availability of evidence by which to allocate responsibility among such parties, the wide range of costs for possible remediation alternatives, changing technology and the period of time over which these matters develop.

AFG'S PROPERTY AND CASUALTY RESERVES MAY BE INADEQUATE, WHICH COULD SIGNIFICANTLY AFFECT ITS FINANCIAL RESULTS.

AFG records reserve liabilities for the estimated payment of losses and loss adjustment expenses for both reported and unreported claims. Due to the inherent uncertainty of estimating reserves, it has been necessary in the past, and may continue to be necessary in the future, to revise estimated liabilities as reflected in AFG's reserves for claims and related expenses. For example, in 2002, 2001 and 1998 AFG recorded charges of \$171 million, \$163 million and \$156 million, respectively, to increase reserves relating to prior accident years and in 2000 and 1999 AFG recorded reductions of \$60 million and \$74 million, respectively, to reserves of prior accident years. To the extent that reserves are inadequate and are strengthened, the amount of such increase is treated as a charge to earnings in the period in which the deficiency is recognized. The historic development of reserves for losses and loss adjustment expense may not necessarily reflect future trends in the development of these amounts. Accordingly, it is not appropriate to extrapolate redundancies or deficiencies based on historical information.

15

VARIATIONS FROM THE ACTUARIAL ASSUMPTIONS USED TO ESTABLISH CERTAIN ASSETS AND LIABILITIES IN AFG'S ANNUITY, LIFE, ACCIDENT AND HEALTH BUSINESS COULD NEGATIVELY IMPACT AFG'S RESULTS.

The earnings on certain products offered by AFG's annuity, life, accident and health business depend significantly upon the extent to which actual experience is consistent with the assumptions used in setting reserves and establishing and amortizing deferred policy acquisition costs ("DPAC"). These assumptions relate to investment yields (and spreads over fixed annuity crediting rates), mortality, surrenders and, on some policies, morbidity. Developing such assumptions is complex and involves information obtained from company-specific and industry-wide data, as well as general economic information. These assumptions, and therefore AFG's results of operations, could be negatively impacted by changes in any of the factors listed above. For example, AFG recorded a pretax charge of \$12.5 million in the second quarter of 2003 due to the negative effect of lower interest rates on AFG's fixed annuity operations.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

ADVERSE SECURITIES MARKET CONDITIONS CAN HAVE SIGNIFICANT AND NEGATIVE EFFECTS ON AFG'S INVESTMENT PORTFOLIO.

AFG's results of operations depend in part on the performance of its invested assets. As of June 30, 2003, 92% of AFG's investment portfolio was invested in fixed maturity securities and 4% in equity securities. Certain risks are inherent in connection with fixed maturity securities, including loss upon default and price volatility in reaction to changes in interest rates and general market factors. An increase in interest rates lowers prices on fixed maturity securities, and any sales made during a period of increasing interest rates may result in losses. Conversely, investment income earned from future investments in fixed maturity securities will decrease if interest rates decrease.

AFG cannot predict at this time whether and the extent to which industry sectors in which it maintains investments may suffer losses as a result of potential decreased commercial and economic activity, or how any such decrease might impact the ability of companies within the affected industry sectors to pay interest or principal on their securities, or how the value of any underlying collateral might be affected.

THE CONTINUED THREAT OF TERRORISM AND ONGOING MILITARY AND OTHER ACTIONS MAY ADVERSELY AFFECT AFG'S FINANCIAL RESULTS.

AFG incurred a loss of \$25 million related to the terrorist attack on the World Trade Center in 2001. The continued threat of terrorism, both within the United States and abroad, and the ongoing military and other actions and heightened security measures taken in response to these types of threats, may cause significant volatility and declines in the equity markets in the United States, Europe and elsewhere, loss of life, property damage, additional disruptions to commerce and reduced economic activity. Actual terrorist attacks could cause losses from insurance claims related to AFG's property and casualty and life insurance operations with adverse financial consequences. The Terrorism Risk Insurance Act of 2002 requires that some coverage for terrorist acts be offered by primary property insurers such as AFG's insurance subsidiaries and provides Federal assistance for recovery of some large claims through 2005. In addition, some of the assets in its insurance subsidiaries' investment portfolios may be adversely affected by declines in the capital markets and economic activity caused by the continued threat of terrorism, ongoing military and other actions and heightened security measures.

AFG can offer no assurances that the threats of future terrorist-like events in the United States and abroad or military actions by the United States will not have a material adverse effect on AFG's business, financial condition or results of operations.

THE INABILITY TO OBTAIN REINSURANCE COULD ADVERSELY IMPACT AFG'S RESULTS.

AFG relies on the use of reinsurance to limit the amount of risk it retains. The following amounts of gross property and casualty premiums have been ceded to other insurers: 2002 -- \$1.5 billion (39%); 2001 -- \$938 million (27%); 2000 -- \$593 million (18%). The availability and cost of reinsurance are subject to prevailing market conditions which are beyond AFG's control and which may affect its level of business and

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

profitability. AFG is also subject to credit risk with respect to its reinsurers, as the ceding of risk to reinsurers does not relieve AFG of its liability to insureds.

CERTAIN SHAREHOLDERS EXERCISE SUBSTANTIAL CONTROL OVER AFG'S AFFAIRS AND MAY HAVE INTERESTS THAT DIFFER FROM YOUR INTERESTS.

As of September 30, 2003, Carl H. Lindner, S. Craig Lindner, Carl H. Lindner III, Keith E. Lindner and trusts for their benefit, which we refer to collectively as the Lindner family, were the beneficial owners of approximately 44% of AFG's outstanding common stock. As a result, the Lindner family exercises substantial control over the election of AFG's board of directors and significantly influences its corporate actions. In addition, the American Financial Group, Inc. Retirement and Savings Plan owns approximately 11% of AFG's outstanding common stock. The board of directors of AFG appoints an Administrative Plan Committee of the Retirement And Savings Plan which directs the voting of shares held by the Retirement And Savings Plan. The Administrative Plan Committee is currently comprised solely of executive officers of AFG and AFC. The interests of the Lindner family, as well as the interests of the Retirement and Savings Plan, may differ from those of AFG's other shareholders and they may take actions that advance their respective interests to the detriment of other shareholders.

THE PRICE OF AFG'S COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY WHICH MAY MAKE IT DIFFICULT FOR YOU TO SELL COMMON STOCK ISSUABLE IN THE AFC MERGER WHEN YOU WANT AT A PRICE YOU FIND ATTRACTIVE.

The price of AFG common stock as listed on the New York Stock Exchange, constantly changes. Since January 1, 2002, our common stock has traded at prices ranging between \$17.90 and \$30.30. AFG expects that the market price of its stock will continue to fluctuate. Holders of Series J Preferred Stock who receive AFG common stock in the AFC merger will also be subject to the risk of volatility and depressed prices of the AFG common stock.

AFG's common stock price can fluctuate as a result of a variety of factors, many of which are beyond its control. These factors include:

- actual or anticipated variations in AFG's quarterly operating results;
- actual or anticipated changes in the dividends AFG pays on its common stock;
- recommendations by securities analysts;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving AFG or its competitors;
- operating and stock price performance of other companies that investors deem comparable to AFG;
- news reports relating to trends, concerns and other issues in AFG's industry; and
- geopolitical conditions such as acts or threats of terrorism or military

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as terrorist attacks, war, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause AFG's stock price to decrease regardless of its operating results.

In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations also may adversely affect the market price of AFG's common stock.

### FORWARD LOOKING STATEMENTS

This proxy statement/prospectus and the documents incorporated by reference contain certain 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. Forward-looking statements are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking

17

statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as "anticipates", "believes", "expects", "estimates", "intends", "plans", "seeks", "could", "may", "should", "will" or the negative version of those words or other comparable terminology. Examples of such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings and investment activities; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims, rate increases, improved loss experience and expected expense savings resulting from recent initiatives.

Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including:

- changes in economic conditions, including interest rates, performance of securities markets and the availability of capital;
- regulatory actions;
- changes in legal environment;
- tax law changes;
- levels of natural catastrophes, terrorist events, incidents of war and other major losses;
- the ultimate amount of liabilities associated with certain asbestos and environmental-related claims;
- the unpredictability of possible future litigation if certain settlements do not become effective;
- adequacy of insurance reserves;
- trends in mortality and morbidity;
- availability of reinsurance and ability of reinsurers to pay their obligations;

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- competitive pressures, including the ability to obtain rate increases; and
- changes in debt and claims paying ratings.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. AFG and AFC believe that these factors include but are not limited to those described under "Risk Factors." Neither AFG nor AFC undertakes any obligation to publicly update or review any forward-looking statement.

AFG and AFC caution you that these risk factors may not be exhaustive. AFG and AFC operate in a continually changing business environment, and new risk factors emerge from time to time. AFG and AFC cannot predict such new risk factors, nor can AFG or AFC assess the impact, if any, of such new risk factors on our businesses or the extent to which any factor or combination of factors may cause actual results to differ materially from those expressed or implied by any forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

You should carefully read this prospectus and the documents incorporated by reference in their entirety. They contain information that you should consider when making your investment decision.

18

### AMERICAN FINANCIAL CORPORATION SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following is a summary of selected financial data for AFC and its subsidiaries for the six-month periods ended June 30, 2003 and June 30, 2002 and the five years ended December 31, 2002. This summary should be read in conjunction with the financial statements and their notes which are included in this document.

	SIX MONTHS ENDED		YEAR ENDED DECEMBER 31,			
	JUNE 30,					
	2003	2002	2002	2001	2000	1999
<b>EARNINGS STATEMENT DATA:</b>						
Total Revenues.....	\$ 1,622	\$ 1,846	\$ 3,745	\$ 3,929	\$ 3,820	\$ 3,359
Operating Earnings Before Income						
Taxes.....	104	87	195	70	120	310
Earnings (Loss) Before Extraordinary						
Items and Accounting Changes.....	70	62	134	13	(23)	153
Extraordinary Items.....	--	--	--	--	--	(4)
Cumulative Effect of Accounting						
Changes (a).....	--	(40)	(40)	(10)	(9)	(4)
Net Earnings (Loss).....	70	22	94	3	(32)	145
Ratio of Earnings to Fixed						
Charges (b) :						
Including Annuity Benefits.....	1.51	1.44	1.48	1.14	1.26	1.81
Excluding Annuity Benefits.....	3.81	3.14	3.36	1.56	2.02	4.01
Ratio of Earnings to Fixed Charges						

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

and Preferred Dividends(b):						
Including Annuity Benefits.....	1.48	1.41	1.46	1.12	1.23	1.76
Excluding Annuity Benefits.....	3.42	2.90	3.09	1.45	1.87	3.67
BALANCE SHEET DATA:						
Total Assets.....	\$19,111	\$18,509	\$19,502	\$17,398	\$16,407	\$16,024
Long-term Debt:						
Holding Companies.....	20	242	268	228	204	113
Subsidiaries.....	252	270	297	271	195	240
Minority Interest.....	550	476	494	461	510	490
Shareholders' Equity.....	1,904	1,612	1,730	1,478	1,454	1,324

-----

(a) Reflects the implementation in the following years of accounting changes mandated by recently enacted accounting standards:

- 2002 - SFAS #142 (Goodwill and Other Intangibles)
- 2001 - EITF 99-20 (Asset-backed Securities)
- 2000 - SFAS #133 (Derivatives)
- 1999 - SOP 98-5 (Start-up Costs)

(b) Fixed charges are computed on a "total enterprise" basis. For purposes of calculating the ratios, "earnings" have been computed by adding to pretax earnings the fixed charges and the minority interest in earnings of subsidiaries having fixed charges and the undistributed equity in losses of investees. Fixed charges include interest (including or excluding interest credited to annuity policyholders' accounts as indicated), amortization of debt premium/discount and expense, preferred dividend and distribution requirements of subsidiaries and a portion of rental expense deemed to be representative of the interest factor. Although the ratio of earnings to fixed charges excluding interest on annuities is not required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholders' accounts is not always considered a borrowing cost for an insurance company.

19

AMERICAN FINANCIAL GROUP  
SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following is a summary of selected financial data for AFG and its subsidiaries for the six-month periods ended June 30, 2003 and June 30, 2002 and the five years ended December 31, 2002. This summary should be read in conjunction with the financial statements and their notes which are incorporated by reference to this document.

	SIX MONTHS		YEAR ENDED DECEMBER 31,			
	ENDED JUNE 30,					
	2003	2002	2002	2001	2000	1999
EARNINGS STATEMENT DATA:						
Total Revenues.....	\$ 1,620	\$ 1,844	\$ 3,750	\$ 3,924	\$ 3,817	\$ 3,360
Operating Earnings Before Income						



Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Taxes.....	89	75	178	56	110	302
Earnings (Loss) Before Extraordinary Items and Accounting Changes.....	56	54	125	(5)	(47)	147
Extraordinary Items.....	--	--	--	--	--	(2)
Cumulative Effect of Accounting Changes(a).....	--	(40)	(40)	(10)	(9)	(4)
Net Earnings (Loss).....	56	14	85	(15)	(56)	141
Basic Earnings (Loss) Per Common Share:						
Earnings (Loss) Before Extraordinary Items and Accounting Changes.....	\$ 0.80	\$ 0.79	\$ 1.82	\$ (.07)	\$ (.80)	\$ 2.46
Net Earnings (Loss) Available to Common Shares.....	0.80	0.20	1.23	(.22)	(.95)	2.37
Diluted Earnings (Loss) Per Common Share:						
Earnings (Loss) Before Extraordinary Items and Accounting Changes.....	\$ 0.80	\$ 0.78	\$ 1.81	\$ (.07)	\$ (.80)	\$ 2.44
Net Earnings (Loss) Available to Common Shares.....	0.80	0.19	1.22	(.22)	(.95)	2.35
Cash Dividends Paid Per Share of Common Stock.....	\$ 0.125	\$ 0.125	\$ .50	\$ 1.00	\$ 1.00	\$ 1.00
Ratio of Earnings to Fixed Charges (b):						
Including Annuity Benefits.....	1.35	1.31	1.37	1.06	1.18	1.71
Excluding Annuity Benefits.....	2.42	2.18	2.42	1.21	1.63	3.36
BALANCE SHEET DATA:						
Total Assets.....	\$19,141	\$18,514	\$19,505	\$17,402	\$16,416	\$16,054
Long-term Debt:						
Holding Companies.....	591	623	648	609	585	493
Subsidiaries.....	252	270	297	271	195	240
Minority Interest.....	528	464	471	455	508	489
Shareholders' Equity.....	1,874	1,615	1,726	1,498	1,549	1,340

-----

(a) Reflects the implementation in the following years of accounting changes mandated by recently enacted accounting standards:

- 2002 - SFAS #142 (Goodwill and Other Intangibles)
- 2001 - EITF 99-20 (Asset-backed Securities)
- 2000 - SFAS #133 (Derivatives)
- 1999 - SOP 98-5 (Start-up Costs)

(b) Fixed charges are computed on a "total enterprise" basis. For purposes of calculating the ratios, "earnings" have been computed by adding to pretax earnings the fixed charges and the minority interest in earnings of subsidiaries having fixed charges and the undistributed equity in losses of investees. Fixed

charges include interest (including or excluding interest credited to annuity policyholders' accounts as indicated), amortization of debt premium/discount and expense, preferred dividend and distribution requirements of subsidiaries and a portion of rental expense deemed to be

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

representative of the interest factor. Although the ratio of earnings to fixed charges excluding interest on annuities is not required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholders' accounts is not always considered a borrowing cost for an insurance company.

21

### UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information is intended to provide information about how the reorganization might have affected AFG's historical financial statements if it had been consummated as of the beginning of the periods shown. The financial information is based upon and should be read in conjunction with the audited financial statements of AFG and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference in this prospectus. The results for interim periods are not necessarily indicative of results for the entire year.

We have prepared the Pro Forma Balance Sheet assuming that:

- (i) AFG issued 3,450,123 shares of its Common Stock in exchange for the 2,886,161 shares of AFC Series J Preferred Stock outstanding, and
- (ii) Costs of the reorganization amount to \$600,000.

The shares assumed issued are based upon a closing price of \$21.75 per AFG Common Share (on September 30, 2003) and an exchange price of \$26.00 per AFC Preferred Share. The Pro Forma Balance Sheet has not been adjusted to reflect the dividends to be paid subsequent to June 30, 2003.

The Pro Forma Statements of Earnings are based upon the same data and are further adjusted to reflect the February 2003 sale of 61% of Infinity Property and Casualty Corporation as of the beginning of the periods shown.

