# SECURITIES AND EXCHANGE COMMISSION
## Washington, D.C. 20549

## FORM 10-Q

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

| | |
|---|---|
| **For the Quarterly Period Ended** | **Commission File** |
| **September 30, 2001** | **No. 1-7361** |

# AMERICAN FINANCIAL CORPORATION

| | |
|---|---|
| **Incorporated under** | **IRS Employer I.D.** |
| **the Laws of Ohio** | **No. 31-0624874** |

**One East Fourth Street, Cincinnati, Ohio 45202**
**(513) 579-2121**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes__X__ No____

As of November 1, 2001, there were 10,593,000 shares of the Registrant's Common Stock outstanding, all of which were owned by American Financial Group, Inc.

## PART I
## FINANCIAL INFORMATION

## AMERICAN FINANCIAL CORPORATION AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEET
## (Dollars In Thousands)

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| **Assets:** | | |
| Cash and short-term investments | $ 488,957 | $ 437,263 |
| Investments: | | |
| Fixed maturities - at market (amortized cost – $10,578,181 and $10,148,248) | 10,914,781 | 10,164,648 |
| Other stocks - at market (cost – $185,890 and $174,959) | 304,990 | 385,359 |
| Investment in investee corporations | - | 23,996 |
| Policy loans | 214,797 | 213,469 |
| Real estate and other investments | 227,952 | 270,250 |
| Total investments | 11,662,520 | 11,057,722 |
| Recoverables from reinsurers and prepaid reinsurance premiums | 2,247,868 | 1,845,171 |
| Agents' balances and premiums receivable | 738,456 | 700,215 |
| Deferred acquisition costs | 802,290 | 763,097 |
| Other receivables | 297,163 | 239,806 |
| Variable annuity assets (separate accounts) | 453,780 | 533,655 |
| Prepaid expenses, deferred charges and other assets | 532,490 | 508,163 |
| Cost in excess of net assets acquired | 319,468 | 322,380 |
| | $17,542,992 | $16,407,472 |
| **Liabilities and Capital:** | | |
| Unpaid losses and loss adjustment expenses | $ 4,887,388 | $ 4,515,561 |
| Unearned premiums | 1,598,200 | 1,414,492 |
| Annuity benefits accumulated | 5,717,539 | 5,543,683 |
| Life, accident and health reserves | 614,708 | 599,360 |
| Payable to American Financial Group, Inc. | 379,786 | 439,371 |
| Long-term debt: | | |
| Holding companies | 231,540 | 204,338 |
| Subsidiaries | 252,110 | 195,087 |
| Variable annuity liabilities (separate accounts) | 453,780 | 533,655 |
| Accounts payable, accrued expenses and other liabilities | 1,401,782 | 998,104 |
| Total liabilities | 15,536,833 | 14,443,651 |
| Minority interest | 464,775 | 509,705 |
| Shareholders' Equity: | | |
| Preferred Stock - at liquidation value | 72,154 | 72,154 |
| Common Stock, no par value - 20,000,000 shares authorized - 10,593,000 shares outstanding | 9,625 | 9,625 |
| Capital surplus | 982,662 | 974,788 |
| Retained earnings | 223,143 | 258,349 |
| Unrealized gain on marketable securities, net | 253,800 | 139,200 |
| Total shareholders' equity | 1,541,384 | 1,454,116 |
| | $17,542,992 | $16,407,472 |

## AMERICAN FINANCIAL CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF OPERATIONS
## (In Thousands)

| | Three months ended September 30, 2001 | Three months ended September 30, 2000 | Nine months ended September 30, 2001 | Nine months ended September 30, 2000 |
|---|---|---|---|---|
| **Income:** | | | | |
| Property and casualty insurance premiums | $ 664,381 | $ 661,077 | $1,988,667 | $1,856,935 |
| Life, accident and health premiums | 69,116 | 66,523 | 208,807 | 166,146 |
| Investment income | 216,060 | 211,218 | 643,301 | 630,185 |
| Realized gains (losses) on: | | | | |
| Securities | (22) | (15,223) | (33,328) | (20,563) |
| Subsidiaries | 7,065 | (5,962) | 5,479 | 19,038 |
| Other investments | - | 27,230 | - | 27,230 |
| Other income | 59,836 | 68,780 | 171,966 | 178,595 |
| | 1,016,436 | 1,013,643 | 2,984,892 | 2,857,566 |
| **Costs and Expenses:** | | | | |
| Property and casualty insurance: | | | | |
| Losses and loss adjustment expenses | 626,642 | 562,308 | 1,649,269 | 1,463,456 |
| Commissions and other underwriting expenses | 189,327 | 195,267 | 567,203 | 556,272 |
| Annuity benefits | 74,016 | 72,139 | 213,996 | 218,027 |
| Life, accident and health benefits | 53,952 | 50,699 | 160,246 | 124,308 |
| Interest charges on borrowed money | 14,236 | 18,313 | 47,886 | 50,411 |
| Other operating and general expenses | 116,345 | 112,698 | 338,721 | 338,560 |
| | 1,074,518 | 1,011,424 | 2,977,321 | 2,751,034 |
| Operating earnings (loss) before income taxes | (58,082) | 2,219 | 7,571 | 106,532 |
| Provision (credit) for income taxes | (20,581) | (1,010) | (1,282) | 31,608 |
| Net operating earnings (loss) | (37,501) | 3,229 | 8,853 | 74,924 |
| Minority interest expense, net of tax | (7,984) | (3,124) | (19,091) | (14,471) |
| Equity in net losses of investees, net of tax | (6,395) | (13,570) | (12,042) | (4,368) |
| Earnings (loss) before cumulative effect of accounting change | (51,880) | (13,465) | (22,280) | 56,085 |
| Cumulative effect of accounting change | - | - | (10,040) | - |
| **Net Earnings (Loss)** | ($ 51,880) | ($ 13,465) | ($ 32,320) | $ 56,085 |

