

The quarterly report for American Financial Group, Inc. (AFG) for the period ending June 30, 2003, provides a detailed overview of the company's financial position and performance. As of this date, AFG reported total assets of \$19,141,152,000, with liabilities amounting to \$16,739,362,000, primarily due to unpaid losses, unearned premiums, and annuity benefits. Shareholders' equity was \$1,874,225,000, reflecting growth driven by net earnings and unrealized gains on marketable securities. For the second quarter of 2003, AFG generated total income of \$778,057,000, with property and casualty insurance premiums contributing \$412,500,000 and life, accident, and health premiums adding \$83,218,000. The company reported investment income of \$187,111,000, while total costs and expenses were \$727,474,000, resulting in operating earnings before income taxes of \$50,583,000 and net earnings of \$30,510,000, equating to basic earnings per share of \$0.44.

The financial statements are presented as unaudited, with management asserting that necessary adjustments for fair presentation have been made. Investments are categorized as "available for sale" and reported at fair value, with unrealized gains and losses impacting shareholders' equity. Insurance liabilities include unpaid losses and loss adjustment expenses, estimated based on historical data and legal considerations. Deferred Policy Acquisition Costs (DPAC) are recognized for costs related to new business and amortized over policy terms. Premiums for property and casualty insurance are earned pro-rata, while life insurance premiums are recognized when collectible. The report also notes that AFG provides health care and life insurance benefits to eligible retirees, with costs expensed over the period employees earn these benefits.

In June 2003, AFG sold its inactive subsidiary, Fidelity Excess and Surplus Insurance Company, for \$28.9 million, and two subsidiaries involved in direct automobile insurance for \$32.2 million, realizing a pretax loss of \$39.4 million on a public offering of Infinity shares. The property and casualty group focuses on specialized commercial products, while the annuity, life, and health business primarily markets retirement products and supplemental health insurance. The report details revenues and operating profits by segment, with the property and casualty insurance segment generating

significant premiums and investment income. The Specialty group reported an underwriting profit of \$17.2 million for the second quarter of 2003, while the Personal group experienced a decline in premiums due to the sale of certain operations.

AFG's balance sheet includes derivatives related to investments in common stock warrants and annuity products, with changes in their fair value affecting current earnings. The company has a credit agreement allowing it to borrow up to \$280 million, structured into a 364-day revolving facility and a three-year revolving facility, with interest rates contingent on AFG's credit rating. Minority interest on AFG's balance sheet includes noncontrolling shareholders' interests in subsidiaries, totaling \$527,565,000 as of June 30, 2003. The document emphasizes the importance of maintaining a high-quality investment portfolio, with AFG's investment portfolio including \$11.7 billion in fixed maturities and \$312.9 million in other stocks.

The report also discusses the estimation of liabilities for unpaid claims and expenses, particularly regarding asbestos and environmental-related claims, which present significant uncertainties. AFG has established reserves for these claims, but actual results may vary due to the unpredictable nature of future claims. The document highlights that AFG realized aggregate losses of \$4 million on sales of fixed maturity securities during the first half of 2003, primarily due to changes in creditworthiness and strategic asset allocation adjustments.

In terms of legal updates, AFG reached a settlement regarding litigation with A.P. Green, pending Bankruptcy Court approval, which includes an injunction against future asbestos personal injury claims. The report includes certifications from the CEO and CFO affirming the accuracy of the financial statements and the effectiveness of internal controls over financial reporting. Overall, AFG's financial condition reflects a complex interplay of investment performance, underwriting results, and the management of claims reserves amidst ongoing market challenges.