### AMERICAN FINANCIAL GROUP, INC. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET JUNE 30, 2003

	AFG HISTORICAL -----	ADJUSTMENTS ----- (IN MILLIONS)		AFG PRO FORMA -----
<b>ASSETS:</b>				
Cash and investments.....	\$13,655.9	\$ (0.6) (5)		\$13,655.3
Recoverables from reinsurers and prepaid reinsurance premiums.....	2,873.1	--		2,873.1
Agents' balances and premiums receivable.....	563.2	--		563.2
Deferred acquisition costs.....	807.6	--		807.6
Prepaid expenses, deferred charges and other assets...	1,072.1	--		1,072.1
Goodwill.....	169.3	--		169.3
	-----	-----		-----

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

	\$19,141.2	\$ (0.6)	\$19,140.6
	=====	=====	=====
LIABILITIES AND CAPITAL:			
Unpaid losses and loss adjustment expenses.....	\$ 4,639.3	\$ --	\$ 4,639.3
Unearned premiums.....	1,587.8	--	1,587.8
Annuity benefits accumulated.....	6,778.3	--	6,778.3
Long-term debt.....	842.4	--	842.4
Accounts payable, accrued expenses and other liabilities.....	2,891.6	(170.0) (4)	2,721.6
	-----	-----	-----
Total liabilities.....	16,739.4	(170.0)	16,569.4
Minority Interest.....	527.6	(72.2) (3)	455.4
Shareholders' Equity.....	1,874.2	170.0 (4)	2,115.8
		71.6 (3) (5)	
	-----	-----	-----
	\$19,141.2	\$ (0.6)	\$19,140.6
	=====	=====	=====

22

AMERICAN FINANCIAL GROUP, INC.  
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
 SIX MONTHS ENDED JUNE 30, 2003

	AFG HISTORICAL	ELIMINATE INFINITY'S ACCOUNTS (1)	ELIMINATE LOSS ON SALE OF INFINITY (2)	AFG ADJUSTED	MERGER ADJUSTME
	-----	-----	-----	-----	-----
	(IN MILLIONS)				
INCOME:					
Property and casualty insurance premiums.....	\$ 955.3	\$ (78.7)	\$ --	\$876.6	\$ --
Investment income.....	389.0	(8.1)	--	380.9	--
Realized gains (losses).....	(11.5)	(0.5)	39.4	27.4	--
Other income.....	286.8	(0.5)	--	286.3	--
	-----	-----	-----	-----	-----
	1,619.6	(87.8)	39.4	1,571.2	--
COSTS AND EXPENSES:					
Property and casualty insurance:					
Losses and loss adjustment expenses.....	689.8	(64.3)	--	625.5	--
Commissions and other underwriting expenses.....	280.3	(9.3)	--	271.0	--
Annuity benefits.....	155.7	--	--	155.7	--
Interest charges on borrowed money.....	28.0	(2.1)	--	25.9	--
Other operating and general expenses.....	377.3	(3.2)	--	374.1	--
	-----	-----	-----	-----	-----
	1,531.1	(78.9)	--	1,452.2	--
	-----	-----	-----	-----	-----
Operating earnings before income taxes.....	88.5	(8.9)	39.4	119.0	--
Provision (credit) for income taxes.....	19.8	(3.0)	13.8	30.6	--

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Net operating earnings.....	68.7	(5.9)	25.6	88.4	--
Minority interest expense, net of tax.....	(16.1)	0.1	--	(16.0)	2.9
Equity in net earnings (losses) of investees, net of tax.....	3.0	1.5	--	4.5	--
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE.....	\$ 55.6	\$ (4.3)	\$25.6	\$ 76.9	\$ 2.9
EARNINGS PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE					
Basic.....	\$ 0.80			\$ 1.11	
Diluted.....	\$ 0.80			\$ 1.10	
Average number of Common Shares:					
Basic.....	69,435				3,450
Diluted.....	69,665				3,450

23

AMERICAN FINANCIAL GROUP, INC.  
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
YEAR ENDED DECEMBER 31, 2002

	AFG HISTORICAL	ELIMINATE INFINITY'S ACCOUNTS (1)	AFG ADJUSTED	MERGER ADJUSTMENTS	PRO FORMA
	-----	-----	-----	-----	-----
	(IN MILLIONS)				
INCOME:					
Property and casualty insurance premiums.....	\$2,402.6	\$ (753.1)	\$1,649.5	\$ --	\$1,649.5
Investment income.....	862.7	(78.3)	784.4	--	784.4
Realized losses.....	(80.6)	(4.8)	(85.4)	--	(85.4)
Other income.....	564.9	(4.2)	560.7	--	560.7
	-----	-----	-----	-----	-----
	3,749.6	(840.4)	2,909.2	--	2,909.2
COSTS AND EXPENSES:					
Property and casualty insurance: Losses and loss adjustment expenses.....	1,814.7	(618.8)	1,195.9	--	1,195.9
Commissions and other underwriting expenses.....	614.2	(105.2)	509.0	--	509.0
Annuity benefits.....	301.0	--	301.0	--	301.0
Interest charges on borrowed money...	60.4	(12.0)	48.4	--	48.4
Other operating and general expenses.....	781.3	(29.4)	751.9	--	751.9
	-----	-----	-----	-----	-----
	3,571.6	(765.4)	2,806.2	--	2,806.2
Operating earnings before income taxes.....	178.0	(75.0)	103.0	--	103.0

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Provision (credit) for income taxes.....	17.9	(26.6)	(8.7)	-- (4)	
	-----	-----	-----	-----	-----
Net operating earnings.....	160.1	(48.4)	111.7	--	1
Minority interest expense, net of tax.....	(26.1)	(0.1)	(26.2)	5.8 (6)	(
Equity in net earnings (losses) of investees, net of tax.....	(9.0)	10.8	1.8	--	
	-----	-----	-----	-----	-----
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE.....	\$ 125.0	\$ (37.7)	\$ 87.3	\$ 5.8	\$
	=====	=====	=====	=====	=====
EARNINGS PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE					
Basic.....	\$ 1.82		\$ 1.27		\$
	=====		=====		=====
Diluted.....	\$ 1.81		\$ 1.26		\$
	=====		=====		=====
Average number of Common Shares:					
Basic.....	68,800			3,450 (3)	72
Diluted.....	69,203			3,450 (3)	72

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

(1) Reflects the elimination of: (i) Infinity Property and Casualty Corporation for the periods it was consolidated with AFG prior to the sale of 61% of Infinity in February 2003, (ii) the personal lines business written through agents by AFG's principal property and casualty subsidiary which was assumed by Infinity beginning in 2003, and (iii) inter-company losses and basis differences on securities sold by Infinity. Certain reclassifications have been made to conform to AFG's presentation.

24

(2) Reflects the elimination of AFG's \$39.4 million loss on the sale of 61% of Infinity in February 2003.

(3) Reflects the issuance of 3,450,123 shares of AFG Common Stock in exchange for all of the AFC Series J Preferred Stock as of the first day of the periods shown. The exchange will be accounted for as a capital transaction.

(4) Reflects the elimination of a \$170 million deferred tax liability associated with shares of AFG Common Stock held by AFC and a subsidiary. AFC accounted for this investment (and its predecessor) under the equity method as an investee since 1982. AFC recorded deferred income taxes on its equity in investee earnings (aggregating approximately \$130 million). Because AFG and AFC were in different tax groups, AFC also recorded approximately \$40 million in deferred taxes related to AFG dividends received. If the AFC Merger is approved, the \$170 million liability will be eliminated (Balance Sheet only\*).

(5) Reflects \$600,000 in estimated costs of the reorganization (Balance Sheet only\*).

(6) Reflects the elimination of AFC Series J dividends of \$2.9 million in the six months ended June 30, 2003, and \$5.8 million in 2002. AFC paid annual

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

dividends of \$2.00 per share on 2,886,161 outstanding shares.

- (7) Any excess consideration paid over the carrying value of the Series J Preferred will be deducted in arriving at earnings available to common shareholders. Pro forma earnings per share have not been adjusted to reflect the assumed deduction of the \$2.9 million reflected in note (3) above(\*).

- (\*) In accordance with SEC guidelines, adjustments for nonrecurring charges or credits (such as these) that are directly attributable to the transaction are not reflected in the Pro Forma Statements of Earnings.

25

### STOCK PRICE AND DIVIDEND INFORMATION

AFG common stock is traded on the NYSE under the symbol "AFG." The Series J Preferred Stock of AFC is traded on the Pacific Stock Exchange under the symbol "AFI-J." All outstanding shares of AFC common stock are beneficially owned by AFG.

The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of AFG common stock and Series J Preferred Stock and the dividends per share declared during such quarter.

	AFG COMMON STOCK			SERIES J PREFERRED STOCK		
	HIGH	LOW	DIVIDEND	HIGH	LOW	DIVIDEND
2001						
First Quarter.....	\$29.00	\$21.80	\$ 0.25	\$21.00	\$20.00	\$ --
Second Quarter.....	30.30	23.30	0.25	22.00	19.00	1.00
Third Quarter.....	30.75	18.35	0.25	22.50	19.50	--
Fourth Quarter.....	25.33	20.20	0.25	21.95	21.00	1.00
2002						
First Quarter.....	\$28.81	\$22.85	\$0.125	\$23.00	\$21.25	\$ --
Second Quarter.....	30.30	22.51	0.125	24.00	15.30	1.00
Third Quarter.....	26.30	17.90	0.125	21.00	18.50	--
Fourth Quarter.....	24.80	20.82	0.125	23.50	16.75	1.00
2003						
First Quarter.....	\$24.21	\$18.00	\$0.125	\$21.11	\$16.50	\$ --
Second Quarter.....	23.90	19.27	0.125	20.00	19.00	1.00
Third Quarter.....	23.77	21.27	0.125	25.50	19.25	--

On October , 2003 the last reported sales prices for the AFG common stock on the NYSE was \$ and the last reported sales price for the Series J Preferred Stock on the Pacific Stock Exchange was \$ . As of October 1, 2003 there were approximately 13,000 holders of record of AFG common stock and 900 holders of record of Series J Preferred Stock.

26

# Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

## THE SPECIAL MEETING

### INTRODUCTION

This document is being furnished to the shareholders of AFC in connection with the solicitation of proxies by the board of directors of AFC for use at the special meeting of AFC shareholders to be held on Thursday, November 20, 2003 at 10:30 a.m., Eastern Time, at the offices of AFC at One East Fourth Street, Ninth Floor, Cincinnati, Ohio, and at any adjournments or postponements thereof. Each copy of this document mailed to AFC shareholders is accompanied by a proxy card furnished in connection with the solicitation of proxies by the AFC board of directors for use at the special meeting.

### MATTERS TO BE CONSIDERED; SPECIAL COMMITTEE RECOMMENDATION

At the special meeting, AFC shareholders will be asked to adopt the merger agreement and vote upon such other business as may properly come before the special meeting or any adjournments or postponements thereof (including, without limitation, adjournment or postponement of the special meeting in order to allow for additional solicitation of shareholder votes in order to obtain a quorum or in order to obtain more votes in favor of the merger agreement). The board of directors knows of no business that will be presented for consideration at the special meeting other than the merger agreement.

THE BOARD OF DIRECTORS OF AFC, BASED ON THE UNANIMOUS RECOMMENDATION OF THE SPECIAL COMMITTEE, UNANIMOUSLY RECOMMENDS THAT AFC SHAREHOLDERS ADOPT THE MERGER AGREEMENT AT THE SPECIAL MEETING SO THAT THE REORGANIZATION MAY BE COMPLETED. ACCORDINGLY, THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" ADOPTION OF THE MERGER AGREEMENT.

SHAREHOLDERS ARE REQUESTED PROMPTLY TO COMPLETE, DATE, SIGN AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

### RECORD DATE AND VOTING

Only the holders of record of AFC common stock and Series J Preferred Stock as of the close of business on September 30, 2003 are entitled to notice of and to vote at the special meeting. At the close of business on September 30, 2003, there were 2,886,161 shares of Series J Preferred Stock outstanding and entitled to vote, held by approximately 900 shareholders of record and beneficially by approximately 850 shareholders. Affiliates of AFC and certain members of their families hold 182,130 shares of the Series J Preferred Stock. Other persons hold 2,704,031 shares of the Series J Preferred Stock. On September 30, 2003, there were 10,593,000 shares of AFC common stock outstanding, each of which was beneficially owned by AFG and entitled to one vote per share on any matter voted on at the special meeting.

The presence, either in person or by proxy, of the holders of a majority of the outstanding voting power of AFC as of September 30, 2003 is necessary to constitute a quorum at the special meeting. Broker non-votes and abstentions count for the purpose of determining a quorum at the special meeting.

HOLDERS OF SERIES J PREFERRED STOCK SHOULD NOT FORWARD ANY STOCK

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

CERTIFICATES WITH THEIR PROXY CARDS. HOLDERS OF SERIES J PREFERRED STOCK WILL BE SENT INFORMATION REGARDING THE EXCHANGE OF THEIR STOCK CERTIFICATES AS SOON AS PRACTICABLE AFTER THE COMPLETION OF THE AFG MERGER IF THE MERGER AGREEMENT IS ADOPTED.

### VOTE REQUIRED

Ohio law requires the approval of the merger of AFC into AFG by the affirmative vote of both the holders of a majority of the voting power of AFC's stock and the affirmative vote of the holders of a majority of the outstanding shares of AFC's Series J Preferred Stock at the special meeting. BECAUSE AFG HOLDS APPROXIMATELY 79% OF AFC VOTING POWER, THE APPROVAL OF A MAJORITY OF THE VOTING POWER IS ASSURED BUT THE APPROVAL OF THE HOLDERS OF A MAJORITY OF THE SERIES J PREFERRED STOCK IS NOT ASSURED. THE AFFIRMATIVE VOTE OF THE HOLDERS OF 1,443,081 OUTSTANDING SHARES OF AFC'S SERIES J PREFERRED STOCK IS REQUIRED TO APPROVE THE MERGER.

27

In addition to the shareholder approvals required by Ohio law, the merger agreement also requires the approval by the holders of a majority of outstanding Series J Preferred Stock voting at the special meeting, excluding those shares beneficially owned by AFG, AFG's directors, executive officers, Carl H. Lindner, Jr. and certain of their respective affiliates. The number of Series J Preferred Shares held by non-affiliates required to approve the merger depends on the number of shares held by non-affiliates that are voted at the special meeting.

THE FAILURE TO SUBMIT A PROXY CARD OR VOTE IN PERSON, ABSTENTIONS AND BROKER NON-VOTES WILL HAVE THE FOLLOWING EFFECTS. OF THE THREE VOTING REQUIREMENTS TO APPROVE THE AFC MERGER, THE APPROVAL OF A MAJORITY OF AFC'S TOTAL VOTING POWER IS ASSURED. WITH RESPECT TO THE REQUIREMENT THAT THE AFC MERGER BE APPROVED BY A MAJORITY OF AFC'S OUTSTANDING SHARES OF SERIES J PREFERRED STOCK, NOT VOTING WILL HAVE THE SAME EFFECT AS VOTING AGAINST THE REORGANIZATION. WITH RESPECT TO THE REQUIREMENT THAT THE AFC MERGER BE APPROVED BY A MAJORITY OF SHARES OF SERIES J PREFERRED STOCK (OTHER THAN SHARES OWNED BY CERTAIN AFFILIATES, AS DEFINED IN THE MERGER AGREEMENT) ACTUALLY VOTING, NOT VOTING WILL HAVE NO EFFECT. AS A RESULT, SHAREHOLDERS WISHING TO REJECT THE AFC MERGER SHOULD VOTE AGAINST THE PROPOSITION, AND SHAREHOLDERS WISHING TO APPROVE THE AFC MERGER SHOULD VOTE FOR THE PROPOSITION. BROKERS WHO HOLD SHARES OF SERIES J PREFERRED STOCK AS NOMINEES WILL NOT HAVE DISCRETIONARY AUTHORITY TO VOTE SHARES WITH RESPECT TO THE MERGER AGREEMENT ABSENT INSTRUCTIONS FROM THE BENEFICIAL OWNER.

The proxy holders named in the enclosed proxy card will vote all of the AFC shares represented by proxy cards that are properly signed and returned by shareholders in accordance with the instructions contained therein. Specify your voting choices by marking the appropriate boxes on the proxy card.

IF YOU PROPERLY SIGN AND RETURN THE PROXY CARD SENT TO YOU BY AFC, BUT DO NOT SPECIFY YOUR VOTING CHOICES, YOUR SHARES WILL BE VOTED "FOR" THE ADOPTION OF THE MERGER AGREEMENT AS RECOMMENDED BY THE BOARD OF DIRECTORS.

The AFC board of directors is not aware of any matters other than the reorganization that may be brought before the special meeting. If any other matters properly come before the special meeting the persons named in the accompanying proxy will vote the shares represented by all properly executed proxies on such matters in their discretion.



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

### VOTING AGREEMENT

AFG received a letter dated September 18, 2003, from The Commerce Group, Inc. related to the AFC merger. The letter stated that Commerce beneficially owned approximately 287,000 shares of Series J Preferred Stock and contained a specific proposal that the merger consideration to be paid to holders of Series J Preferred Stock be increased. Representatives from AFG and AFC held discussions with representatives from Commerce regarding the letter beginning on September 19, 2003. AFG had also received a letter from ALLETE, Inc., beneficial owner of approximately 75,000 shares, communicating its opposition to the merger terms as originally proposed. On September 19, 2003, AFG contacted both parties and asked if they would consider entering into a voting agreement if the terms of the AFC merger were revised.

Based on these discussions, AFG suggested to Commerce and ALLETE, Inc. that AFG increase the merger consideration, which was originally proposed to be \$25.00 plus accrued dividends all paid in shares of AFG common stock, for each share of Series J Preferred Stock, to the merger consideration discussed in this document. AFG requested that Commerce and ALLETE, Inc., in consideration for an increase in the merger consideration, execute voting agreements in which they agreed to vote their shares of Series J Preferred Stock in favor of the AFC merger. As a result, AFG has entered into a voting agreement with Commerce's subsidiaries, Commerce Insurance Company, American Commerce Insurance Company and Commerce West Insurance Company, and has come to an understanding with ALLETE, Inc., collectively the beneficial holders of a total of approximately 362,000 shares (12.6%) of Series J Preferred Stock, providing that they will vote their shares of Series J Preferred Stock in favor of the AFC merger.

28

### REVOCABILITY OF PROXIES

A shareholder may revoke a proxy at any time prior to its exercise by (1) delivering to AFC a written notice of revocation prior to the special meeting; (2) delivering, before the special meeting, a duly executed proxy bearing a later date; or (3) attending the special meeting and voting in person. The presence of a shareholder at the special meeting will not in and of itself automatically revoke such shareholder's proxy.

### SOLICITATION OF PROXIES

All expenses of AFC's solicitation of proxies, including the cost of mailing this document to you, will be paid by AFC. AFC has retained Morrow & Co., a proxy solicitation firm, to assist AFC in soliciting holders of Series J Preferred Stock. AFC will pay Morrow & Co. a fee of \$5,000, plus out-of-pocket expenses, in connection with its proxy solicitation services. In addition to solicitation by use of the mails and by Morrow & Co., proxies may be solicited from shareholders by directors, officers and employees in person or by telephone, facsimile or other means of communication. These directors, officers and employees will not receive additional compensation, but may be reimbursed for their reasonable out-of-pocket expenses in connection with such solicitation. AFC will make arrangements with brokerage houses, custodians, nominees and fiduciaries for the forwarding of proxy solicitation materials to beneficial owners of shares held of record by such brokerage houses, custodians, nominees and fiduciaries, and AFC will reimburse such brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

connection with such solicitation.

### ADJOURNMENT OF THE SPECIAL MEETING

A vote in person by a shareholder for adjournment of the special meeting, or for the proposal on the proxy card authorizing the named proxies to vote the shares covered by such proxy in their discretion with respect to adjourning or postponing the special meeting, would allow such named proxies in their discretion to vote to adjourn or postpone the special meeting. An adjournment or postponement would allow for additional solicitation of shareholder votes in order to obtain a quorum or in order to obtain more votes in favor of the merger agreement.

### DISSENTERS' RIGHTS

Under Ohio law, holders of Series J Preferred Stock may dissent from the AFC merger and be paid the fair cash value of their shares. To exercise this right, you must follow a number of procedures. These procedures include filing a demand with AFC and not voting in favor of the reorganization. For more information on how to exercise these rights, see "Rights of Dissenting Shareholders" on page 53 and Ohio Revised Code Sections 1701.84 and 1701.85 set forth in Annex C.