## AMERICAN FINANCIAL CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
## (Dollars in Thousands)

| | Preferred Stock | Common Stock and Capital Surplus | Retained Earnings | Unrealized Gain (Loss) on Securities | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2001** | $72,154 | $984,413 | $258,349 | $139,200 | $1,454,116 |
| Net earnings (loss) | - | - | (32,320) | - | (32,320) |
| Change in unrealized | - | - | - | 114,600 | 114,600 |
| Comprehensive income | | | | | 82,280 |
| Capital contribution from parent | - | 9,200 | - | - | 9,200 |
| Dividends on Preferred Stock | - | - | (2,886) | - | (2,886) |
| Other | - | (1,326) | - | - | (1,326) |
| **Balance at September 30, 2001** | $72,154 | $992,287 | $223,143 | $253,800 | $1,541,384 |

| | Preferred Stock | Common Stock and Capital Surplus | Retained Earnings | Unrealized Gain (Loss) on Securities | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2000** | $72,154 | $970,407 | $296,246 | ($ 14,700) | $1,324,107 |
| Net earnings | - | - | 56,085 | - | 56,085 |
| Change in unrealized | - | - | - | 5,900 | 5,900 |
| Comprehensive income | | | | | 61,985 |
| Capital contribution from parent | - | 9,200 | - | - | 9,200 |
| Dividends on Preferred Stock | - | - | (2,886) | - | (2,886) |
| Other | - | 1,512 | - | - | 1,512 |
| **Balance at September 30, 2000** | $72,154 | $981,119 | $349,445 | ($ 8,800) | $1,393,918 |

## AMERICAN FINANCIAL CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS
## (In Thousands)

| | Nine months ended September 30, 2001 | Nine months ended September 30, 2000 |
|---|---|---|
| **Operating Activities:** | | |
| Net earnings (loss) | ($ 32,320) | $ 56,085 |
| Adjustments: | | |
| Cumulative effect of accounting change | 10,040 | - |
| Equity in net losses of investees | 12,042 | 4,368 |
| Depreciation and amortization | 111,343 | 94,135 |
| Annuity benefits | 213,996 | 218,027 |
| Realized (gains) losses on investing activities | 1,106 | (40,246) |
| Deferred annuity and life policy acquisition costs | (111,377) | (106,844) |
| Increase in reinsurance and other receivables | (383,034) | (57,246) |
| Increase in other assets | (32,298) | (55,739) |
| Increase in insurance claims and reserves | 589,761 | 286,781 |
| Increase (decrease) in other liabilities | 179,263 | (9,271) |
| Increase (decrease) in minority interest | 9,788 | (376) |
| Other, net | 4,398 | 10,588 |
| | 572,708 | 400,262 |
| **Investing Activities:** | | |
| Purchases of and additional investments in: | | |
| Fixed maturity investments | (1,609,151) | (1,237,409) |
| Equity securities | (5,556) | (22,547) |
| Real estate, property and equipment | (43,660) | (57,238) |
| Maturities and redemptions of fixed maturity investments | 579,916 | 465,637 |
| Sales of: | | |
| Fixed maturity investments | 666,593 | 651,578 |
| Equity securities | 11,978 | 67,473 |
| Subsidiaries | 40,395 | 35,000 |
| Real estate, property and equipment | 46,683 | 8,156 |
| Cash and short-term investments of acquired (former) subsidiaries | (134,237) | (131,880) |
| Decrease (increase) in other investments | (4,711) | 8,695 |
| | (451,750) | (212,535) |
| **Financing Activities:** | | |
| Fixed annuity receipts | 454,189 | 359,884 |
| Annuity surrenders, benefits and withdrawals | (482,997) | (564,454) |
| Net transfers from (to) variable annuity assets | 3,252 | (44,305) |
| Additional long-term borrowings | 185,668 | 131,341 |
| Reductions of long-term debt | (102,067) | (133,343) |
| Borrowings from AFG | 14,077 | 10,500 |
| Payments to AFG | (77,500) | (78,413) |
| Capital contribution | 14,000 | 14,000 |
| Repurchases of trust preferred securities | (75,000) | (1,427) |
| Cash dividends paid | (2,886) | (2,886) |
| | (69,264) | (309,103) |
| **Net Increase (Decrease) in Cash and Short-term Investments** | 51,694 | (121,376) |
| Cash and short-term investments at beginning of period | 437,263 | 389,018 |
| Cash and short-term investments at end of period | $ 488,957 | $ 267,642 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### A. Accounting Policies