### THE REORGANIZATION

This section should be read in conjunction with "Special Factors" below which contains a discussion of the background and reasons for the AFC merger.

### FORM OF THE REORGANIZATION

In the reorganization, AFC will merge into AFG. The holders of Series J Preferred Stock will receive common stock of AFG in exchange for their preferred stock, calculated as provided below under "The Merger Agreement -- Terms of the Reorganization -- Conversion of Series J Preferred Stock in the AFC Merger." All shares of AFC common stock will be canceled. In addition, immediately before the merger of AFC into AFG, AFC Holding Company, a wholly-owned subsidiary of AFG, will first merge into AFG.

29

### AFG'S REASONS FOR THE REORGANIZATION

AFG proposed the reorganization primarily to simplify its corporate structure in a manner that provides the following benefits:

#### IMPROVEMENT OF AFG'S LEVERAGE RATIOS AND CASH FLOW

The reorganization would increase AFG's shareholders' equity. Converting the minority interest represented by the Series J Preferred Stock in AFC to AFG common stock will improve AFG's leverage ratios and improve AFG's cash flow by approximately \$4 million per year. The Series J Preferred Stock, which has historically been included in AFG's financial statements as \$72.2 million of minority interest, will be eliminated in the reorganization and the AFG common stock issued in exchange for the Series J Preferred Stock will increase AFG's equity by approximately \$72.2 million.

AFG's equity will increase by approximately \$170 million due to the elimination of a deferred tax liability associated with shares of AFG common stock held by members of the AFC tax group. This deferred tax liability is

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

attributable to the difference in book basis and tax basis in the shares of AFG common stock owned by members of the AFC consolidated tax group.

The improvement in AFG's cash flow is due primarily to the difference between the current dividend rates on the AFG common stock and Series J Preferred Stock.

### FACILITATE FUTURE CAPITAL RAISING

AFG believes that simplifying the corporate structure will facilitate the raising of capital by AFG in the future. Rating agencies have indicated that, in their view, because AFC is the borrower under AFG's bank credit facilities but AFG is the borrower for AFG's outstanding public debt, the obligations under the bank credit facilities may be structurally senior to the AFG public debt, a view which may lead the rating agencies to downgrade AFG's public debt. A downgrade for AFG's public debt would make it more expensive for AFG to incur additional public debt.

### SIMPLIFICATION OF TAX STRUCTURE

Despite the fact that AFG's financial statements consolidate AFC's results, each of AFG and AFC are in separate tax groups. The AFC consolidated tax group is not part of the AFG consolidated tax group because more than 20% of AFC's voting power is held by holders of Series J Preferred Stock. The AFC merger would permit one consolidated tax group because all of the equity of AFC would be owned by AFG. Being part of the same tax group would eliminate some administrative duplication and would facilitate future acquisitions by allowing AFG stock to be used in tax-free acquisitions by any member of the tax group; transfers of assets, including subsidiaries, within AFG; and capitalization of selected insurance company subsidiaries, because any of these actions could generally be taken without the current payment of tax.

### ELIMINATION OF AFC AS A REPORTING COMPANY

The AFC merger would eliminate AFC as a public company required to file reports and other information under the Securities Exchange Act of 1934. The elimination of burdens associated with public reporting and other tasks resulting from AFC's public company status, including, for example, the dedication of time and resources of management and of the board to meet the various requirements of being a public company will increase management's focus on the operations of the business. In addition, AFC's expenses will decrease as a result of the elimination of costs associated with the filing of quarterly, annual or other periodic reports with the SEC or publish and distribute to its shareholders financial information and proxy statements.

### MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

This tax discussion summarizes the material U.S. federal income tax consequences of the merger to the holders of AFC Series J Preferred Stock that exchange AFC Series J Preferred Stock solely for AFG common

30

stock pursuant to the merger. This discussion is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing regulations promulgated thereunder and current rulings and court decisions, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and foreign laws are not addressed. In addition, this discussion assumes that holders of AFC Series J Preferred Stock hold their shares of AFC Series J Preferred Stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

The tax treatment described herein may vary depending upon each shareholder's particular circumstances and tax position. This discussion does not address all aspects of federal income taxation that may be important to shareholders who are subject to special rules, such as:

- financial institutions;
- tax-exempt organizations;
- insurance companies;
- dealers in securities;
- traders in securities who elect to apply a mark-to-market method of accounting;
- foreign holders;
- persons that hold shares as a hedge or as a part of a straddle, constructive sale or conversion transaction;
- holders that acquired their shares upon the exercise of employee stock options or otherwise as compensation; or
- holders that do not hold their shares as capital assets.

The obligations of the parties to consummate the merger are conditioned upon the receipt, by each of AFG and AFC, of an opinion from tax counsel, in form and substance reasonably satisfactory to AFG and AFC as to certain tax matters. Akin Gump Strauss Hauer & Feld LLP has rendered an opinion in satisfaction of this condition that the merger will not result in the recognition of gain or loss by AFG and that the merger will be treated as a reorganization as described in Section 368(a)(1)(A) of the Code.

In rendering its opinion that the merger will qualify for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, Akin Gump Strauss Hauer & Feld LLP, special tax counsel to AFG and AFC has relied upon the representations contained in certificates provided by AFG and AFC and certain facts and customary assumptions set forth in the opinion. Shareholders should be aware that neither the tax opinion nor this discussion is binding upon the Internal Revenue Service and that the Internal Revenue Service is not precluded from asserting a contrary position. The parties have not requested and will not request a ruling from the Internal Revenue Service as to the federal income tax consequences of the merger.

As a "reorganization" within the meaning of Section 368(a) of the Code, the tax implications of the merger will be as follows:

### U.S. FEDERAL INCOME TAX IMPLICATIONS TO HOLDERS OF AFC SERIES J PREFERRED STOCK

No gain or loss will be recognized for U.S. federal income tax purposes by holders of AFC Series J Preferred Stock who exchange their AFC Series J Preferred Stock solely for AFG common stock pursuant to the merger, except gain or loss will be recognized by a holder of AFC Series J Preferred Stock on receipt of cash in lieu of a fractional share of AFG common stock. The aggregate tax basis of the AFG common stock to be received by a holder of AFC Series J Preferred Stock in the merger will be the same as such shareholder's aggregate tax basis in the AFC Series J Preferred Stock surrendered in the exchange, reduced by the amount of basis allocable to fractional shares of AFG common stock, as discussed below. The holding period of the AFG common stock to be received by a holder of AFC Series J Preferred Stock as a result of

the merger will include the period during which such shareholder held the AFC Series J Preferred Stock exchanged.

Cash received by a holder of AFC Series J Preferred Stock instead of a fractional share of AFG common stock will be treated as received in exchange for such fractional share interest, and gain or loss generally will be recognized for U.S. federal income tax purposes, measured by the difference between the amount of cash received and the portion of the tax basis of the AFC Series J Preferred Stock allocable to the fractional share interest. Such gain or loss generally will be capital gain or loss and generally will be long term capital gain or loss if the AFC Series J Preferred Stock has been held for more than one year at the time of the merger.

Any cash received by a holder of AFC Series J Preferred Stock as dividends in arrears on the AFC Series J Preferred Stock surrendered in the merger will be treated as dividend income to the holder of AFC Series J Preferred Stock and will be taxed as ordinary income.

In addition, any cash payment to a holder of AFC Series J Preferred Stock who exercises and perfects dissenters' rights will be a taxable transaction. Such cash payment received in exchange for such shareholder's AFC Series J Preferred Stock will be treated as having been received as a distribution in redemption of such shareholder's AFC Series J Preferred Stock, the consequences of which will be determined in accordance with Section 302 of the Code. Generally, such shareholders will have a taxable capital gain (or capital loss), measured by the difference between the cash payment received and their tax basis in the shares as to which the appraisal rights are exercised, assuming that those shares are held as capital assets when the appraisal rights are elected. In general, such shareholders should also be able to reduce that capital gain (or increase that capital loss) by the amount of any expenses they incur in pursuing or perfecting their appraisal rights. Dissenting shareholders should consult their own tax advisors regarding the application of Section 302.

#### BACKUP WITHHOLDING

Under the Code, a holder of AFC Series J Preferred Stock may be subject to backup withholding with respect to the amount of cash, if any, received, unless the holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the holder's federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

The U.S. federal income tax discussion set forth above does not address tax consequences which may vary with, or are contingent on, individual circumstances. Moreover, this discussion does not address any tax consequences of the disposition of AFC Series J Preferred Stock before the merger or the disposition of AFG common shares after the merger. This discussion is directed to holders of AFC Series J Preferred Stock who are citizens of the United States or residents or domestic corporations. No attempt has been made to address the tax consequences to a shareholder under the laws of the country, state or jurisdiction in which the holder resides, is citizen or is organized other than the material U.S. federal income tax consequences discussed herein. Holders of AFC Series J Preferred Stock are advised to consult their own tax advisors

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

regarding the U.S. federal income tax consequences in light of their personal circumstances and the consequences under applicable state, local and foreign tax laws.

### FEDERAL SECURITIES LAW CONSEQUENCES

All shares of AFG common stock received by AFC shareholders in the AFC merger will be freely transferable, except for shares of AFG common stock received by any person who is deemed to be an "affiliate" (as such term is defined under the Securities Act of 1933) of AFC prior to the reorganization or of AFG after the reorganization. Affiliates may sell their AFG common stock only in compliance with the volume and manner-of-sale requirements of Rules 144 and 145 under the Securities Act. Affiliates of AFG generally include individuals or entities that control, are controlled by, or are under common control with, AFG and may include officers and directors of AFG as well as principal shareholders of AFG.

32

### CONDUCT OF BUSINESS IF REORGANIZATION NOT CONSUMMATED

If the reorganization is not completed, AFC will continue its current operations. AFG, however, may merge with AFC Holding.

### SPECIAL FACTORS

#### APPOINTMENT OF THE SPECIAL COMMITTEE

AFC convened a meeting of its board of directors on April 14, 2003. At the meeting, Messrs. Theodore H. Emmerich, William W. Verity and William R. Martin resigned as directors, and Messrs. Joseph P. Tomain, Michael R. Barrett and Timothy J. Fogarty were elected to the board to replace them.

Joseph P. Tomain has served as the Dean of the University of Cincinnati College of Law for over thirteen years. For over ten years prior thereto, he served on the faculty of Drake University College of Law and then the University of Cincinnati College of Law. From 2000 to 2003, Dean Tomain served as the Chairman of the Board of Trustees of KnowledgeWorks Foundation, a charitable organization which promotes access to post-secondary education. He currently serves on the Board of Trustees of a number of civic and charitable organizations.

Michael R. Barrett has been an attorney in private practice, concentrating in general litigation, for almost twenty years. For over five years prior thereto, he served as an assistant county prosecuting attorney. He serves on the Board of Trustees of a number of civic and charitable organizations.

Timothy J. Fogarty has served as co-chief executive officer of West Chester Holdings, Inc., a private company which distributes protective clothing, for the past three years. For over ten years prior, he was an Executive Vice President and member of the management committee of Firststar Corporation (now known as US Bancorp), a regional bank holding company. Mr. Fogarty is a certified public accountant and worked for over six years as an auditor for a national public accounting firm.

None of Messrs. Tomain, Barrett and Fogarty have any business or financial relationship with AFG. The members of AFC's board of directors, other than Messrs. Tomain, Barrett and Fogarty, are also members of AFG's board of directors and beneficial owners of significant amounts of AFG common stock. As a result, the members of AFC's board other than Messrs. Tomain, Barrett and Fogarty may be deemed to have an interest in the AFC merger adverse to the interests of holders of shares of Series J Preferred Stock. In order to protect

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

the interests of the holders of shares of Series J Preferred Stock with respect to the AFC merger, the board of directors of AFC appointed these three new directors to the special committee, whose members then elected Mr. Tomain as Chairman. The special committee was charged with negotiating the terms and evaluating the fairness of the AFC merger on behalf of the holders of shares of Series J Preferred Stock. The special committee was authorized to engage, at AFC's expense, independent legal counsel and financial advisors. Between April 14, 2003 and July 2, 2003, the special committee held a total of eleven meetings. At these meetings, the special committee engaged legal and financial advisors and negotiated, reviewed and evaluated the proposed terms of the AFC merger. Each meeting of the special committee was attended by all of its members.

### MEETINGS OF THE SPECIAL COMMITTEE

The first two meetings of the special committee were held on April 16 and April 17, 2003. At these meetings, the members of the special committee considered the engagement of independent legal counsel. Three law firms with recognized experience in advising special committees of directors were interviewed by the special committee. After deliberation, the special committee selected the firm of Taft, Stettinius & Hollister LLP of Cincinnati, Ohio, as its legal counsel. The special committee was advised that, from time to time, Taft, Stettinius & Hollister performs specialized legal services for AFG and certain of its affiliates. The special committee was advised that fees charged by such counsel to AFG and its affiliates during the most recent fiscal years constituted less than 1% of such counsel's total billings. The special committee was also

33

advised that such counsel has in the past acted as counsel to the underwriters in connection with a limited number of securities offerings by AFG (the most recent such representation having been four years ago) and had advised other committees of outside directors of entities related to AFG. The special committee considered these matters, and decided that, since they were specific and limited in nature and duration rather than involving general representation of AFG, and because recent billings constituted such a small percentage of such counsel's billings, they would not inhibit Taft, Stettinius & Hollister LLP from providing independent advice to the special committee.

The special committee next met on April 28, 2003. The special committee reviewed its specific duties and responsibilities as charged by the board of directors of AFC. Legal counsel to the special committee advised the special committee regarding fiduciary duties. The special committee discussed the engagement of an independent financial advisor and determined to seek proposals from a number of recognized firms to assist the special committee in its negotiation of the terms of the AFC merger and its evaluation of the fairness of the AFC Merger.

Following the April 28, 2003 meeting of the special committee, its legal counsel contacted five recognized financial advisory firms, inviting them to submit written proposals for consideration as financial advisor to the special committee. Four firms responded with written proposals, which were distributed to the members of the special committee on May 6, 2003.

The Committee met again on May 8, 2003. At this meeting, legal counsel reviewed with the special committee the four proposals, along with information obtained by counsel in conversations with certain of the financial advisory firms to clarify their proposals. This review involved respective qualifications, proposed methodologies, possible conflicts and other aspects of the proposals, as well as proposed fee arrangements. After discussion and review, the special committee determined that the proposal of Duff & Phelps, LLC

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

appeared to be the most favorable of those considered by the special committee. The special committee decided, however, that its members wished to meet the Duff & Phelps representatives in person before deciding finally on a financial advisor. Accordingly, the special committee deferred a final decision and instructed legal counsel to invite Duff & Phelps personnel to meet with the special committee on Monday, May 12, for the purpose of being interviewed and, assuming their selection, discussing further the actions to be taken by the special committee in connection with the AFC Merger.

On May 12, 2003, the special committee and its legal counsel met with representatives of Duff & Phelps. The Duff & Phelps representatives discussed with the special committee their respective individual professional qualifications, Duff & Phelps' overall and industry experience and relevant internal processes and the expected approach to be followed by Duff & Phelps in serving as financial advisor to the committee in connection with the AFC merger.

The Duff & Phelps personnel were then excused from the meeting while the special committee met in private with its legal counsel. The special committee expressed its satisfaction with Duff & Phelps' proposal and presentation, and discussed certain terms contained in its proposed engagement letter. Following these discussions, the special committee selected unanimously Duff & Phelps as its financial advisor. The Duff & Phelps personnel then rejoined the meeting, and the special committee, its legal counsel, and Duff & Phelps discussed timing and procedural issues concerning the AFC merger. Legal counsel further reviewed with the special committee issues regarding its charge in connection with the AFC merger.

On May 14, 2003, the special committee, together with its legal counsel and financial advisor, attended due diligence meetings in which the financial affairs and operations of AFG, AFC and their affiliates, as well as the anticipated effects of the AFC merger, were considered. At this meeting, senior management of AFG and AFC and affiliates made various presentations, consisting generally of the following: transaction overview, existing corporate structure, effect of the AFC merger on corporate structure, state law and federal securities requirements of the AFC merger; description of tax groups, genesis and past benefits of tax groups, benefits and reasons for combining tax groups as a result of the AFC merger; pro forma balance sheet effect of the AFC merger; description of investment portfolio, returns, composition, valuation and decision-making; overview of property and casualty operations and challenges and opportunities facing the property and casualty business; financial overview, description of business unit structure and operations, discussion of

34

capital structure and discussion of rating agency status; annuity and life business, including opportunities and challenges; and general claims handling, asbestos and environmental liability overview and asbestos litigation settlement.

Following these due diligence reviews, the special committee held its sixth meeting. At this meeting, the special committee and its legal counsel met with Mr. Emmerich, the Chair of the Audit Committee of the board of directors of AFG. The focus of this meeting was to learn how the Audit Committee functions, what procedures it has adopted and implemented to insure that AFG's and AFC's financial statements and practices are in accordance with generally accepted accounting principles and applicable law, whether there are any accounting issues that might have a material impact on AFG or AFC and what critical accounting policies are applicable to AFG and AFC. Mr. Emmerich described the activities of the Audit Committee, including the number of meetings held by the Committee, steps it has taken to comply with the Sarbanes-Oxley Act, its interactions with management of AFG and its affiliates, including the internal audit function, and its interactions with outside independent auditors and legal



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

counsel. As part of this discussion, it was noted that the Audit Committee is not aware of any accounting practices by AFG or its affiliates that deviate from standard industry practices.

Following May 14, legal counsel to the special committee obtained various documents from AFG and AFC and met with legal counsel of AFG and AFC for the purpose of carrying out a legal due diligence review of AFG and AFC. In addition, representatives of Duff & Phelps spoke with senior executives of AFG to obtain information in addition to that presented at the May 14, 2003 due diligence sessions. The special committee next met on June 4, 2003. Legal counsel reviewed further with the special committee the nature of the fiduciary duties owed by the members of the special committee to the holders of shares of Series J Preferred Stock. It was noted that the special committee had been charged with negotiating the terms of the AFC merger and evaluating the fairness of those terms. The members of the special committee were advised that they would best discharge their duty by seeking to negotiate the terms of the AFC merger on an "arms length" basis with the goal of obtaining the most favorable terms available for the holders of shares of Series J Preferred Stock. Members of the special committee were advised further that once the most favorable terms available had been negotiated, their duty would be to evaluate the fairness of the terms of the proposed AFC Merger. The special committee was advised further of the special committee's task to articulate in the proxy statement to be circulated among the shareholders of AFC the methods and rationale utilized to evaluate the fairness of the AFC merger.