**Basis of Presentation** The accompanying consolidated financial statements for American Financial Corporation. ("AFC") and subsidiaries are unaudited; however, management believes that all adjustments (consisting only of normal recurring accruals unless otherwise disclosed herein) necessary for fair presentation have been made. The results of operations for interim periods are not necessarily indicative of results to be expected for the year. The financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary to be in conformity with generally accepted accounting principles.

Certain reclassifications have been made to prior years to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated. All acquisitions have been treated as purchases. The results of operations of companies since their formation or acquisition are included in the consolidated financial statements.

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

**Investments** All fixed maturity securities are considered "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of shareholders' equity. Short-term investments are carried at cost; loans receivable are carried primarily at the aggregate unpaid balance. Premiums and discounts on mortgage-backed securities are amortized over a period based on estimated future principal prepayments and adjusted to reflect actual prepayments.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other than temporary, a provision for impairment is charged to earnings and the carrying value of that investment is reduced.

Emerging Issues Task Force Issue No. 99-20 established a new standard for recognizing impairment of certain asset-backed investments. Impairment losses on these investments must be recognized when (i) the fair value of the security is less than its carrying value and (ii) there has been an adverse change in the expected cash flows. The new standard became effective on April 1, 2001. Impairment losses on initial application of this rule were recognized as the cumulative effect of an accounting change. Subsequent impairments are recognized as a component of net realized gains and losses.

**Investment in Investee Corporations** Investments in securities of 20%- to 50%-owned companies are generally carried at cost, adjusted for AFC's proportionate share of their undistributed earnings or losses.

Due to Chiquita's announced intention to pursue a plan to restructure its public debt, AFC wrote down its investment in Chiquita common stock to market value at December 31, 2000. In 2001, AFC suspended accounting for the investment under the equity method due to the expected restructuring, and reclassified the investment to "Other stocks".

**Cost in Excess of Net Assets Acquired** The excess of cost of subsidiaries over AFC's equity in the underlying net assets ("goodwill") is being amortized over periods of 20 to 40 years.

**Insurance** As discussed under "Reinsurance" below, unpaid losses and loss adjustment expenses and unearned premiums have not been reduced for reinsurance recoverable. To the extent that unrealized gains (losses) from securities classified as "available for sale" would result in adjustments to deferred acquisition costs and policyholder liabilities had those gains (losses) actually been realized, such balance sheet amounts are adjusted, net of deferred taxes.

***Reinsurance*** In the normal course of business, AFC's insurance subsidiaries cede reinsurance to other companies to diversify risk and limit maximum loss arising from large claims. To the extent that any reinsuring companies are unable to meet obligations under agreements covering reinsurance ceded, AFC's insurance subsidiaries would remain liable. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. AFC's insurance subsidiaries report as assets (a) the estimated reinsurance recoverable on unpaid losses, including an estimate for losses incurred but not reported, and (b) amounts paid to reinsurers applicable to the unexpired terms of policies in force. AFC's insurance subsidiaries also assume reinsurance from other companies. Income on reinsurance assumed is recognized based on reports received from ceding companies.

***Deferred Acquisition Costs*** Policy acquisition costs (principally commissions, premium taxes and other marketing and underwriting expenses) related to the production of new business are deferred ("DPAC"). For the property and casualty companies, DPAC is limited based upon recoverability without any consideration for anticipated investment income and is charged against income ratably over the terms of the related policies. DPAC related to annuities and universal life insurance products is amortized, with interest, in relation to the present value of expected gross profits on the policies. DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues.

***Unpaid Losses and Loss Adjustment Expenses*** The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon (a) the accumulation of case estimates for losses reported prior to the close of the accounting period on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expenses for investigating and adjusting claims and (e) the current state of the law and coverage litigation. These liabilities are subject to the impact of changes in claim amounts and frequency and other factors. Changes in estimates of the liabilities for losses and loss adjustment expenses are reflected in the Statement of Operations in the period in which determined. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate.