The special committee was advised further that, as a result of the AFC merger, holders of shares of Series J Preferred Stock of AFC would possess statutory dissenters' rights of appraisal with respect to their shares. Such rights, perfected properly under Ohio law, entitle each holder of such shares to a judicial determination of the fair cash value of their shares. According to Ohio law, the fair cash value of shares actively traded on a public market is the price of the shares on the day prior to the shareholders vote on the particular transaction giving rise to dissenters' rights, minus any appreciation or depreciation resulting from the transaction itself. In addition, the special committee was advised by its legal counsel that, under Ohio law, the holders of shares of Series J Preferred Stock would be entitled to vote separately as a class on approval of the AFC merger.

Legal counsel discussed the preliminary results of its legal due diligence review. Legal counsel reviewed with the special committee the initial draft of the proposed AFC merger agreement as provided by AFG and discussed with the special committee certain legal issues arising therefrom and various changes that counsel suggested be requested.

Duff & Phelps then reviewed with the committee the financial aspects of the AFC merger. In this review, Duff & Phelps reviewed the terms of the Series J Preferred Stock and presented its preliminary evaluation of the fairness of the \$22.00 exchange price. This evaluation consisted of two parts -- analysis of the AFG common stock and an evaluation of the Series J Preferred Stock. In its review of the AFG common stock, Duff & Phelps presented information on such stock and the stock of AFG's two publicly-traded affiliates -- Great American Financial Resources, Inc. and Infinity Property and Casualty Company. Duff & Phelps indicated that the purpose of this review was to assist the special committee in determining whether it

appeared that the AFG common stock was being overvalued by the marketplace, i.e., trading at a higher price than would appear to be justified based upon recognized criteria. This information included the trading history of the shares of AFG common stock, the number of shares outstanding, a report on the average

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

daily trading volume, the public float, institutional ownership, implied stock price volatility and analyst coverage. The trading values of the common stocks of AFG, Great American Financial Resources and Infinity were compared to common stocks of other comparable companies as a multiple of operating earnings per share and as a multiple of common book value, as well as operating return on average total equity. In each case, Duff & Phelps concluded that the common stocks of AFG, Great American Financial Resources and Infinity appeared to be trading at multiples below or in line with comparable companies. Based upon the information presented by Duff & Phelps, the special committee concluded that it did not appear that the AFG common stock was being over-valued by the marketplace.

The second part of Duff & Phelps' preliminary review concerned a valuation of the Series J Preferred Stock. Duff & Phelps first provided information on trading of the Stock, noting that the most recent reported stock price trade was \$19.50, with the 52-week high being \$23.50 and the 52-week low being \$16.75. Duff & Phelps observed that the trading volume was quite limited, with 2,886,161 shares of Series J Preferred Stock being outstanding, but an average trading volume of only 792 shares on those days upon which shares traded. Duff & Phelps added that the Series J Preferred Stock had traded on only 19.2% of the 261 trading days during the previous 12 months. Duff & Phelps noted further that institutional ownership appeared to be approximately 12% and that there was no analyst coverage of the Series J Preferred Stock.

Duff & Phelps then reviewed with the special committee a list of preferred securities issued by seven different comparable companies with Standard & Poor's credit ratings ranging from BB+ to BB-. The Series J Preferred Stock is rated BB. For each, Duff & Phelps described the dividend, the dollar value of the issuance, recent trading price, the current yield, the credit spread over 30-year U.S. treasuries, the date callable, the yield to maturity and the credit spread to maturity over 30-year U.S. treasuries. Duff & Phelps used this information to generate a high and low range of the spread over 30-year treasuries for both current yield and yield to maturity for these securities. Duff & Phelps then applied a discounted cash flow analysis to this information in order to generate a range of per share values for the Series J Preferred Stock. For the current yield analysis, this resulted in a range of \$23.13 to \$26.56 per share of Series J Preferred Stock. For the yield to maturity analysis, this resulted in a range of \$22.96 to \$26.44 per share of Series J Preferred Stock. Applying an illiquidity premium to take into account the limited market for the Series J Preferred Stock resulted in ranges of \$21.46 to \$24.45 and \$21.31 to \$24.35, respectively. Duff & Phelps noted that these analyses involved a broad range of securities, some of which had credit ratings higher than the Series J Preferred Stock. Duff & Phelps then performed the same analyses on a smaller, more comparable group of two securities with a Standard & Poor's credit rating of BB, the same as that of the Series J Preferred Stock. This resulted in a range of per share values for the current yield analysis of \$23.13 to \$23.95 per share of Series J Preferred Stock, and for the yield to maturity analysis of \$22.96 to \$23.47 per share of Series J Preferred Stock. Application of the illiquidity premium resulted in ranges of \$21.46 to \$22.18 and \$21.31 to \$21.76, respectively. The Duff & Phelps report was a preliminary version of the final report delivered to the special committee on July 2, 2003, which is described under "Special Factors -- Valuation Methodologies."

The special committee noted that the \$22.00 exchange value proposed in the AFC merger, while in excess of recent trading prices of shares of Series J Preferred Stock, was below certain of the various preliminary ranges of per share values estimated by Duff & Phelps. The special committee then discussed with its legal counsel and Duff & Phelps the nature and possible value of the benefits expected to be received by AFG as a result of the AFC merger. In this context, it was noted that the holders of shares of Series J Preferred Stock could be expected to share in these benefits since they would receive shares of AFG common stock in the AFC merger. The special committee asked its legal

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

counsel and financial advisor to attempt to identify and quantify more specifically the nature and value of the expected benefits to AFG.

The special committee met again on June 11, 2003. At this meeting, Duff & Phelps reported its preliminary assessment of the qualitative and quantitative benefits of the AFC merger to AFG. With respect to the qualitative benefits, it was noted that the AFC merger would result in a simplified corporate structure, which would probably be viewed positively by the investment community, that AFG common stock could be

36

used as consideration in stock-for-stock acquisitions (which is not the case now because of AFG's two tax group consolidation structure) and that the new corporate structure would permit more efficient asset transfers between subsidiaries. The quantitative benefits included improved cash flow resulting from the elimination of the \$5.8 million annual preferred dividend requirement on the Series J Preferred Stock (offset by an increased dividend payment for AFG common stock of approximately \$1.4 million), a reduction in fixed charge obligations, an improvement in fixed charge coverage ratios and a reduction in leverage ratios. It was also noted that there would be generally accepted accounting principle balance sheet improvements of approximately \$65 million due to elimination of the minority interest represented by the Series J Preferred Stock and elimination of \$162 million of deferred tax accruals. The special committee recognized that these balance sheet and tax accruals were non-cash items. In addition, there would be an elimination of duplicative costs related to administration and accounting expenses and Securities and Exchange Commission filing fees. The special committee noted that the Series J Preferred Stock was callable at the option of AFC in 2005 at a cash price per share of \$25.75, in 2006 at \$25.375 and in 2007 at \$25.00, plus in each case accrued dividends, and that under the terms of the Series J Preferred Stock, AFC could carry out a merger earlier in which the holders would receive cash of \$25.00 per share plus accrued dividends. Duff & Phelps advised the special committee that it estimated the present value of the \$25.75 call price in 2005 (including dividends) to be between \$25.25 to \$25.75 per share of Series J Preferred Stock, calculated based on a range of current yields for comparable preferred securities with a Standard & Poor's credit rating of BB.

The special committee met again on June 16, 2003. At this meeting the Committee discussed with its legal counsel and financial advisor the course of action to be followed in light of the various information provided to the special committee. After this discussion, it was agreed that Messrs. Tomain and Fogarty, along with legal counsel, would meet with representatives of AFG to seek to negotiate more favorable terms, including a higher exchange value. It was agreed that the special committee would request an exchange value equal to the cash call price in 2005, namely that each share of Series J Preferred Stock be converted into shares of AFG common stock having a value of \$25.75 plus accrued dividends to the time of Closing.

Messrs. Tomain and Fogarty, along with legal counsel, met with representatives of AFG on June 17, 2003, for this purpose. Messrs. Tomain and Fogarty proposed that the exchange value be increased to \$25.75 plus accrued dividends. After discussion and private consideration, the representatives of AFG proposed instead an exchange value equal to the cash liquidation value of the Series J Preferred Stock, namely that each share of Series J Preferred Stock be converted into shares of AFG common stock having a value of \$25.00 plus accrued dividends to the time of closing. AFG further proposed that it have the right to terminate the AFC merger in the event that the market value of a share of AFG common stock for purposes of the AFC merger would be less than \$19.00. The representatives of the special committee agreed to consider this proposal. They then discussed various other changes which the special committee had requested to the terms of the AFC merger agreement.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

The special committee, its legal counsel and its financial advisor met later on June 17, 2003 to consider the discussions earlier that day with representatives of AFG. The special committee instructed its legal counsel to contact AFG to clarify certain points concerning the most recent AFG proposal and to propose also that the special committee have the right to terminate the AFC merger if the trading value of a share of AFG common stock, as determined under the AFC merger agreement, exceeds \$25.00 per share. Legal counsel updated the special committee on the status of certain requested changes to the AFC merger agreement, the most significant of which involved receipt of a tax opinion as to the tax free nature of the AFC merger as a closing condition, the right of the special committee to terminate the AFC merger up to the time of closing in the event that it determined that such action was required in accordance with its fiduciary duties and a requirement that the AFC merger be approved not just by a vote of holders of a majority of the outstanding shares of Series J Preferred Stock, but also by holders of a majority of shares of Series J Preferred Stock actually voted on the AFC merger which are not held by affiliates of AFG.

On June 18, 2003, legal counsel to the special committee contacted AFG and communicated the requests of the special committee. Between June 18, 2003 and July 2, 2003, discussions continued between legal counsel for the special committee and representatives of AFG concerning the financial terms of the AFC merger and other terms of the AFC merger agreement. The special committee did not meet formally during

37

this time period, but legal counsel reviewed the progress of these discussions with the individual members of the committee and with the committee's financial advisor. These discussions resulted ultimately in the terms set forth in the AFC merger agreement.

The special committee met again on July 2, 2003. Legal counsel noted that the members of the special committee had been provided previously with a proposed final form of the AFC merger agreement. Counsel then reviewed with the special committee and its financial advisor the principal changes which had been negotiated by the special committee and its legal counsel with respect to the terms of the AFC merger as set forth in the AFC merger agreement. These included specifically a provision that each share of Series J Preferred Stock would be converted into shares of AFG common stock having a value of \$25.00 plus accrued dividends to the time of Closing. AFG would have the right to terminate the AFC merger in the event that the trading value of a share of AFG common stock, as defined in the AFC merger agreement, was less than \$19.00 per share. If AFG did not exercise this right, the AFC merger would be carried out at the lower trading value. AFC, acting through the special committee, would not have a similar right to terminate the AFC merger in the event that a share of AFG common stock had a value in excess of a set amount. However, if such value should exceed \$27.00 per share of AFG common stock, the value of \$27.00 would be used to determine the number of shares of AFG common stock to be issued in the AFC merger. Legal counsel described other changes which had been negotiated in the terms of the AFC merger agreement, noting specifically that the changes discussed earlier with respect to a tax opinion, the right of the special committee to terminate the AFC merger, and a separate vote of non-affiliated stockholders, had all been agreed to by AFG.

Duff & Phelps, LLC presented to and reviewed with the members of the special committee its report dated July 2, 2003. This report was an updated version of, and was consistent with, the preliminary report of June 4, 2003. For the seven preferred securities, the current yield analysis resulted in a range of \$22.88 to \$26.70 per share of Series J Preferred Stock. The yield to maturity

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

analysis resulted in a range of \$22.50 to \$26.95 per share of Series J Preferred Stock. Applying an illiquidity premium to take into account the limited market for the Series J Preferred Stock resulted in ranges of \$21.24 to \$24.57 and \$20.91 to \$24.79, respectively. Duff & Phelps noted again that these analyses involved a broad range of securities, some of which had credit ratings higher than the Series J Preferred Stock. Duff & Phelps performed again the same analyses on a smaller more comparable group of two securities with a Standard & Poor's credit rating of BB, the same as that of the Series J Preferred Stock. This resulted in a range of per share values for the current yield analysis of \$22.88 to \$24.58 per share of Series J Preferred Stock, and for the yield to maturity analysis of \$22.50 to \$23.98 per share of Series J Preferred Stock. Application of the illiquidity premium resulted in ranges of \$21.24 to \$22.73 and \$20.91 to \$22.21, respectively. Duff & Phelps advised the special committee that it estimated the present value of the \$25.75 call price in 2005 (including dividends) before application of an illiquidity premium to be between \$25.16 to \$25.53 per share of Series J Preferred Stock, calculated based on a range of current yields for comparable preferred securities with a Standard & Poor's credit rating of BB, and \$24.76 to \$25.13 after application of an illiquidity premium. Following this presentation and questions from the members of the special committee, Duff & Phelps stated that it believed that the consideration to be received by holders of shares of Series J Preferred Stock in the AFC merger was fair to the holders of such shares from a financial point of view. Duff & Phelps also indicated that it was prepared, subject to the non-occurrence of unforeseen conditions, including material changes in the general level of interest rates or significant delays in the closing of the AFC Merger, to deliver its written fairness opinion to such effect at the time of mailing of the Proxy Statement to AFC's shareholders.

Legal counsel presented to, and discussed with, the special committee a final legal due diligence report on AFG and AFC.

The special committee then reviewed and considered various factors concerning the fairness of the AFC merger. These factors were qualitatively the same as those described with respect to the amended merger agreement under "Special Factors -- Recommendations of the special committee and the Board of Directors of AFC." At the conclusion of the meeting on July 2, 2003, the special committee adopted unanimously resolutions finding that the AFC merger was fair to the holders of shares of Series J Preferred Stock, recommending that the board of directors of AFC approve the AFC merger agreement and cause it to be

38

presented to the holders of shares of Series J Preferred Stock for their consideration, and recommending that such shareholders approve the AFC merger agreement.

After receiving the report and recommendation from the special committee on July 2, 2003, the board of directors of AFC, relying exclusively on the special committee's analysis, took action stating that, in light of and subject to the terms and conditions set forth in the AFC merger agreement, it was in the best interests of the holder of AFC common stock and the holders of shares of the Series J Preferred Stock for AFC to enter into the merger agreement and that the AFC merger would be fair to, and in the best interests of, such holders. The board, without taking any separate action to adopt formally the special committee's analysis, also took action to recommend to such holders that the merger agreement be approved. All of the July 2, 2003 actions taken were approved unanimously.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Subsequent to July 2, 2003, holders of approximately 350,000 shares of Series J Preferred Stock contacted AFG and expressed their opposition to the terms of the merger agreement. The special committee was advised of these contacts by AFG through the special committee's counsel. On September 22, 2003, AFG proposed to the special committee that the parties enter into an amended merger agreement. This proposed amendment provided that the closing of the AFC merger would occur no earlier than November 2, 2003, and no later than December 31, 2003. This meant that the semi-annual dividend of \$1.00 per share of Series J Preferred Stock which is payable on November 1, 2003 would be paid in cash rather than in AFG common stock as part of the merger consideration. The proposed amended merger agreement provided further that each share of Series J Preferred Stock would be converted into shares of AFG common stock having a value of \$26.00 and that holders would be paid in cash accrued dividends from November 1, 2003 to the time of the closing. Except for certain updating information, all other terms of the merger agreement remained unchanged. AFG informed the special committee that the holders of approximately 350,000 shares of Series J Preferred Stock had agreed to vote in favor of the proposed amended merger agreement. See "The Special Meeting -- Voting Agreement."

The special committee met again on October 1, 2003. Legal counsel noted that the members of the special committee had been provided previously with the proposed amended merger agreement. Counsel then reviewed with the special committee and its financial advisor the changes proposed by AFG in the proposed amended merger agreement. Duff & Phelps, LLC presented to and reviewed with the members of the Special committee its report dated October 1, 2003. This report was an updated version of, and was consistent in approach with, the previous report of July 2, 2003. The valuation methodologies contained therein are described under "Special Factors -- Valuation Methodologies." For the seven preferred securities, the current yield analysis resulted in a range of \$23.33 to \$26.66 per share of Series J Preferred Stock. The yield to maturity analysis resulted in a range of \$22.95 to \$26.85 per share of Series J Preferred Stock. Applying an illiquidity premium to take into account the limited market for the Series J Preferred Stock resulted in ranges of \$21.73 to \$24.64 and \$21.40 to \$24.81, respectively. Duff & Phelps noted again that these analyses involved a broad range of securities, some of which had credit ratings higher than the Series J Preferred Stock. Duff & Phelps performed again the same analyses on a smaller more comparable group of two securities with a Standard & Poor's credit rating of BB, the same as that of the Series J Preferred Stock. This resulted in a range of per share values for the current yield analysis of \$23.33 to \$25.28 per share of Series J Preferred Stock, and for the yield to maturity analysis of \$22.95 to \$25.20 per share of Series J Preferred Stock. Application of the illiquidity premium resulted in ranges of \$21.73 to \$23.44 and \$21.40 to \$23.37, respectively. Duff & Phelps advised the Special committee that it estimated the present value of the \$25.75 call price in 2005 (including dividends) before application of an illiquidity premium to be between \$25.93 to \$26.30 per share of Series J Preferred Stock, calculated based on a range of current yields for comparable preferred securities with a Standard & Poor's credit rating of BB, and \$25.58 to \$25.95 after application of an illiquidity premium. Following this presentation and questions from the members of the special committee, Duff & Phelps stated that it believed that the consideration to be received by holders of shares of Series J Preferred Stock under the terms of the proposed amended merger agreement was fair to the holders of such shares from a financial point of view. Duff & Phelps also indicated that it was prepared, subject to the non-occurrence of unforeseen conditions, including material changes in the general level of interest rates or

significant delays in the closing of the AFC merger, to deliver its written fairness opinion (the "Opinion") to such effect at the time of mailing of the Proxy Statement to AFC's shareholders.

Legal counsel noted that the proposed amended merger agreement provides for an opinion from Duff & Phelps at the time of the mailing of the proxy statement, but does not provide for an updated opinion from Duff & Phelps at the time of closing. However, legal counsel noted that the special committee has the right to terminate the amended merger agreement up to the time of closing if it determines, after consultation with legal counsel, that such action is required in the exercise of its fiduciary duties.