***Annuity Benefits Accumulated*** Annuity receipts and benefit payments are recorded as increases or decreases in "annuity benefits accumulated" rather than as revenue and expense. Increases in this liability for interest credited are charged to expense and decreases for surrender charges are credited to other income.

***Life, Accident and Health Reserves*** Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on anticipated investment yield, mortality, morbidity and surrenders and include provisions for unfavorable deviations. Reserves established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

***Variable Annuity Assets and Liabilities*** Separate accounts related to variable annuities represent deposits invested in underlying investment funds on which Great American Financial Resources, Inc. ("GAFRI"), an 83%-owned subsidiary, earns a fee. Investment funds are selected and may be changed only by the policyholder.

***Premium Recognition*** Property and casualty premiums are earned over the terms of the policies on a pro rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. On reinsurance assumed from other insurance companies or written through various underwriting organizations, unearned premiums are based on reports received from such companies and organizations. For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

***Policyholder Dividends*** Dividends payable to policyholders are included in "Accounts payable, accrued expenses and other liabilities" and represent estimates of amounts payable on participating policies which share in favorable underwriting results. Estimates are accrued during the period in which premiums are earned. Changes in estimates are included in income in the period determined. Policyholder dividends do not become legal liabilities unless and until declared by the boards of directors of the insurance companies.

**Minority Interest** For balance sheet purposes, minority interest represents (i) the interests of noncontrolling shareholders in AFC subsidiaries, including preferred securities issued by trust subsidiaries of GAFRI and (ii) American Financial Group, Inc.'s ("AFG") direct ownership interest in American Premier Underwriters, Inc. ("American Premier" or "APU") and American Financial Enterprises, Inc. For income statement purposes, minority interest expense represents those shareholders' interest in the earnings of AFC subsidiaries as well as accrued distributions on the trust preferred securities.

**Income Taxes** AFC files consolidated federal income tax returns which include all 80%-owned U.S. subsidiaries, except for certain life insurance subsidiaries and their subsidiaries. Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. Deferred tax assets are recognized if it is more likely than not that a benefit will be realized.

**Benefit Plans** AFC provides retirement benefits to qualified employees of participating companies through contributory and noncontributory defined contribution plans contained in AFG's Retirement and Savings Plan. Under the retirement portion of the plan, company contributions are invested primarily in securities of AFG and affiliates. Under the savings portion of the plan, AFC matches a specific portion of employee contributions. Contributions to benefit plans are charged against earnings in the year for which they are declared.

AFC and many of its subsidiaries provide health care and life insurance benefits to eligible retirees. AFC also provides postemployment benefits to former or inactive employees (primarily those on disability) who were not deemed retired under other company plans. The projected future cost of providing these benefits is expensed over the period employees earn such benefits.

**Derivatives** Effective October 1, 2000, AFC implemented Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments (including derivative instruments that are embedded in other contracts) and for hedging activities. Prior year financial statements were not restated. SFAS No. 133 generally requires that derivatives (both assets and liabilities) be recognized in the balance sheet at fair value with changes in fair value included in current earnings.

Derivatives included in AFC's Balance Sheet consist primarily of investments in common stock warrants (included in other stocks), the equity-based component of certain annuity products (included in annuity benefits accumulated) and call options (included in other investments) used to mitigate the risk embedded in the equity-indexed annuity products.

**Statement of Cash Flows** For cash flow purposes, "investing activities" are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. "Financing activities" include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, benefits and withdrawals are also reflected as financing activities. All other activities are considered "operating". Short-term investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

## B. Sale of Subsidiaries

**Seven Hills Insurance Company** In July 2001, AFC sold Seven Hills Insurance Company for $18.4 million, realizing a pretax gain of $7.1 million. As a part of the sale, AFC assumed all liability for Seven Hills' business prior to the date of the sale.

**Japanese division** In December 2000, AFC agreed to sell its Japanese property and casualty division to Mitsui Marine & Fire Insurance Company of America for $22 million in cash and recorded a $10.7 million pretax loss on the sale. Upon completion of the sale in March 2001, AFC realized an additional pretax loss of $1.6 million and deferred a gain of approximately $21 million on ceded insurance which is being recognized over the estimated settlement period (weighted average of 4 years) of the ceded claims. At the same time, a reinsurance agreement under which Great American Insurance ceded a portion of its pool of insurance to Mitsui was terminated. The Japanese division generated net written premiums of approximately $60 million per year to Great American while Great American ceded approximately $45 million per year to Mitsui.

**Stonewall Insurance Company** In September 2000, AFC sold Stonewall Insurance Company, realizing a pretax loss of $6 million. AFC recognized an additional pretax loss of $4.3 million in the fourth quarter of 2000 as a result of post-closing adjustments. Stonewall was a non-operating property and casualty subsidiary with approximately $320 million in assets, engaged primarily in the run-off of approximately $170 million in asbestos and environmental liabilities associated with policies written through 1991.