The special committee then reviewed and considered again various factors concerning the fairness of the AFC merger, including specifically those set forth under "Special Factors -- Recommendations of the special committee and the board of directors of AFC." In this review, the special committee viewed the AFC merger consideration per share of Series J Preferred Stock as, in effect, being approximately equal to \$27.10, consisting of the \$1.00 per share dividend to be paid in cash on November 1, 2003, the dividend to be paid in cash accruing after November 1, 2003 (approximately \$0.10 assuming a closing on November 20, 2003) and the \$26.00 of value of AFG common stock. At the conclusion of the meeting on October 1, 2003, the special committee adopted unanimously resolutions finding that the AFC merger under the terms of the amended merger agreement was fair to the holders of shares of Series J Preferred Stock, recommending that the board of directors of AFC approve the amended merger agreement and cause it to be presented to the holders of shares of Series J preferred Stock for their consideration, and recommending that such shareholders approve the amended merger agreement.

After receiving the report and recommendation of the special committee, the board of directors of AFC, relying exclusively on the special committee's analysis, adopted resolutions unanimously stating that, in light of and subject to the terms and conditions set forth in the amended merger agreement, it was in the best interests of the holder of AFC common stock and the holders of shares of the Series J Preferred Stock for AFC to enter into the amended merger agreement and that the AFC merger under the terms of the amended merger agreement would be fair to, and in the best interests of, such holders. The board, without taking any separate action to adopt formally the special committee's analysis, also took action to recommend to such holders that the amended merger agreement be approved.

RECOMMENDATIONS OF THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS OF AFC;  
RECOMMENDATION OF THE BOARD OF DIRECTORS OF AFG; REASONS FOR RECOMMENDATIONS

As noted above, the board of directors of AFC and the special committee have determined that the AFC merger is fair to the holders of shares of AFC Series J Preferred Stock and recommend that such holders approve the amended merger agreement. The board of directors of AFG did not make any independent analysis with respect to the AFC merger Proposal, but relied upon and accepted the conclusions, determinations and findings of the board of directors of AFC and the special committee in stating that the AFC merger is fair to the holders

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

of Series J Preferred Stock and unanimously recommending adoption of the amended merger agreement.

In reaching its determination, the special committee considered a number of factors. Set forth below are all the material factors which were considered by the special committee. The following factors were considered positive in nature and thereby to be favorable as to the fairness of the AFC merger:

- the lack of liquidity for the shares of Series J Preferred Stock which, in the view of the special committee, makes it difficult for shareholders to sell their shares for cash and diversify their holdings without affecting adversely the trading price of the shares of Series J Preferred Stock;
- the terms of the AFC merger permit holders of Series J Preferred Stock to receive shares of AFG common stock in a tax-free transaction;
- since the trading volume of the shares of AFG common stock is substantially greater than that of the Series J Preferred Stock, current holders of shares of Series J Preferred Stock will have the option of either holding the shares of AFG common stock which they receive in the AFC merger, or selling them if they wish to receive cash;

40

- the discounted cash flow analyses presented to the Special Committee by Duff & Phelps which are described under "Special Factors -- Valuation Methodologies" and which determined the following ranges of value for the Series J Preferred Stock:

for seven comparable preferred securities with a Standard & Poor's credit rating of BB+ to BB-, based on current yields, \$23.33 to \$26.66;

for the same seven comparable preferred securities, based on yields to maturity, \$22.95 to \$26.85;

for the two more comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that of the Series J Preferred Stock, based on current yields, \$23.33 to \$25.28;

for the same two more comparable preferred securities, based on yields to maturity, \$22.95 to \$25.20;

discounting the aggregate cash flows, which includes dividends and the \$25.75 call price from the call date of December 2005 to the present, \$25.93 to \$26.30; and

which, taken together, derived a range of value for the Series J



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Preferred Stock of \$22.95 to \$26.85; and

taking into account an illiquidity premium to reflect the limited trading volumes and lack of analyst coverage for the Series J Preferred Stock, which determined the following ranges of value for the Series J Preferred Stock:

for seven comparable preferred securities with a Standard & Poor's credit rating of BB+ to BB-, based on current yields, \$21.73 to \$24.64;

for the same seven comparable preferred securities, based on yields to maturity, \$21.40 to \$24.81;

for the two more comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that of the Series J Preferred Stock, based on current yields, \$21.73 to \$23.44;

for the same two more comparable preferred securities, based on yields to maturity, \$21.40 to \$23.37;

by discounting the aggregate cash flows, which includes dividends and the \$25.75 call price from the call date of December 2005 to the present, \$25.58 to \$25.95; and

which, taken together, derived a range of value for the Series J Preferred Stock of \$21.40 to \$25.95.

- the Opinion of Duff & Phelps described below under "Special Factors -- Opinion of Financial Advisor" to the effect that the consideration to be received by holders of shares of Series J Preferred Stock in the AFC merger is fair from a financial point of view to the holders of such shares;
- the terms of the amended merger agreement, including particularly the requirements that the AFC merger be approved by the vote of holders of a majority of the outstanding shares of Series J Preferred Stock voting as a class as well as by the affirmative vote of holders of a majority of the shares of Series J Preferred Stock actually voted on the AFC merger who are not affiliates of AFG, and the provision that the special committee can terminate the amended merger agreement up to the time of Closing in the event that it determines that such action is required by its fiduciary duties;
- holders of shares of Series J Preferred Stock will be entitled to exercise "dissenters' rights" under Ohio law;

- the value of the AFC merger consideration per share of Series J Preferred Stock: exceeds the estimated present value (including future dividends as of September 19, 2003) of the price in cash at which the Series J Preferred Stock may be called in 2005, based on a range of current yields for comparable preferred securities with a Standard & Poor's credit rating of BB; exceeds the cash liquidation preference of the shares of Series J Preferred Stock; and exceeds the price at which the Series J Preferred Stock may be "cashed out" now in a merger transaction;

41

- the value of the AFC merger consideration per share of Series J Preferred Stock is higher than the average reported closing price of the Series J Preferred Stock of \$20.67 during the three years ended on March 12, 2003, the last day on which the Series J Preferred Stock traded prior to April 17, 2003, the day of the announcement of the proposed AFC merger, exceeds the closing price of \$19.00 on March 12, 2003 and exceeds the highest reported per share closing price of \$24.00 at which the Series J Preferred Stock traded during the past three years prior to March 12, 2003

The following factor was considered by the special committee to be negative in nature and thereby to be unfavorable as to the fairness of the AFC merger:

- as holders of preferred securities of AFC, holders of shares of Series J Preferred Stock have a superior credit position to the holder of common stock of AFC and are structurally favored over creditors and common stockholders of AFG, which advantages will be lost in the AFC merger.

Each of the factors cited above was considered by the special committee at one or more of its meetings described under "Special Factors -- the Special Committee." The consideration of these factors involved primarily discussions among the members of the special committee and its legal counsel and financial advisor and was based upon information and advice received by the special committee with respect to each factor from management of AFG and AFC and the special committee's legal counsel and financial advisor, as well as its members' own knowledge about the matters involved in the AFC merger. The consideration of the fourth, eighth and ninth factors involved reviews by the special committee of factual, financial and numerical information presented to the special committee by its financial advisor and described under "Special Factors -- Special Committee," and "Special Factors -- Valuation Methodologies." Taking all of the factors into consideration, the special committee concluded that the AFC merger was fair to and in the best interests of the holders of shares of Series J Preferred Stock. The special committee considered the effect on the fairness of the AFC merger of the agreement of the holders of approximately 350,000 shares of Series J Preferred Stock to vote in favor of the AFC merger. See "The Special Meeting -- Voting Agreement." In this consideration, the special committee noted that the 350,000 shares held by these owners, while a significant block, still amount only to approximately 12% of the outstanding shares of Series J Preferred Stock, which means that other holders remain free to reject the AFC merger if they so wish. The special committee considered also that the holders of the 350,000 shares had exercised their independent investment discretion without coercion, and that their agreement to

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

vote in favor of the AFC merger indicated their belief in the fairness of the transaction. The special committee concluded that the agreement of these holders to vote in favor of the transaction, while increasing the likelihood that the AFC merger would be approved, did not affect negatively the committee's view as to the fairness of the AFC merger.

In view of the various procedural steps taken by the special committee as outlined above, as well as the requirement for approval of the AFC merger by a separate vote of non-affiliated holders, the special committee believes the AFC merger is fair to holders of Series J Preferred Stock from a procedural, as well as a financial, point of view.

In reaching its determination that the AFC merger is fair to the holders of shares of Series J Preferred Stock, the special committee considered solely the interests of such holders and did not consider the interests of other parties, or of officers or directors of AFG or AFC. In view of the wide variety of factors considered in connection with the review of the AFC merger, neither the special committee nor the AFC board of directors found it practical to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching its respective determinations. Because of the appointment of the special committee and the engagement of Duff & Phelps and special counsel by the special committee, neither the board nor the special committee considered it necessary to retain an unaffiliated representative to act solely on behalf of the holders of shares of Series J Preferred Stock for the purpose of negotiating the terms of the amended merger agreement.

The board of directors of AFG did not make any independent analysis with respect to the AFC merger, but is relying upon and accepting the conclusions, determinations and findings of the board of directors of AFC and the special committee in determining that the AFC merger is fair to the holders of Series J Preferred Stock.

42

### OPINION OF SPECIAL COMMITTEE'S FINANCIAL ADVISOR

Duff & Phelps, LLC, the financial advisor to the special committee, has delivered its written opinion that the consideration to be issued in exchange for shares of Series J Preferred Stock is fair from a financial point of view to holders of shares of Series J Preferred Stock.

### VALUATION METHODOLOGIES

As described above under "Special Factors -- The Special Committee," at the meeting of the special committee held on October 1, 2003, Duff & Phelps stated its opinion that the consideration to be received by holders of shares of Series J Preferred Stock pursuant to the merger agreement was fair to the holders of such shares from a financial point of view.

The full text of the written fairness opinion of Duff & Phelps dated October 1, 2003, which sets forth the assumptions made, procedures followed, matters considered, limitations on and scope of review by Duff & Phelps in rendering its opinion, is attached as Annex B to this proxy statement/prospectus and is incorporated herein by reference. Holders of Series J Preferred Stock are urged to read the Duff & Phelps opinion in its entirety. The following summary of Duff & Phelps' opinion is qualified in its entirety by reference to the full

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

text of the opinion. Duff & Phelps' opinion is directed to the special committee and does not constitute a recommendation to any holder of Series J Preferred Stock as to how preferred stockholder should vote with respect to the AFC merger. Duff & Phelps' opinion addresses the fairness of the consideration to be received by the holders of shares of Series J Preferred Stock only from a financial point of view and does not address the relative merits of the AFC merger or any alternatives to the AFC merger, the underlying decision of the board of directors to proceed with or effect the AFC merger or any other aspect of the AFC merger. The Duff & Phelps opinion was rendered without regard to the necessity for, or level of, any restrictions, obligations or undertakings which may be imposed or required in the course of obtaining regulatory approvals for the AFC merger.

In arriving at its opinion, Duff & Phelps reviewed, among other items: AFC's and AFG's historical financial statements and descriptive information, including audited financial statements on SEC form 10-K for the fiscal years ending on or about December 31, 2000 to 2002, unaudited financial statements on SEC form 10-Q for the fiscal quarter ended June 30, 2003, and certain other public filings and financial information prepared by AFC and AFG management; pro forma financial statements prepared by AFG and AFC management reflecting the effect of AFC merger on AFG's financial statements; Amended and Restated Agreement and Plan of Reorganization dated October 1, 2003; AFC's Amended Articles of Incorporation; historical stock prices and trading volume of the common stock of AFG, Great American Financial Resources, and Infinity; historical stock prices and trading volume of the Series J Preferred Stock of AFC; historical financial performance and valuation multiples of public companies deemed comparable to the AFG, Great American Financial Resources, and Infinity, respectively; current trading prices and yields for comparable publicly traded preferred stock securities based on issuer and security attributes, including credit quality, issuance size, and issuer industry; and other financial studies, analyses, and investigations as Duff & Phelps deemed appropriate.

In addition, Duff & Phelps met with the senior management of AFC and AFG on May 14, 2003, in Cincinnati, Ohio, and conducted subsequent telephone conversations, to discuss the history, current business operations, financial condition, future prospects, and strategic objectives of AFC, AFG, and their affiliates, as well as the anticipated effects of the AFC merger. Duff & Phelps also took into account its assessment of general economic, market, and financial conditions, as well as its experience in securities and business valuation, in general, and with respect to similar transactions, in particular.

In rendering its opinion, Duff & Phelps has assumed and relied upon, without independent verification, the accuracy and completeness of all financial and other information which was publicly available or furnished to or discussed with Duff & Phelps by AFG and AFC. With respect to pro forma financial information, forward-looking statements and other information and data provided to, or otherwise reviewed by or discussed with Duff & Phelps, Duff & Phelps has been advised by management of AFG and AFC that such pro forma information and other information and data were reasonably prepared on a basis reflecting the

43

best currently available estimates and judgments of the management of AFG and AFC as to the future financial performance of such companies and Duff & Phelps assumed in arriving at its opinion that AFG and AFC will perform in accordance with such estimates. Duff & Phelps has not conducted any independent evaluation or appraisal of the properties, assets, liabilities or reserves of AFG or AFC, nor has Duff & Phelps conducted any independent actuarial or physical

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

inspections. Duff & Phelps' opinion necessarily is based upon regulatory, economic, market, and other conditions as they exist and can be evaluated as of the date of Duff & Phelps' opinion. Neither AFC management nor its board or the special committee placed any limitations upon Duff & Phelps with respect to the procedures followed or factors considered by Duff & Phelps in rendering its opinion.

In arriving at its opinion and making its presentation to the special committee, Duff & Phelps performed a variety of financial and comparative analyses, including those summarized below. The summary set forth below includes the material financial and comparative analyses discussed by Duff & Phelps with the special committee, but does not purport to be a complete description of the analyses performed by Duff & Phelps in arriving at its opinion. Arriving at a fairness opinion is a complex process that involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, such an opinion is not necessarily susceptible to partial analysis or summary description. Duff & Phelps believes that its analyses must be considered as a whole and that selecting portions of its analyses or portions of the factors considered by it, without considering all analyses and factors, could create a misleading or an incomplete view of the valuation process underlying its opinion.

Furthermore, in arriving at its opinion, Duff & Phelps did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. No company or security used in the analyses as a comparison is identical to AFG, AFC, or the AFC merger. The analyses were prepared solely for purposes of Duff & Phelps providing its opinion to the special committee as to the fairness of the AFC merger, from a financial point of view, to the holders of shares of Series J Preferred Stock, and do not purport to be appraisals or to necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses are based upon numerous factors or events beyond the control of AFC or AFG, their advisors, or any other person, and are inherently uncertain. Actual future results may be materially different from those forecasts.

Following is a summary of the analyses performed by Duff & Phelps in connection with the portion of its opinion dealing with the Series J Preferred Stock:

### RECENT TRADING PRICES AND TRADING VOLUME ANALYSIS

Duff & Phelps analyzed historical daily stock prices and daily trading volume levels for the Series J Preferred Stock for (i) the one year period from June 27, 2002 to June 27, 2003 and (ii) the three year period from June 27, 2000 to June 27, 2003. During the time period in (i), the Series J Preferred stock traded between its 52-week low of \$16.75 on November 12, 2002 and its 52-week high of \$23.50 on November 1, 2002, with an average reported per share closing price of \$19.06. Although there are 2,886,161 shares outstanding, Duff & Phelps noted the limited trading activity in the Series J Preferred Stock during the previous 52 weeks. During the time period in (i), the Series J Preferred Stock traded on only 19.4% of the 253 trading days compared to a median percentage for the comparable preferred securities of 93.3% (High: 100% of the days; Low: 71.9% of the days). When the Series J Preferred Stock did trade during the past year, average daily trading volume was only 720 shares. Duff & Phelps noted further that institutional ownership appeared to be approximately 12% as of June 27, 2003 and that there was no analyst coverage of the Series J Preferred Stock.

During the time period in (ii), the Series J Preferred Stock traded from a

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

low of \$15.31 on April 22, 2002 to a high of \$24.00 on April 8, 2002. The average reported per share closing price for the Series J Preferred Stock during this three year period was \$20.67.

44

### COMPARABLE PREFERRED SECURITY ANALYSIS

Duff & Phelps identified and selected seven publicly traded preferred securities deemed comparable to the Series J Preferred Stock based on issuer and security attributes, including credit quality, issuance size, and issuer industry. These comparable preferred securities were grouped into two groups: (i) preferred stock securities with a Standard & Poor's credit rating of BB+ to BB-; and (ii) preferred stock securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock. Yields were then analyzed on a current yield basis as well as various yields to maturity. Based on closing prices on September 19, 2003, current yields for the preferred securities in (i) ranged from 7.833% to 9.133% and current yields for the securities in (ii) ranged from 8.333% to 9.133%. Based on closing prices on September 19, 2003, yields to maturity for the preferred securities in (i) ranged from 7.767% to 9.302% and yields to maturity for the securities in (ii) ranged from 8.367% to 9.302%.

The seven publicly traded preferred securities Duff & Phelps deemed comparable to the Series J Preferred Stock are summarized in the table below.

ISSUE	DIVIDEND	S&P CREDIT RATING	CURRENT YIELD	YIELD TO MATURITY	DATE CALLABLE
-----	-----	-----	-----	-----	-----
Sterling Banc Capital Trust III.....	8.300%	BB+	7.833%	7.767%	2/26/20
Provident Financial Group.....	8.375%	BB+	8.022%	8.123%	7/15/20
Sterling Banc Capital Trust II.....	9.200%	BB+	8.364%	8.263%	3/21/20
American Financial Capital.....	9.125%	BB+	8.929%	9.078%	6/16/20
American Annuity Capital.....	9.250%	BB	9.133%	9.302%	6/16/20
Corts-Provident Financial Trust I.....	8.100%	BB	8.333%	8.367%	4/30/20
Taylor Capital Trust I.....	9.750%	BB-	8.598%	8.696%	10/21/20

### DISCOUNTED CASH FLOW ANALYSIS

Based on the ranges of current yields and yields to maturity from our comparable preferred security analysis, Duff & Phelps utilized a 30 year discounted cash flow analysis on the Series J Preferred Stock to discount, at various discount rates, the anticipated cash flows from the Series J Preferred Stock, including dividends and the \$25.00 per share liquidation preference.