**Commercial lines division** In 1998, AFC sold its Commercial lines division to Ohio Casualty Corporation. In August 2000, AFC received an additional payment of $25 million from Ohio Casualty based on retention and growth through May 2000 of the businesses sold. This earn-out was recognized as additional "gain on sale of subsidiary" in the second quarter of 2000.

**C. Segments of Operations** AFC's property and casualty group is engaged primarily in private passenger automobile and specialty insurance businesses. The Specialty group includes a highly diversified group of specialty business units. Some of the more significant areas are inland and ocean marine, California workers' compensation, agricultural-related coverages, executive and professional liability, fidelity and surety bonds, collateral protection, and umbrella and excess coverages. The Personal group writes nonstandard and preferred/standard private passenger auto and other personal insurance coverage. AFC's annuity, life and health business markets primarily retirement products as well as life and supplemental health insurance.

The following table (in thousands) shows AFC's revenues and operating profit (loss) by significant business segment. Operating profit (loss) represents total revenues less operating expenses.

| | Three months ended September 30, 2001 | Three months ended September 30, 2000 | Nine months ended September 30, 2001 | Nine months ended September 30, 2000 |
|---|---|---|---|---|
| **Revenues (a)** | | | | |
| Property and casualty insurance: | | | | |
| Premiums earned: | | | | |
| Specialty | $ 390,254 | $ 334,846 | $1,062,749 | $ 917,057 |
| Personal | 273,905 | 326,591 | 924,166 | 940,237 |
| Other lines - primarily discontinued | 222 | (360) | 1,752 | (359) |
| | 664,381 | 661,077 | 1,988,667 | 1,856,935 |
| Investment and other income | 117,233 | 98,703 | 331,008 | 349,181 |
| | 781,614 | 759,780 | 2,319,675 | 2,206,116 |
| Annuities, life and health (b) | 228,044 | 235,862 | 647,636 | 619,144 |
| Other | 6,778 | 18,001 | 17,581 | 32,306 |
| | $1,016,436 | $1,013,643 | $2,984,892 | $2,857,566 |
| **Operating Profit (Loss)** | | | | |
| Property and casualty insurance: | | | | |
| Underwriting: | | | | |
| Specialty | ($ 32,119) | ($ 56,580) | ($ 38,958) | ($ 81,758) |
| Personal | (21,104) | (34,704) | (84,681) | (72,029) |
| Other lines (c) | (98,365) | (5,214) | (104,166) | (9,006) |
| | (151,588) | (96,498) | (227,805) | (162,793) |
| Investment and other income | 73,115 | 57,450 | 217,464 | 235,457 |
| | (78,473) | (39,048) | (10,341) | 72,664 |
| Annuities, life and health | 36,959 | 50,501 | 84,417 | 75,806 |
| Other (d) | (16,568) | (9,234) | (66,505) | (41,938) |
| | ($ 58,082) | $ 2,219 | $ 7,571 | $ 106,532 |

(a) Revenues include sales of products and services as well as other income earned by the respective segments.
(b) Represents primarily investment income.
(c) Represents primarily losses related to asbestos and other environmental matters ("A&E")
(d) Includes holding company expenses.

D. **Investee Corporations** Investment in investee corporations at December 31, 2000, reflects AFC's ownership of 24 million shares (33%) of Chiquita common stock. The market value of this investment was $24 million at December 31, 2000. Chiquita is a leading international marketer, producer and distributor of quality fresh fruits and vegetables and processed foods. Summarized financial information for Chiquita for the nine months ended September 30, 2000, follows (in millions):

| | |
|---|---|
| Net Sales | $1,725 |
| Operating Income | 88 |
| Net Loss | (6) |

In January 2001, Chiquita announced a restructuring initiative that included discontinuing all interest and principal payments on its public debt. A restructuring is expected to result in the conversion of a significant portion of Chiquita's $862 million in public debt into common equity. Although the expected restructuring would not impact Chiquita's day-to-day operations, it would adversely affect the holders of its stock, including AFC.

**Start-up manufacturing businesses** Since 1998, AFC subsidiaries have made loans to two start-up manufacturing businesses which were previously owned by unrelated third-parties. During 2000, the former owners chose to forfeit their equity interests to AFC rather than invest additional capital. In the fourth quarter of 2000, AFC sold the equity interests to a group of employees for nominal cash consideration plus warrants to repurchase a significant ownership interest. Due to the absence of significant financial investment by the buyers relative to the amount of debt owed to AFC subsidiaries, the sale was not recognized as a divestiture for accounting purposes. Assets of the businesses transferred (approximately $55 million at September 30, 2001 and December 31, 2000) are included in other assets; liabilities of the businesses transferred (approximately $9 million at September 30, 2001 and $7 million at December 31, 2000, after elimination of loans from AFC subsidiaries) are included in other liabilities. AFC's equity in the losses of these two companies ($6.4 million in the third quarter and $12.0 million in the first nine months of 2001) is included in investee losses in the Statement of Operations. One of the businesses is involved in litigation impacting its operations; see "Investee Corporations" in Management’s Discussion and Analysis.