- Based on current yields ranging from 7.833% to 9.133% as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB+ to BB-, Duff & Phelps determined a range of values for the Series J Preferred Stock of \$23.33 to \$26.66.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- Based on yields to maturity ranging from 7.767% to 9.302% as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB+ to BB-, Duff & Phelps determined a range of values for the Series J Preferred Stock of \$22.95 to \$26.85.
- Based on current yields ranging from 8.333% to 9.133% as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock, Duff & Phelps determined a range of values for the Series J Preferred Stock of \$23.33 to \$25.28.
- Based on yields to maturity ranging from 8.367% to 9.302% as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock, Duff & Phelps determined a range of values for the Series J Preferred Stock of \$22.95 to \$25.20.

Additionally, Duff & Phelps discounted the anticipated cash flows, including dividends and the \$25.75 call price, from the call date of December 2005 to the present based on current yields ranging from 8.333% to 9.133% as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock, to determine a range of values of \$25.93 to \$26.30.

45

Taken together, these analyses derived a range of value for the Series J Preferred Stock of \$22.95 to \$26.85 per share.

Given the limited trading volume and lack of analyst coverage for the Series J Preferred Stock compared to the comparable preferred securities analyzed, Duff & Phelps also incorporated an illiquidity premium of 75 basis points in its estimation of the price ranges for the Series J Preferred Stock derived by its discounted cash flow analyses.

- Utilizing a discount rate range of 8.583% to 9.883% (based on current yields as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB+ to BB- and an illiquidity premium of 75 basis points), Duff & Phelps determined a range of values for the Series J Preferred Stock of \$21.73 to \$24.64.
- Utilizing a discount rate range of 8.517% to 10.052% (based on yields to maturity as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB+ to BB- and an illiquidity premium of 75 basis points), Duff & Phelps determined a range of values for the Series J Preferred Stock of \$21.40 to \$24.81.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- Utilizing a discount rate range of 9.083% to 9.883% (based on current yields as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock, and an illiquidity premium of 75 basis points), Duff & Phelps determined a range of values for the Series J Preferred Stock of \$21.73 to \$23.44.
  
- Utilizing a discount rate range of 9.117% to 10.052% (based on yields to maturity as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock, and an illiquidity premium of 75 basis points), Duff & Phelps determined a range of values for the Series J Preferred Stock of \$21.40 to \$23.37.

In discounting the anticipated cash flows, including dividends and the \$25.75 call price, from the call date of December 2005 to the present utilizing a discount rate range of 9.083% to 9.883% (based on current yields as of September 19, 2003 for comparable preferred securities with a Standard & Poor's credit rating of BB, the same as that for the Series J Preferred Stock, and an illiquidity premium of 75 basis points), Duff & Phelps determined a range of values of \$25.58 to \$25.95.

Taken together and incorporating an illiquidity premium of 75 basis points, these analyses derived a range of value for the Series J Preferred Stock of \$21.40 to \$25.95 per share.

Following is a summary of the analyses performed by Duff & Phelps in connection with the portion of its opinion dealing with the AFG common stock, the consideration to be received by holders of shares of Series J Preferred Stock in the AFC merger:

### RECENT TRADING PRICES AND TRADING VOLUME ANALYSIS

Duff & Phelps analyzed historical daily stock prices and daily trading volume levels for the common stock of AFG, Great American Financial Resources, and Infinity Property and Casualty ("Infinity") for the one-year period from September 19, 2002 to September 19, 2003. During this one year time period:

- AFG's common stock traded between its 52-week low of \$18.25 on March 10, 2003 and its 52-week high of \$24.70 on October 10, 2002, with a closing stock price on September 19, 2003 of \$22.42. Average daily trading volume during this time period was 186,525 shares with 69,650,288 shares outstanding. Four Wall Street analysts cover AFG's common stock and institutional ownership of AFG's common stock as of September 19, 2003 was 45.1%.
  
- Great American Financial Resource's common stock traded between its 52-week low of \$13.09 on June 30, 2003 and its 52-week high of \$17.36 on December 23, 2002, with a closing stock price on September 19, 2003 of



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

\$14.02. Average daily trading volume during this time period was 7,327 shares with 42,613,899 shares outstanding. One Wall Street analyst covers Great American Financial

46

Resource's common stock and institutional ownership of Great American Financial Resource's common stock as of September 19, 2003 was 92.5%.

- Infinity's common stock traded between its 52-week low of \$15.69 on February 25, 2003 and its 52-week high of \$28.93 on September 19, 2003, with a closing stock price on September 19, 2003 of \$28.93. Average daily trading volume during this time period was 168,235 shares with 20,481,458 shares outstanding. Four Wall Street analysts cover Infinity's common stock and institutional ownership of Infinity's common stock as of September 19, 2003 was 90.9%.

Given the moderate trading volume and analyst coverage for the common stock of AFG, Great American Financial Resources, and Infinity, it appears that the market for AFG's common stock is reasonably efficient.

### COMPARABLE COMPANY ANALYSIS.

Duff & Phelps selected three sets of publicly traded companies based on comparability to AFG (multi-line insurance providers), and its two publicly traded affiliates, Great American Financial Resources (life insurance and annuity providers) and Infinity (property and casualty insurance providers). Although no single company chosen is identical to AFG, Great American Financial Resources, or Infinity, these companies share many of the same operating characteristics and are affected by many of the same economic forces.

In the selection of comparable companies, Duff & Phelps used multiple databases to identify domestic companies with primary Standard Industrial Classification Codes of 6321 (insurance carriers, accident) and 6311 (insurance carriers, life and health), and 6331 (insurance carriers: fire, marine, and casualty). In terms of investment risks and attributes, as well as products/services provided and markets served, Duff & Phelps ultimately identified 7 companies that are considered to be reasonably comparable to AFG, 8 companies that are considered reasonably comparable to Great American Financial Resources, and 7 companies that are considered reasonably comparable to Infinity.

Using publicly available information, Duff & Phelps analyzed the historical financial performance of the comparable companies for the latest twelve months ("LTM"), as well as projected financial performance using regularly published earnings estimates from securities analysts. In addition, Duff & Phelps compared the trading values of the common stocks of AFG, Great American Financial Resources, and Infinity to common stocks of other comparable companies as a multiple of LTM operating earnings per share, projected fiscal year operating earnings per share, and common book value per share. The tables below show the comparable companies along with their respective LTM revenues and valuation multiples as of September 19, 2003.

47

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

### AFG COMPARABLE COMPANIES

COMPANY (TICKER)	LTM REVENUES (IN MILLIONS)	PRICE AS A MULTIPLE OF LTM OPERATING EARNINGS PER SHARE	PRICE AS A MULTIPLE OF PROJECTED OPERATING EARNINGS PER SHARE
Allmerica Financial Corporation (AFC).....	\$ 3,401.0	NM	10.3x
American International Group, Inc. (AIG).....	\$76,069.5	20.7x	13.7x
Hartford Financial Services Group, Inc. (HIG).....	\$17,158.0	10.6x	9.7x
HCC Insurance Holdings, Inc. (HCC).....	\$ 814.3	15.4x	11.8x
Horace Mann Educators Corporation (HMN).....	\$ 824.2	17.0x	10.4x
Loews Corporation (LTR).....	\$15,962.2	9.2x	7.4x
Unitrin, Inc. (UTR).....	\$ 2,694.6	NM	NA
Mean.....	\$16,703.4	14.6x	10.5x
Median.....	\$ 3,401.0	15.4	10.4x
AFG.....	\$ 3,507.2	10.3x	7.5x

As of September 19, 2003, AFG's common stock was trading at 10.3x LTM operating earnings, 7.5x projected 2003 operating earnings, and 1.1x book value, below the AFG comparable group medians of 15.4x, 10.4x, and 1.4x, respectively.

### GREAT AMERICAN FINANCIAL RESOURCES COMPARABLE COMPANIES

COMPANY (TICKER)	LTM REVENUES (IN MILLIONS)	PRICE AS A MULTIPLE OF LTM OPERATING EARNINGS PER SHARE	PRICE AS A MULTIPLE OF PROJECTED OPERATING EARNINGS PER SHARE
AmerUs Group Co. (AMH).....	\$1,578.5	11.4x	8.5x
Delphi Financial Group, Inc. (DFG).....	\$ 838.3	12.4x	10.3x
Jefferson-Pilot Corporation (JP).....	\$3,598.0	14.1x	12.0x
MONY Group Inc. (MNY).....	\$2,285.1	NM	NM
Protective Life Corporation (PL).....	\$1,976.3	12.0x	10.2x
Presidential Life Corporation (PLFE).....	\$ 343.0	16.8x	19.8x
Phoenix Companies, Inc. (PNX)...	\$2,612.4	NM	19.0x
Torchmark Corporation (TMK).....	\$2,854.7	11.4x	9.9x
Mean.....	\$2,010.8	13.0x	12.8x
Median.....	\$2,130.7	12.2x	10.3x
GREAT AMERICAN FINANCIAL RESOURCES.....	\$ 934.9	12.6x	NA

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

As of September 19, 2003, Great American Financial Resource's common stock was trading at 12.6x LTM operating earnings and 0.9x book value, in line with the Great American Financial Resources comparable group medians of 12.2x and 1.3x, respectively.

48

### INFINITY COMPARABLE COMPANIES

COMPANY (TICKER)	LTM REVENUES (IN MILLIONS)	PRICE AS A MULTIPLE OF LTM OPERATING EARNINGS PER SHARE	PRICE AS A MULTIPLE OF PROJECTED OPERATING EARNINGS PER SHARE
Cincinnati Financial Corporation (CINF).....	\$ 3,093.9	18.7x	16.2x
Harleysville Group, Inc. (HGIC)....	\$ 899.6	20.0x	12.3x
Ohio Casualty Corporation (OCAS)...	\$ 1,635.4	NM	10.5x
Progressive Corporation (PGR).....	\$10,637.0	17.1x	14.9x
Selective Insurance Group, Inc. (SIGI).....	\$ 1,252.2	19.0x	10.8x
State Auto Financial Corporation (STFC).....	\$ 1,004.0	22.9x	15.2x
W.R. Berkley Corporation (BER).....	\$ 3,063.0	9.8x	8.8x
Mean.....	\$ 3,083.6	17.9x	12.7x
Median.....	\$ 1,635.4	18.9x	12.3x
INFINITY.....	\$ 701.5	12.5x	10.2x

As of September 19, 2003, Infinity's common stock was trading at 12.5x LTM operating earnings, 10.2x projected 2003 operating earnings, and 1.5x book value, below the Infinity comparable group medians of 18.9x, 12.3x, and 2.1x, respectively.

In each of the above analyses, Duff & Phelps observed that the common stocks of AFG, Great American Financial Resources, and Infinity appeared to be trading at multiples below or in line with their respective comparable companies, and that the price of the AFG common stock does not appear to be unreasonable.

Pursuant to an engagement letter dated May 15, 2003, and add-on engagement letter dated September 19, 2003, AFC has agreed to pay Duff & Phelps \$225,000, payable in full upon notification that Duff & Phelps was prepared to deliver the opinion (whether favorable or unfavorable) to the special committee. AFC has also agreed to reimburse Duff & Phelps for its reasonable out-of-pocket expenses, including the fees and disbursements of its counsel, and to indemnify Duff & Phelps and certain related entities and persons against certain liabilities in connection with its engagement, including certain liabilities

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

under the federal securities laws.

Duff & Phelps has provided limited financial advisory and investment banking services to an affiliate of AFG in the past, for which services it received customary fees.

### THE MERGER AGREEMENT

The following description of the merger agreement is only a summary of the most important information contained in the merger agreement. For full information, you should read the merger agreement, a copy of which is attached to this document as Annex A.

### TERMS OF THE REORGANIZATION

**The Reorganization.** In the reorganization, AFC will merge with and into AFG. Immediately before the merger of AFC into AFG, AFC Holding will merge with and into AFG. In the AFC merger, all shares of AFC common stock, which are owned by AFG, will be canceled, and all shares of the Series J Preferred Stock of AFC will be converted into AFG common stock and cash in lieu of fractional shares, on the terms discussed below. In the AFC Holding merger, all shares of AFC Holding common stock, which are owned by AFG, will be canceled.

**Effective Time.** As promptly as practicable after the satisfaction or waiver of the conditions in the merger agreement, the parties will complete the reorganization by filing Certificates of Merger with the Secretary of State of Ohio.

49

**Conversion of Series J Preferred Stock in the AFC Merger.** Each share of Series J Preferred Stock issued and outstanding immediately prior to the AFC merger will be converted, by virtue of the merger and without the need for any further action on the part of the holder thereof, into the right to receive the number of shares of AFG common stock equal to the quotient (rounded to the nearest fourth decimal place) obtained by dividing \$26.00 by the lesser of Twenty Seven Dollars (\$27.00) and the average of the mean of the daily high sales price and daily low sales price of the AFG common stock on the New York Stock Exchange for the 20 consecutive days in which such shares are trading ending at the close of trading on the trading day that is three business days preceding the date of the special meeting. We refer to this as the average closing price. In addition, accrued dividends will be paid in cash, at a rate of \$.0055 per day, from November 1, 2003 to the effective date of the AFC merger.

**Fractional Shares.** AFC will not issue any fractional shares of AFG common stock. Instead, AFC will pay holders of fractional shares cash in an amount equal to the fraction of a share multiplied by the average closing price.

### EXCHANGE OF CERTIFICATES

**Exchange Agent.** Securities Transfer Company will act as exchange agent for the exchange of stock certificates pursuant to the reorganization.

**Exchange Procedures.** Within ten days after the completion of the reorganization, AFG will instruct Securities Transfer Company to mail to each record holder of Series J Preferred Stock at the effective date of the reorganization a letter of transmittal and instructions for exchanging certificates representing Series J Preferred Stock for certificates evidencing

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

AFG common stock. You will have to follow the instructions and surrender your Series J Preferred Stock certificates, together with the properly executed letter of transmittal, and any other required documents, to Securities Transfer Company. You then will be entitled to receive:

- certificates for that number of whole shares of AFG common stock which you have the right to receive in the AFC merger,
- any dividends or other distributions on the AFG common stock declared or made after the completion of the reorganization to which you may be entitled, and
- cash for any fractional share of AFG common stock.

**Distributions With Respect to Unexchanged Shares.** As a result of the merger, you will not receive any dividends or other distributions on AFG common stock until you surrender your Series J Preferred Stock certificates. When you do surrender your certificates, AFG will pay you, without interest, any dividends or other distributions previously paid to holders of AFG common stock with a record date after the completion of the reorganization.

**Transfers of Ownership.** If you want AFG to issue any certificate for shares of AFG common stock in a name other than that in which your Series J Preferred Stock certificate is registered, your Series J Preferred Stock certificate must be properly endorsed and otherwise in proper form for transfer. You also must pay to AFG or its agent any resulting transfer or other tax, or establish to the satisfaction of AFG that such tax has been paid or is not payable.

**Escheat and Withholding.** Neither AFG nor AFC will be liable to you for any shares of AFG common stock which were delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Securities Transfer Company, on behalf of AFG, will deduct from the shares of AFG common stock paid to you any amounts that federal, state, local or foreign tax law require AFG to withhold.

**Lost, Stolen or Destroyed Certificates.** Securities Transfer Company will issue AFG common stock in exchange for a lost, stolen or destroyed Series J Preferred Stock certificate upon receipt of an affidavit of that fact by the owner of the certificate. However, AFG will require you to deliver a reasonable indemnity bond against any claim that may be made against AFG or Securities Transfer Company regarding a certificate alleged to have been lost, stolen or destroyed.

50

DETAILED INSTRUCTIONS, INCLUDING A TRANSMITTAL LETTER, WILL BE MAILED TO HOLDERS OF SERIES J PREFERRED STOCK WITHIN TEN DAYS FOLLOWING THE COMPLETION OF THE REORGANIZATION, EXPLAINING HOW TO EXCHANGE SERIES J PREFERRED STOCK CERTIFICATES FOR AFG CERTIFICATES. YOU SHOULD NOT SEND IN YOUR SERIES J PREFERRED STOCK CERTIFICATES UNTIL YOU RECEIVE A LETTER OF TRANSMITTAL.

### DISSENTER'S RIGHTS

Holders of Series J Preferred Stock may dissent from the AFC merger and have the fair value of their shares paid to them provided that the holders comply with the provisions of Ohio law. For more information on how to exercise these rights, see "Rights of Dissenting Shareholders" and Annex C to this proxy statement/prospectus.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

### REPRESENTATIONS AND WARRANTIES

In connection with the AFC merger, AFC and AFG have provided customary representations and warranties relating to, among other things:

- the corporate organization, good standing and corporate power of AFG and AFC, the authorization of the transactions contemplated by the merger agreement;
- the compliance of the merger agreement with the articles of incorporation, code of regulations and similar organizational documents of AFG and AFC and applicable law; and
- the absence of any undisclosed subsidiaries of AFG and AFC.

AFG has provided additional customary representations and warranties relating to, among other things:

- the accuracy of certain documents filed with the SEC by AFG and financial statements included in those documents;
- existence of litigation involving or affecting AFG;
- compliance with applicable laws by AFG;
- the capital structure of AFG;
- timely filing of tax returns and the compliance of AFG with certain laws related to taxes;
- compliance of AFG with certain environmental laws and the absence of environmental claims; and
- the operation of employee benefit plans in compliance with the Employee Retirement Income Security Act and other employee benefit matters with respect to AFG.

### VOTING OF AFC COMMON STOCK

AFC Holding, as the record owner of the AFC shares beneficially owned by AFG, has agreed to vote all of its shares of AFC common stock, representing approximately 79% of the voting power of AFC, in favor of the AFC merger.

### CONDITIONS TO THE REORGANIZATION

Conditions to Obligations of AFC and AFG. The obligations of AFG and AFC to complete the AFC merger are subject to the satisfaction or waiver of the following conditions:

- No judgment, injunction or decree or other order issued by any court of competent jurisdiction or other legal restraint prohibiting or preventing the consummation of the reorganization or prohibiting or materially restricting the business of AFG after the AFC merger;
- The registration statement, of which this proxy statement/prospectus forms a part, shall have been declared effective under the Securities Act of 1933, and no stop order suspending such effectiveness shall be in effect;

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- The reorganization shall have been approved by a majority of the voting power of AFC, a majority of the outstanding shares of Series J Preferred Stock and a majority of the outstanding shares of Series J Preferred Stock voting on the AFC merger, excluding shares beneficially owned by AFG, any director or executive officer of AFG, the spouses and unemancipated children of any AFG director or executive officer, Carl H. Lindner, Jr., the siblings or children of Carl H. Lindner, Jr. or the spouses and unemancipated children of Carl H. Lindner, Jr. or of any of his siblings or children;
- The lenders under the AFG and AFC credit facility shall have consented to the reorganization or shall have permitted the reorganization through a revision to the credit facility;
- The AFC Holding merger shall have been completed; and
- AFG and AFC's special committee shall have received the legal opinion of Akin, Gump, Strauss, Hauer & Feld LLP as to tax matters.