E. **Payable to American Financial Group** AFC has a reciprocal Master Credit Agreement with various AFG holding companies under which these companies make funds available to each other for general corporate purposes.

F. **Long-Term Debt** The carrying value of long-term debt consisted of the following (in thousands):

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| **Holding Companies:** | | |
| AFC notes payable under bank line | $206,000 | $178,000 |
| APU 10-7/8% Subordinated Notes due May 2011 | 11,570 | 11,611 |
| Other | 13,970 | 14,727 |
| | $231,540 | $204,338 |
| **Subsidiaries**: | | |
| GAFRI 6-7/8% Senior Notes due June 2008 | $100,000 | $100,000 |
| GAFRI notes payable under bank line | 121,100 | 48,500 |
| Notes payable secured by real estate | 16,500 | 31,201 |
| Other | 14,510 | 15,386 |
| | $252,110 | $195,087 |

At September 30, 2001, sinking fund and other scheduled principal payments on debt for the balance of 2001 and the subsequent five years were as follows (in millions):

| | Holding Companies | Subsidiaries | Total |
|---|---|---|---|
| 2001 | $ .5 | $ .3 | $ .8 |
| 2002 | 216.5 | 1.3 | 217.8 |
| 2003 | - | 1.3 | 1.3 |
| 2004 | - | 122.1 | 122.1 |
| 2005 | - | 10.0 | 10.0 |
| 2006 | - | .7 | .7 |

Debentures purchased in excess of scheduled payments may be applied to satisfy any sinking fund requirement. The scheduled principal payments shown above assume that debentures previously purchased are applied to the earliest scheduled retirements.

AFC and GAFRI each have an unsecured credit agreement with a group of banks under which they can borrow up to $300 million and $155 million, respectively. Borrowings bear interest at floating rates based on prime or Eurodollar rates. Loans mature in December 2002 under the AFC credit agreement and in December 2004 under the GAFRI credit agreement.

**G. Minority Interest** Minority interest in AFC's balance sheet is comprised of the following (in thousands):

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| Interest of AFG (parent) and noncontrolling shareholders in subsidiaries' common stock | $321,862 | $291,792 |
| Preferred securities issued by subsidiary trusts | 142,913 | 217,913 |
| | $464,775 | $509,705 |

**Trust Issued Preferred Securities** Wholly-owned subsidiary trusts of GAFRI have issued preferred securities and, in turn, purchased a like amount of subordinated debt which provides interest and principal payments to fund the respective trusts' obligations. The preferred securities must be redeemed upon maturity or redemption of the subordinated debt. GAFRI effectively provides unconditional guarantees of its respective trusts' obligations.

The preferred securities consisted of the following (in thousands):

| Date of Issuance | Issue (Maturity Date) | September 30, 2001 | December 31, 2000 | Optional Redemption Dates |
|---|---|---|---|---|
| November 1996 | GAFRI 9-1/4% TOPrS (2026) | $72,913 | $72,913 | On or after 11/7/2001 |
| March 1997 | GAFRI 8-7/8% Pfd (2027) | 70,000 | 70,000 | On or after 3/1/2007 |
| May 1997 | GAFRI 7-1/4% ROPES (2041) | - | 75,000 | |

On September 28, 2001, GAFRI redeemed its ROPES for $75 million in cash.

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

| | Nine months ended September 30, 2001 | 2000 |
|---|---|---|
| Interest of AFG (parent) and noncontrolling shareholders in earnings of subsidiaries | $10,122 | $ 5,508 |
| Accrued distributions by subsidiaries on trust issued preferred securities, net of tax | 8,969 | 8,963 |
| | $19,091 | $14,471 |

**H. Shareholders' Equity** At September 30, 2001 and December 31, 2000, American Financial Group beneficially owned all of the outstanding shares of AFC's Common Stock.

**Preferred Stock** Under provisions of both the Nonvoting (4.0 million shares authorized) and Voting (4.0 million shares authorized) Cumulative Preferred Stock, the Board of Directors may divide the authorized stock into series and set specific terms and conditions of each series. At September 30, 2001 and December 31, 2000, the outstanding voting shares of AFC's Preferred Stock consisted of the following:

**Series J,** no par value; $25.00 liquidating value per share; annual dividends per share $2.00; redeemable at AFC's option at $25.75 per share beginning December 2005 declining to $25.00 at December 2007 and thereafter; 2,886,161 shares (stated value $72.2 million) outstanding at September 30, 2001 and December 31, 2000.

**Unrealized Gain on Marketable Securities** The change in unrealized gain (loss) on marketable securities for the nine months ended September 30 included the following (in millions):

| | Pretax | Taxes | Minority Interest | Net |
|---|---|---|---|---|
| 2001 | | | | |
| Unrealized holding gains on securities arising during the period | $175.4 | ($60.9) | ($19.2) | $ 95.3 |
| Realized losses included in net income and unrealized gains of subsidiary sold | 33.1 | (11.6) | (2.2) | 19.3 |
| Change in unrealized gain on marketable securities, net | $208.5 | ($72.5) | ($21.4) | $114.6 |
| 2000 | | | | |
| Unrealized holding losses on securities arising during the period | ($ 9.9) | $ 4.3 | ($3.0) | ($ 8.6) |
| Realized losses included in net income and unrealized losses of subsidiary sold | 25.2 | (8.8) | (1.9) | 14.5 |
| Change in unrealized gain (loss) on marketable securities, net | $15.3 | ($ 4.5) | ($4.9) | $ 5.9 |

**I. Commitments and Contingencies** There have been no significant changes to the matters discussed and referred to in Note M "Commitments and Contingencies" of AFC's Annual Report on Form 10-K for 2000.

## ITEM 2

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

### 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.

**IT Initiative** In 1999, AFC initiated an enterprise-wide project to study its information technology ("IT") resources, needs and opportunities. The initiative, involving improvements in physical infrastructure and business support systems, entails extensive effort and costs over a period of several years. While the costs precede the expected savings, management believes the benefits in efficiencies and effectiveness will exceed the costs incurred, all of which have been and will be funded through available working capital.

**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 "believes", "expects", "may", "will", "should", "seeks", "intends", "plans", "estimates", "anticipates" or the negative version of those words or other comparable terminology. 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;
- judicial decisions and rulings;
- tax law changes;
- levels of catastrophes and other major losses;
- the actual amount of liabilities associated with certain environmental and asbestos-related insurance claims;
- adequacy of loss reserves;
- availability of reinsurance; and
- competitive pressures, including the ability to obtain rate increases.

Forward-looking statements speak only as of the date made. AFC undertakes no obligations to update any forward-looking statements to reflect events or circumstances arising after the date on which they are made.

### LIQUIDITY AND CAPITAL RESOURCES

**Ratios** AFC's debt to total capital ratio at the parent holding company level (excluding amounts due AFG) was approximately 13% at September 30, 2001 and 12% at December 31, 2000. Including amounts due AFG, the ratio was 28% at September 30, 2001 and 31% at December 31, 2000.

**Management's Discussion and Analysis**
**of Financial Condition and Results of Operations - Continued**

AFC's ratio of earnings to fixed charges, excluding and including preferred dividends, (on a total enterprise basis) was .91 and .86 for the first nine months of 2001 and 2.02 and 1.87 for the entire year of 2000. Due primarily to the $100 million strengthening of asbestos and environmental reserves in the third quarter, fixed charges exceeded earnings by $6 million ($11 million including preferred dividends) during the first nine months of 2001.

**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 has a revolving credit agreement with several banks under which it can borrow up to $300 million. This credit line provides liquidity and can be used to obtain funds for operating subsidiaries or, if necessary, for the parent companies. At September 30, 2001, there was $206 million borrowed under the line.

Dividend payments from subsidiaries have been very important to the liquidity and cash flow of the individual holding companies during certain periods in the past. However, the reliance on such dividend payments has been lessened in recent years by the combination of (i) reductions in the amounts and cost of debt at the holding companies from historical levels (and the related decrease in ongoing cash needs for interest and principal payments), (ii) the ability to obtain financing in capital markets, as well as (iii) the sales of certain noncore investments.

**Investments** Approximately 93% of the fixed maturities held by AFC were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies at September 30, 2001. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and noninvestment grade. Management believes that the high quality investment portfolio should generate a stable and predictable investment return.

AFC's equity securities are concentrated in a relatively limited number of major positions. This approach allows management to more closely monitor the companies and the industries in which they operate.

## RESULTS OF OPERATIONS

**General** AFC had a pretax operating loss of $58.1 million for the third quarter and operating earnings of $7.6 million for the nine months ended September 30, 2001, compared to earnings of $2.2 million and $106.5 million in the comparable 2000 periods. Results for the third quarter of 2001 include a $100 million asbestos and environmental charge and losses of $25 million resulting from the World Trade Center terrorist attack. Results for 2000 include a third quarter charge of $35 million for reserve strengthening in the California workers' compensation business and special litigation charges of $41 million recorded in the second quarter. Results for the first nine months of 2001 include realized losses of $27.8 million compared to gains of $25.7 million in the comparable 2000 period.