Additional Conditions to Obligations of AFC. The obligations of AFC to complete the AFC merger shall be subject to the satisfaction or waiver of the following additional conditions:

- The representations and warranties made by AFG in the merger agreement shall be true and correct;
- AFG shall have performed and complied in all material respects with all of its obligations required to be performed under the merger agreement;
- Receipt of all documents required by the merger agreement to be received from AFG;
- All necessary regulatory approvals, consents, authorizations and other approvals shall have been obtained;
- AFC shall have received the opinion of Duff & Phelps, acceptable to the AFC special committee, as to the fairness of the reorganization, from a financial point of view, to the holders of Series J Preferred Stock; and
- the shares of AFG common stock to be issued to holders of Series J Preferred Stock shall have been listed on the New York Stock Exchange.

Additional Conditions to Obligations of AFG. The obligations of AFG to complete the AFC merger shall be subject to the satisfaction or waiver of the following additional conditions:

- The representations and warranties made by AFC in the merger agreement shall be true and correct;
- AFC shall have performed and complied in all material respects with all of its obligations required to be performed under the merger agreement;
- Receipt of all documents required by the merger agreement to be received from AFC;
- All necessary regulatory approvals, consents, authorizations and other approvals shall have been obtained.

Termination. The merger agreement may be terminated:

- by mutual agreement of AFC (acting through the special committee), AFG

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

and AFC Holding;

- if the closing date is later than December 31, 2003;
- by either AFG or AFC (acting through the special committee) if a court issues a permanent, non-appealable ruling permanently prohibiting the reorganization;
- by either AFG or AFC (acting through the special committee) if the merger agreement is not approved by the required votes;
- by either AFG or AFC (acting through the special committee) upon the breach of a representation or warranty of the other; or

52

- by AFC (acting through the special committee) if any events, changes or developments have occurred (other than any information specifically provided by AFC (acting through the special committee) to be included in this document being or becoming false or materially misleading) which, individually or in the aggregate, have materially adversely affected, or are reasonably likely to materially adversely affect, the financial condition of AFG and its subsidiaries, taken as a whole;
- By AFC if the special committee determines, after consultation with and based on the written legal advice of its legal counsel, that as a result of an event or condition which existed before the date of the merger agreement and should have been disclosed by AFG in its filings under the Securities Exchange Act of 1934 but was not so disclosed or which occurs after the date of the merger agreement (other than any information specifically provided by AFC (acting through the special committee) to be included in this document being or becoming false or materially misleading), the special committee would violate its fiduciary duties in accordance with applicable law if AFC (acting through the special committee) did not terminate the merger agreement; or
- By AFG if the average closing price of the AFG common stock is less than \$19.00 per share.

### RIGHTS OF DISSENTING SHAREHOLDERS

AFG describes below the steps which holders of Series J Preferred Stock must take if they wish to exercise dissenters' rights with respect to the AFC merger. The description is not complete. You should read Section 1701.85 of the Ohio General Corporation Law. This section is attached as Annex C to this document. FAILURE TO TAKE ANY ONE OF THE REQUIRED STEPS MAY RESULT IN TERMINATION OF THE SHAREHOLDER'S DISSENTERS' RIGHTS UNDER THE OHIO GENERAL CORPORATION LAW. If you are a holder of AFC Series J Preferred Stock considering dissenting, you should consult your own legal advisor.

To exercise dissenters' rights, you must satisfy five conditions:

- you must be a shareholder of record on September 30, 2003;
- you must not vote dissenting shares in favor of the AFC merger;
- you must deliver a written demand for "fair cash value" of the dissenting



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

shares within 10 days of the vote on the merger agreement;

- if AFC (or AFG as the successor to the AFC merger) requests, you must send within 15 days of its request, your stock certificates so that a legend may be added stating that a demand for "fair cash value" has been made; and
- within three months of your written demand to receive "fair cash value," you must file a complaint in court for a determination of the "fair cash value" or you and AFC (or AFG, if after the AFC merger) must have agreed on the "fair cash value."

All demands, deliveries and other correspondence should be sent to AFC (or AFG if such correspondence follows the AFC merger) at the address on page .

The following is a more detailed description of the conditions you must satisfy to perfect dissenters' rights:

MUST BE A SHAREHOLDER OF RECORD. To be entitled to dissenters' rights, you must be the record holder of the dissenting shares as of September 30, 2003. If you have a beneficial interest in shares of AFC Series J Preferred Stock that are held of record in the name of another person, you must act promptly to cause the shareholder of record to follow the required procedures.

NOT VOTE IN FAVOR OF THE REORGANIZATION. You must not vote shares as to which you seek "fair cash value" in favor of the approval and adoption of the merger agreement at the special meeting. This requirement will be satisfied:

- if you submit a properly executed proxy with instructions to vote "against" the adoption of the merger agreement or to "abstain" from this vote,

53

- if you do not return a proxy and no vote is cast on your behalf at the special meeting in favor of the adoption of the merger agreement, or
- if you revoke a proxy and later "abstain" from or vote "against" the adoption of the merger agreement.

A VOTE FOR THE MERGER AGREEMENT IS A WAIVER OF DISSENTERS' RIGHTS. A proxy that is returned signed but on which no voting preference is indicated will be voted in favor of the adoption of the merger agreement and will constitute a waiver of dissenters' rights. Voting "against" or not voting does not constitute a waiver of dissenters' rights.

FILING A WRITTEN DEMAND. You must serve a written demand for the "fair cash value" of dissenting shares upon AFC (or AFG, if after the AFC merger) on or before November 30, 2003, the tenth day after the shareholder vote approving the AFC merger. Neither AFC nor AFG will inform shareholders of the expiration of the ten-day period and each advises you to retain this document. The required written demand must specify your name and address, the number of dissenting shares held of record on September 30, 2003 and the amount claimed as the "fair cash value" of the dissenting shares. Voting against the reorganization is not a written demand as required by Section 1701.85 of the Ohio General Corporation Law.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

DELIVERY OF CERTIFICATES FOR LEGENDING. If requested, you must submit your certificates for dissenting shares to AFC (or AFG, if after the AFC merger) within fifteen days after AFG sends its request for endorsement on the certificates of a legend that demand for fair cash value has been made. The certificates will be returned promptly to you.

PETITIONS TO BE FILED IN COURT. If you and AFC (or AFG, if after the AFC merger) cannot agree on the "fair cash value" of the dissenting shares, you must, within three months after service of your demand for "fair cash value," file a complaint in the Court of Common Pleas of Hamilton County, Ohio, for a determination of the "fair cash value" of the dissenting shares. The court, if it determines that you are entitled to be paid the "fair cash value" of the dissenting shares, may determine the value of those shares. The court will determine the "fair cash value" per share. The costs of the proceeding, including reasonable compensation to the appraisers, will be assessed as the court considers equitable. "Fair cash value" is the amount that a willing seller, under no compulsion to sell, would be willing to accept, and that a willing buyer, under no compulsion to purchase, would be willing to pay. In no event will the "fair cash value" be in excess of the amount specified in the dissenting shareholder's demand. Fair cash value is determined as of November 19, 2003, the day before the special meeting. The amount of the "fair cash value" excludes any appreciation or depreciation in market value of your shares resulting from the reorganization. The "fair cash value" of your shares may be higher, the same, or lower than the market value of the Series J Preferred Stock on the date of the reorganization.

Your right to be paid the "fair cash value" of the dissenting shares will terminate if:

- for any reason the reorganization does not become effective,
- you fail to make a timely written demand,
- you do not, upon request of AFC (or AFG, if after the AFC merger) timely surrender your Series J Preferred Stock certificates for an endorsement of a legend that demand for the "fair cash value" of the dissenting shares has been made,
- you withdraw your demand, with the consent of AFC (or AFG, if after the AFC merger), or
- AFC (or AFG, if after the AFC merger) and you have not come to an agreement as to the fair cash value of the dissenting shares and you have not filed a complaint.

AMERICAN FINANCIAL GROUP, INC.

AFG is a holding company which, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of retirement annuities,

life, and supplemental health insurance products. AFG was incorporated as an Ohio corporation in 1997 for the purpose of merging predecessor holding companies, one of which was AFC, which was originally incorporated in 1955. Its insurance subsidiaries have been operating as far back as the 1800's. AFG's

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

address is One East Fourth Street, Cincinnati, Ohio 45202; its phone number is (513) 579-2121. SEC filings, news releases and other information may be accessed free of charge through AFG's Internet site at: "www.amfnl.com."

Over the years, AFG and its predecessors have owned, operated, and invested in businesses in a variety of industries and geographic areas, culminating in today's group of insurance companies. Generally, AFG's interests have been in the following areas: insurance, savings and loan, leasing, banking, real estate, communications/entertainment and food distribution. A small number of opportunistic investments have been made in troubled and other undervalued assets.

### AMERICAN FINANCIAL CORPORATION

AFC is a holding company, majority-owned subsidiary of AFG. All of the outstanding shares of common stock, representing approximately 79% of the voting power of AFC, is owned by AFC Holding. The Series J Preferred Stock of AFC is publicly traded through the Archipelago system on the Pacific Stock Exchange and represents the remaining 21% of the voting power of AFC.

### AFC HOLDING COMPANY

AFC Holding Company is a wholly-owned, intermediate-level company of AFG. AFC Holding directly owns all outstanding shares of common stock of AFC. Its address is One East Fourth Street, Cincinnati, Ohio 45202; its phone number is (513) 579-2121.

### DESCRIPTION OF AFG CAPITAL STOCK

The following is a summary of the provisions of Ohio General Corporation Law and AFG's Articles of Incorporation and Regulations which govern the terms of AFG's common stock.

#### COMMON STOCK

AFG is incorporated under the laws of the State of Ohio. The total number of authorized shares of AFG common stock is 200,000,000. As of August 1, 2003 there were 69,650,289 shares of AFG common stock outstanding. Holders of AFG common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Holders of AFG common stock have the right to cumulate their votes in the election of directors but are not entitled to any preemptive rights.

Subject to preferences which may be granted to holders of preferred stock, holders of AFG common stock are entitled to the share of such dividends as board of directors, in its discretion, may validly declare from funds legally available. In the event of liquidation, each outstanding share of AFG common stock entitles its holder to participate ratably in the assets remaining after the payment of liabilities and any preferred stock liquidation preferences.

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock is required to amend the Articles of Incorporation and to approve mergers, reorganizations, share exchanges and similar transactions.

AFG acts as its own transfer agent and registrar.

#### PREFERRED STOCK

AFG's Articles of Incorporation authorize 12,500,000 shares of voting preferred stock and 12,500,000 of nonvoting preferred stock which may be issued from time to time in series that have been designated preferences, rights, qualifications and limitations that the board of directors, in its sole

discretion, may

55

determine no shares hereby issued. The board of directors can give preferred stock both voting and conversion rights which would affect the voting power and equity of holders of AFG common stock. Preferred stock could also have preference to AFG common stock with respect to dividend and liquidation rights. The preferred stock could have the effect of acting as an anti-takeover device to prevent a change of control of AFG. AFG has no outstanding preferred stock.

#### COMPARISON OF SHAREHOLDER RIGHTS

##### DIVIDENDS

Each share of Series J Preferred Stock has a fixed annual dividend rate of \$2.00 per share, payable in semi-annual installments. The right to payment of dividends is cumulative to the extent that the dividends not paid must be paid in full before dividends can be paid on common stock.

Holders of AFG common stock are entitled to share in the dividends that the board of directors validly declares from legally available funds. Currently, AFG pays an annual dividend of \$0.50, payable quarterly.

##### PREFERENCE

On liquidation, the holder of each share of Series J Preferred Stock would be entitled to \$25.00 plus accrued dividends in preference to distributions to AFG, as holder of all outstanding shares of AFC common stock.

If AFG liquidates, holders of AFG common stock also are entitled to participate ratably in the assets remaining after AFG pays its liabilities and preferred stock liquidation preferences.

##### VOTING RIGHTS

Each share of Series J Preferred Stock is entitled to one vote on all matters voted upon by shareholders, and the preferred shares vote with AFC common shareholders on all matters presented to shareholders. As a class, the Series J Preferred Stock possess approximately 21% of the voting power of AFC, voting one vote per share. In addition, in the event of an arrearage in the payment of dividends for each of four or more consecutive semi-annual payments, the number of directors of AFC shall be increased by two and the holders of the Series J Preferred Stock shall have the right, voting as a class, to elect directors to fill the newly created directorships. Holders of Series J Preferred Stock have no rights to vote cumulatively in the election of directors.

Holders of AFG common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Shareholders may cumulate their votes when electing directors.

##### OPTIONAL REDEMPTION; CASH-OUT MERGER AT AFC'S OPTION

AFC may, at its option, call for redemption all or part of the Series J Preferred Stock at specified times and on specified terms. In addition, the terms of the Series J Preferred Stock contained in AFC's Articles of Incorporation permit AFC, at any time, to engage in a merger with another party, including an affiliate of AFC, pursuant to which each share of Series J Preferred Stock would receive in cash \$25.00 plus accrued dividends. AFG common stock has no redemption provisions.

56

# Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

## SECURITY OWNERSHIP OF BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 30, 2003, information with respect to the beneficial ownership of AFG common stock by each person known by AFG to be the beneficial owner of more than five percent of the common stock, by each present director of AFG, by executive officers of AFG and by all directors and executive officers of AFG as a group. Unless otherwise indicated in the notes to this table, the shareholders listed in the table have sole voting and investment power with respect to shares beneficially owned by them.

NAME OF BENEFICIAL OWNER -----	NO. OF SHARES -----	PERCENT OF CLASS -----
Carl H. Lindner(a).....	8,914,132 (b)	13.1%
Carl H. Lindner III(a).....	6,462,181 (c)	9.4
S. Craig Lindner(a).....	6,483,956 (d)	9.4
Keith E. Lindner(a).....	6,483,956 (e)	9.4
Theodore H. Emmerich.....	32,189	*
James E. Evans.....	430,674	*
William R. Martin.....	59,951	*
William W. Verity.....	9,008	*
William A. Shutzer.....	5,098	*
Terry S. Jacobs.....	6,098	*
Keith A. Jensen.....	139,093	*
Thomas E. Mischell.....	279,556	*
Fred J. Runk.....	427,755	*
All directors, nominees and executive officers as a group (13 persons).....	29,733,647	41.9%

\* Less than 1%.

- (a) The shares set forth for Carl H. Lindner, Carl H. Lindner III, S.C. Lindner and Keith E. Lindner and all directors and officers as a group constituted 13.1%, 9.4%, 9.4%, 9.4% and 41.9%, respectively, of the common stock outstanding at June 30, 2003.
- (b) Includes 4,398,540 shares held by his spouse and 252,378 shares held in a charitable foundation over which Mr. Lindner has sole voting and dispositive power but no pecuniary interest. Excludes 2,407,264 shares held in a trust for the benefit of his family for which a third party acts as trustee with voting and dispositive power.
- (c) Includes 19,826 shares held by his spouse individually or in a trust over which she has voting and dispositive power, 19,847 held by one of his children, 1,000,000 shares held by a limited liability company over which shares he holds dispositive but not voting power, and 650,633 shares which are held in various trusts for the benefit of his minor children for which Keith E. Lindner acts as trustee with voting and dispositive power.
- (d) Includes 76,144 shares held by his spouse as custodian for their minor children or in a trust over which she has voting and dispositive power, 26,144 shares held by two of his children, 1,000,000 shares held by a limited liability company over which shares he holds dispositive but not voting power, 1,248,730 shares held in a trust for the benefit of his

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

children over which shares his spouse has dispositive but not voting power, and 776,910 shares which are held in various trusts for the benefit of his minor children for which Keith E. Lindner acts as trustee with voting and dispositive power.

- (e) Includes 341 shares held in a trust over which his spouse shares voting and dispositive power with an individual not affiliated with AFG, 2,226 shares held in trusts over which he shares voting and dispositive power with an individual not affiliated with AFG, 1,500,000 shares held by a limited liability company over which shares he holds dispositive but not voting power, and 2,473,709 shares held in a trust for the benefit of his children over which shares his spouse has dispositive but not voting power, but excludes 1,427,543 shares (described in footnotes (c) and (d) above) which are held in various trusts for the benefit

57

of the minor children of his brothers, Carl H. Lindner III and S. Craig Lindner, over which Keith E. Lindner has sole voting and dispositive power but no pecuniary interest.

The following table sets forth, as of June 30, 2003, information with respect to the beneficial ownership of AFC common stock and Series J Preferred Stock by each person known by AFC to be the beneficial owner of more than five percent of the common stock, by each present director of AFC, by executive officers of AFC and by all directors and executive officers of AFC as a group. Unless otherwise indicated in the notes to this table, the shareholders listed in the table have sole voting and investment power with respect to shares beneficially owned by them.

NAME OF BENEFICIAL OWNER -----	NO OF SHARES (1) -----	PERCENT OF CLASS (1) -----
American Financial Group, Inc. (2).....	10,593,000	100%
William R. Martin.....	40,126	1.39
Fred J. Runk.....	7,817	*
Thomas E. Mischell.....	15,551	*
All directors and executive officers as a group.....	63,494	2.20
The Commerce Group, Inc. ....	287,563	9.96

-----

(1) Refers to the common stock of AFC beneficially owned by American Financial Group, Inc. Refers to the Series J Preferred Stock beneficially owned by William R. Martin, Fred J. Runk, Thomas E. Mischell and all directors and executive officers as a group.

(2) The Lindner Family may be deemed to be the beneficial owner of these shares of AFC common stock.

### LEGAL MATTERS

The legality of the AFG common stock offered hereby will be passed upon for AFG by Keating, Muething & Klekamp, P.L.L., Cincinnati, Ohio. Certain tax opinions will be delivered to AFG by Akin Gump Strauss Hauer & Feld LLP, Washington, D.C.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

### EXPERTS

Ernst & Young LLP, independent auditors, have audited AFG's and AFC's consolidated financial statements and schedules included in their respective Annual Reports on Form 10-K for the year ended December 31, 2002, as set forth in its reports, which are incorporated by reference or presented in this proxy statement/prospectus. AFG's and AFC's financial statements and schedules are incorporated by reference or presented in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

### SHAREHOLDER PROPOSALS FOR 2004 ANNUAL MEETING

In accordance with AFC's Regulations, the only candidates eligible for election at a meeting of shareholders are candidates nominated by or at the direction of the board of directors and candidates nominated at the meeting by a shareholder who has complied with the procedures set forth in the Regulations. Shareholders will be afforded a reasonable opportunity at the meeting to nominate candidates for the office of director. However, the Regulations require that a shareholder wishing to nominate a director candidate must have first given the Secretary of AFC at least five and not more than thirty days prior written notice setting forth or accompanied by (1) the name and residence of the shareholder and of each nominee specified in the notice, (2) a representation that the shareholder was a holder of record of AFC's voting stock and intended to appear, in person or by proxy, at the meeting to nominate the persons specified in the notice and (3) the consent of each such nominee to serve as director if so elected.

The proxy form used by AFC for its annual meeting typically grants authority to management's proxies to vote in their discretion on any matters that come before the meeting as to which adequate notice has not

58

been received. In order for a notice to be deemed adequate for the 2004 annual meeting, it must be received by March 16, 2004. In order for a proposal to be considered for inclusion in AFC's proxy statement for that meeting, it must be received by December 31, 2003.

### WHERE YOU CAN FIND MORE INFORMATION

AFG and AFC each file reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that AFG and AFC file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. (The address of the public reference room in Washington, D.C. is 450 Fifth Street, N.W., Washington, D.C. 20549). Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. AFG's and AFC's public filings are also available to the public from commercial document retrieval services and at the Internet World Wide Web site maintained by the SEC at "<http://www.sec.gov>." Reports, proxy statements and other information regarding AFG may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Also, AFG's reports, proxy statements and other information is available on its Internet World Wide Web site located at [www.amfnl.com](http://www.amfnl.com).

AFG has filed a Registration Statement with the SEC to register the shares of AFG common stock to be issued to holders of AFC Series J Preferred Stock in the reorganization. This document is a part of the Registration Statement and constitutes a prospectus of AFG as well as a proxy statement of AFC for the special meeting.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

As allowed by SEC rules, this document does not contain all information that shareholders can find in the Registration Statement or the exhibits to the Registration Statement.

The SEC allows AFG and AFC to "incorporate by reference" information into this document, which means that AFG and AFC can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this document, except for any information superseded by information contained directly in the document. This document incorporates by reference the documents set forth below that AFG and AFC have previously filed with the SEC. These documents contain important information about AFG and AFC and their respective financial condition.

### AFG SEC FILINGS:

- Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2002
- Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2003, as amended, and June 30, 2003
- Current Reports on Form 8-K dated February 19, 2003, May 1, 2003, May 27, 2003, July 7, 2003 and July 31, 2003.
- The description of our common stock contained in the Form 8-A filed with the SEC on November 23, 1997

### AFC SEC FILINGS:

- Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2002
- Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2003, as amended, and June 30, 2003
- Current Report on Form 8-K dated July 7, 2003

AFG is also incorporating by reference additional documents that it may file with the SEC between the date of this document and the date of the special meeting. These include periodic reports, such as an Annual

59

Report on Form 10-K, Quarterly Report on Form 10-Q and Current Reports on Form 8-K, and any amendments to these reports, as well as proxy statements.

If you are a shareholder of AFG or AFC, you can obtain any of the documents incorporated by reference through AFG and AFC, respectively, or from the SEC or the SEC's Internet World Wide Web site described above. Documents incorporated by reference are available from AFG and AFC without charge, excluding all exhibits. Shareholders may obtain documents incorporated by reference in this document by requesting them in writing or by telephone from AFG and AFC at the following address:

James C. Kennedy  
Vice President, Deputy General Counsel and Secretary  
American Financial Corporation  
American Financial Group, Inc.  
One East Fourth Street  
Cincinnati, Ohio 45202



## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

(513) 579-2538

If you would like to request documents from AFG or AFC, please do so by November 13, 2003 to receive them before the special meeting. If you request any such documents, the companies will mail them to you by first-class mail, or other equally prompt means, within one business day of receipt of your request.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS DOCUMENT TO VOTE YOUR SHARES AT THE SPECIAL MEETING. AFG AND AFC HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM WHAT IS CONTAINED IN THIS DOCUMENT. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THE DOCUMENT IS ACCURATE AS OF ANY DATE OTHER THAN THE DATE OF THIS DOCUMENT, AND NEITHER THE MAILING OF THIS DOCUMENT TO SHAREHOLDERS NOR THE ISSUANCE OF AFC'S SECURITIES IN THE REORGANIZATION SHALL CREATE ANY IMPLICATION TO THE CONTRARY.

60

### FINANCIAL INFORMATION FOR AFC

The following financial information has been excerpted from AFC's June 30, 2003, Form 10-Q and December 31, 2002, Form 10-K, as amended, which are incorporated herein by reference.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2003

##### GENERAL

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

**FORWARD-LOOKING STATEMENTS** The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as "anticipates", "believes", "expects", "estimates", "intends", "plans", "seeks", "could", "may", "should", "will" or the negative version of those words or other comparable terminology. Examples of such forward-looking statements include statements relating to: 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, improved loss experience and expected expense savings resulting from recent initiatives.

Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including:

- o changes in economic conditions, including interest rates, performance of securities markets, and the availability of capital;

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

- o regulatory actions;
- o changes in legal environment;
- o tax law changes;
- o levels of natural catastrophes, terrorist events, incidents of war and other major losses;
- o the ultimate amount of liabilities associated with certain asbestos and environmental-related claims;
- o the unpredictability of possible future litigation if certain settlements do not become effective;
- o adequacy of insurance reserves;
- o trends in mortality and morbidity;
- o availability of reinsurance and ability of reinsurers to pay their obligations;
- o competitive pressures, including the ability to obtain rate increases; and
- o changes in debt and claims paying ratings.

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

F-1

### CRITICAL ACCOUNTING POLICIES

Significant accounting policies are summarized in Note A to the financial statements. The preparation of financial statements requires management to make estimates and assumptions that can have a significant effect on amounts reported in the financial statements. As more information becomes known, these estimates and assumptions could change and thus impact amounts reported in the future. Management believes that the establishment of insurance reserves, especially asbestos and environmental-related reserves, and the determination of "other than temporary" impairment on investments are the two areas where the degree of judgment required to determine amounts recorded in the financial statements make the accounting policies critical. For further discussion of these policies, see "Liquidity and Capital Resources - Investments" and "Liquidity and Capital Resources - Uncertainties."

### LIQUIDITY AND CAPITAL RESOURCES

RATIOS AFC's debt to total capital ratio at the parent holding company level (excluding amounts due AFG) was approximately 1% at June 30, 2003, and 13% at December 31, 2002. Including amounts due AFG, the ratio was 19% at June 30, 2003, and 25% at December 31, 2002.

AFC's ratio of earnings to fixed charges including annuity benefits as a fixed charge, excluding and including preferred dividends, was 1.51 and 1.48 for the six months ended June 30, 2003, and 1.48 and 1.46 for the entire year of 2002, respectively. Excluding annuity benefits, this ratio was 3.81 and 3.42 for the six months of 2003 and 3.36 and 3.09 for the year 2002, respectively. Although

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

the ratio excluding interest on annuities is not required or encouraged to be disclosed under Securities and Exchange Commission rules, it is presented because interest credited to annuity policyholder accounts is not always considered a borrowing cost for an insurance company.

SOURCES OF FUNDS Management believes the parent holding companies have sufficient resources to meet their liquidity requirements, primarily through funds generated by their subsidiaries' operations. If funds provided by subsidiaries through dividends and tax payments are insufficient to meet fixed charges in any period, the holding companies would be required to generate cash through borrowings, sales of securities or other assets, or similar transactions.

AFC may borrow up to \$280 million under a bank credit line. The line consists of two facilities: a 364-day revolving facility, extendable annually, for one-third of the total line and a three-year revolving facility for the remaining two-thirds. Amounts borrowed bear interest at rates ranging from 1.25% to 2.25% over LIBOR based on AFG's credit rating. This credit agreement provides ample liquidity and can be used to obtain funds for operating subsidiaries or, if necessary, for the parent companies. In June 2003, borrowings from AFG under the Master Credit Agreement were used to pay down the bank line. At June 30, 2003, there were no borrowings under the line.

INVESTMENTS AFC's investment portfolio at June 30, 2003, contained \$11.7 billion in "Fixed maturities" and \$311.4 million in "Other stocks", all carried at market value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis. At June 30, 2003, AFC had pretax net unrealized gains of \$649.0 million on fixed maturities and \$144.0 million on other stocks. The increase in the general level of interest rates during July caused the fixed maturity amount to decline by approximately two-thirds.

F-2

Approximately 94% of the fixed maturities held by AFC at June 30, 2003, were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and noninvestment grade. Management believes that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Individual portfolio securities are sold creating gains or losses as market opportunities exist. Since all of these securities are carried at market value in the balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses.

Summarized information for the unrealized gains and losses recorded in AFC's balance sheet at June 30, 2003, is shown in the following table (dollars in millions). Approximately \$144 million of "Fixed maturities" and \$20 million of "Other stocks" had no unrealized gains or losses at June 30, 2003.

	Securities With Unrealized Gains -----	Securities With Unrealized Losses -----
Fixed Maturities		
Market value of securities	\$10,562	\$ 1,019

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Amortized cost of securities	\$ 9,868	\$ 1,064
Gross unrealized gain (loss)	\$ 694	\$ (45)
Market value as % of amortized cost	107%	96%
Number of security positions	1,822	183
Number individually exceeding \$2 million gain or loss	38	3
Concentration of gains (losses) by type or industry (exceeding 5% of unrealized):		
Mortgage-backed securities	\$ 134.8	\$ (3.4)
Electric services	61.3	(1.4)
Banks and savings institutions	51.1	(.2)
U.S. government and government agencies	44.2	(1.1)
State and municipal	40.8	(3.9)
Asset-backed securities	22.2	(6.8)
Air transportation (generally collateralized)	4.8	(14.3)
Percentage rated investment grade	95%	79%
Other Stocks		
Market value of securities	\$ 267	\$ 24
Cost of securities	\$ 122	\$ 25
Gross unrealized gain (loss)	145	\$ (1)
Market value as % of cost	219%	96%
Number individually exceeding \$2 million gain or loss	16	1

F-3

AFC's investment in equity securities of Provident Financial Group, a Cincinnati-based commercial banking and financial services company, represents \$115 million of the \$145 million in unrealized gains on other stocks at June 30, 2003.

The table below sets forth the scheduled maturities of fixed maturity securities at June 30, 2003, based on their market values. Asset backed securities and other securities with sinking funds are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

	Securities With Unrealized Gains	Securities With Unrealized Losses
	-----	-----
Maturity		
One year or less	3%	1%
After one year through five years	22	41
After five years through ten years	30	30
After ten years	10	11
	-----	-----
	65	83
Mortgage-backed securities	35	17
	-----	-----
	100%	100%
	=====	=====

Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

AFC realized aggregate losses of \$4 million during the first six months of 2003 on \$36.1 million in sales of fixed maturity securities (7 issues/issuers) that had individual unrealized losses greater than \$500,000 at December 31, 2002. Market values of five of the issues increased an aggregate of \$4.7 million from December 31 to date of sale. The market value of the remaining two securities decreased \$316,000 from December 31 to the sale date.

Although AFC had the ability to continue holding these investments, its intent to hold them changed due primarily to deterioration in the issuers' creditworthiness, decisions to lessen exposure to a particular credit or industry, or to modify asset allocation within the portfolio.

The table below (dollars in millions) summarizes the unrealized gains and losses on fixed maturity securities by dollar amount.

	Aggregate Market Value	Aggregate Unrealized Gain (Loss)	Market Value as % of Cost Basis
	-----	-----	-----
Fixed Maturities at June 30, 2003			
SECURITIES WITH UNREALIZED GAINS:			
Exceeding \$500,000 (475 issues)	\$ 6,264	\$ 517	109.0%
Less than \$500,000 (1,347 issues)	4,298	177	104.3
	-----	-----	
	\$ 10,562	\$ 694	107.0%
	=====	=====	
SECURITIES WITH UNREALIZED LOSSES:			
Exceeding \$500,000 (24 issues)	\$ 253	\$ (30)	89.4%
Less than \$500,000 (159 issues)	766	(15)	98.1
	-----	-----	
	\$ 1,019	\$ (45)	95.8%
	=====	=====	

F-4

The following table summarizes (dollars in millions) the unrealized loss for all fixed maturity securities with unrealized losses by issuer quality and length of time those securities have been in an unrealized loss position.

	Aggregate Market Value	Aggregate Unrealized Gain (Loss)	Market Value as % of Cost Basis
	-----	-----	-----
Fixed Maturities with Unrealized Losses at June 30, 2003			
INVESTMENT GRADE WITH LOSSES FOR:			
Less than 6 months (37 issues)	\$ 551	\$ (5)	99.1%
7 to 12 months (59 issues)	207	(5)	97.6

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Greater than 12 months (15 issues)	51	(8)	86.4
	-----	-----	
	\$ 809	\$ (18)	97.8%
	=====	=====	
 NON-INVESTMENT GRADE WITH LOSSES FOR:			
Less than 6 months (13 issues)	\$ 25	\$ (2)	92.6%
7 to 12 months (17 issues)	27	(3)	90.0
Greater than 12 months (42 issues)	158	(22)	87.7
	-----	-----	
	\$ 210	\$ (27)	88.6%
	=====	=====	

When a decline in the value of a specific investment is considered to be "other than temporary," a provision for impairment is charged to earnings (accounted for as a realized loss) and the cost basis of that investment is reduced. The determination of whether unrealized losses are "other than temporary" requires judgment based on subjective as well as objective factors. A listing of factors considered and resources used is contained in the discussion of "Investments" under Management's Discussion and Analysis in AFC's 2002 Form 10-K.

Based on its analysis, management believes (i) AFC will recover its cost basis in the securities with unrealized losses and (ii) that AFC has the ability and intent to hold the securities until they mature or recover in value. Should either of these beliefs change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, charges for other than temporary impairment could be material to results of operations in a future period. Management believes it is not likely that future impairment charges will have a significant effect on AFC's liquidity.

UNCERTAINTIES As more fully explained in the following paragraphs, management believes that the areas posing the greatest risk of material loss are the adequacy of its insurance reserves and American Premier's contingencies arising out of its former operations.

PROPERTY AND CASUALTY INSURANCE RESERVES The liabilities for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon: (a) the accumulation of case estimates for losses reported prior to the close of the accounting periods on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expense for investigating and adjusting claims; and (e) the current state of law and coverage litigation. Using these items as well as historical trends adjusted for changes in underwriting standards, policy provisions, product mix

F-5

and other factors, company actuaries determine a single or "point" estimate which management utilizes in recording its best estimate of the liabilities. Ranges of loss reserves are not developed by company actuaries.

Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors which are subject to significant variation. Through the use of analytical reserve development techniques, management utilizes items such as the effect of inflation on medical, hospitalization, material, repair and replacement costs, general economic trends and the legal environment.

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

Quarterly reviews of unpaid loss and LAE reserves are prepared using standard actuarial techniques. These may include: Case Incurred Development Method; Paid Development Method; Bornhuetter-Ferguson Method; and Incremental Paid LAE to Paid Loss Methods. Generally, data is segmented by major product or coverage within product using countrywide data; however, in some situations data may be reviewed by state for large volume states.

ASBESTOS AND ENVIRONMENTAL-RELATED ("A&E") RESERVES Establishing reserves for A&E claims relating to policies and participations in reinsurance treaties and former operations is subject to uncertainties that are significantly greater than those presented by other types of claims. For this group of claims, traditional actuarial techniques that rely on historical loss development trends cannot be used. Case reserves and expense reserves are established by the claims department as specific policies are identified. In addition to the case reserves established for known claims, management establishes additional reserves for claims not yet known or reported and for possible development on known claims. These additional reserves are management's best estimate based on its review of industry trends and other industry information about such claims, with due consideration to individual claim situations like the A.P. Green case discussed below. Estimating ultimate liability for asbestos claims presents a unique and difficult challenge to the insurance industry due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, novel theories of coverage, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The casualty insurance industry is engaged in extensive litigation over these coverage and liability issues as the volume and severity of claims against asbestos defendants continue to increase.

While management believes that AFC's reserves for A&E claims are a reasonable estimate of ultimate liability for such claims, actual results may vary materially from the amounts currently recorded due to the difficulty in predicting the number of future claims and the impact of recent bankruptcy filings, and unresolved issues such as whether coverage exists, whether policies are subject to aggregate limits on coverage, whether claims are to be allocated among triggered policies and implicated years, and whether claimants who exhibit no signs of illness will be successful in pursuing their claims.

In February 2003, Great American Insurance Company entered into an agreement for the settlement of asbestos related coverage litigation under insurance policies issued during the 1970's and 1980's to Bigelow-Liptak Corporation and related companies, subsequently known as A.P. Green Industries, Inc. ("A.P. Green"). Management believes that this settlement will enhance financial certainty and provides resolution to litigation that represents AFC's largest known asbestos-related claim and the only such claim that management believes to be material.

F-6

The settlement is for \$123.5 million (Great American has the option to pay in cash or over time with 5.25% interest), all of which is covered by reserves established prior to 2003, and anticipated reinsurance recoverables for this matter. The agreement allows up to 10% of the settlement to be paid in AFG common stock.

The settlement is subject to a number of contingencies, including the approval of the bankruptcy court supervising the reorganization of A.P. Green and subsequent confirmation of a plan of reorganization that includes an injunction prohibiting the assertion against Great American of any present or future

## Edgar Filing: AMERICAN FINANCIAL GROUP INC - Form S-4/A

asbestos personal injury claims under policies issued to A.P. Green and related companies. This process could take a year or more and no assurance can be made that all of these consents and approvals will be obtained; no payments are required until completion of the process. If not obtained, the outcome of this litigation will again be subject to the complexities and uncertainties associated with a Chapter 11 proceeding and asbestos coverage litigation.

### RESULTS OF OPERATIONS

GENERAL Results of operations as shown in the accompanying financial statements are prepared in accordance with generally accepted accounting principles. Many of the line items in the Statement of Earnings are not comparable due to the sale of Infinity in mid-February 2003. Operating earnings