**Management's Discussion and Analysis**
**of Financial Condition and Results of Operations - Continued**

**Property and Casualty Insurance - Underwriting** AFC's property and casualty group consists of two major business groups: Specialty and Personal.

The Specialty group includes a highly diversified group of business lines. Some of the more significant areas are inland and ocean marine, California workers' compensation, agricultural-related coverages, executive and professional liability, fidelity and surety bonds, collateral protection, and umbrella and excess coverages.

The Personal group sells nonstandard and preferred/standard private passenger auto insurance and, to a lesser extent, homeowners' insurance. Nonstandard automobile insurance covers risk not typically accepted for standard automobile coverage because of an applicant's driving record, type of vehicle, age or other criteria.

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

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net Written Premiums (GAAP) | | | | |
| Specialty | $417.3 | $341.7 | $1,167.7(a) | $ 974.9 |
| Personal | 190.6 | 299.4 | 813.1 | 997.3 |
| Other lines | - | (.3) | - | (.3) |
| | $607.9 | $640.8 | $1,980.8 | $1,971.9 |
| Combined Ratios (GAAP) (b) | | | | |
| Specialty (c) | 108.3% | 116.8% | 103.7% | 108.9% |
| Personal | 107.7 | 110.6 | 109.2 | 107.6 |
| Aggregate (including discontinued lines) (d) | 122.8 | 114.7 | 111.4 | 108.8 |

(a) Before a reduction of $29.7 million for unearned premium transfer related to the sale of the Japanese division.
(b) Combined ratios for the entire year of 2000 were: Specialty – 107.9%, Personal – 108.6%, Aggregate – 108.0%.
(c) Includes 6.5% and 2.3% for the three and nine month periods of 2001 relating to the attack on the World Trade Center.
(d) Includes an aggregate of 18.8% and 6.2% for the three and nine month periods of 2001 relating to the A&E charge and the attack on the World Trade Center.

**Management's Discussion and Analysis**
**of Financial Condition and Results of Operations - Continued**

**Asbestos and Environmental Reserves Charge** Throughout the property and casualty insurance industry, estimating ultimate liability for asbestos claims has become increasingly uncertain due to inconsistent court decisions, recent bankruptcy filings, novel theories of coverage, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The casualty insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues as the volume and severity of claims against asbestos defendants continue to increase.

In October 2001, AFC completed a comprehensive study of its A&E reserves. This study was initiated after experiencing an increase in the number and severity of asbestos claims during the second quarter of 2001 and observing the developments of adverse trends in the property and casualty insurance industry concerning asbestos losses. As a result, AFC recorded a third quarter charge of $100 million. This charge, accompanied by a transfer of $36 million from excess reserves for other environmental claims, resulted in an increase of $136 million in asbestos reserves. At September 30, 2001, A&E reserves were $554 million (before deducting reinsurance recoverables of $119 million).

While management believes that the reserves, as strengthened, are a reasonable estimate of ultimate liability for A&E claims, actual results may vary materially from the amount currently recorded due to uncertainties such as insureds seeking bankruptcy protection, predicting the number of future claims, the ability of claimants who exhibit no signs of illness to successfully pursue claims, and the potential for allocation of liability among insurers.

Further, certain policyholders assert that their claims are not subject to aggregate limits on coverage because either their policies failed to contain aggregate limits with respect to products liability coverage or, faced with exhaustion of products coverage limits, their asbestos claims fall within non-products liability coverage which is not subject to any aggregate limit. These claims are now being contested in insurance coverage litigation in various jurisdictions. In rejecting the claims that are the basis of this litigation, AFC believes its coverage defenses are substantial and intends to continue to vigorously defend its position. Nonetheless, such claims may have a material adverse effect upon AFC if resolved unfavorably.

**Specialty** The Specialty group's increase in net written premiums reflects the impact of rate increases implemented in 2000 and 2001 and the realization of growth opportunities in certain commercial markets. Through the first nine months of this year, rate increases in the California worker's compensation business have been in excess of 35% and have averaged over 17% in the other specialty operations. AFC expects these levels of rate increases to continue for the remainder of 2001. The improvement in the combined ratio compared to the 2000 periods reflects the impact of these rate increases. Excluding the effect of the attack on the World Trade Center, the Specialty group's combined ratio improved to 101.8% for the third quarter and 101.4% for the first nine months of 2001.

**Personal** The Personal group's decline in net written premiums reflects a reinsurance agreement, effective April 1, 2001, under which AFC cedes 90% of the automobile physical damage business written by certain of its insurance subsidiaries. This agreement is enabling AFC to reallocate some of its capital to the more profitable specialty operations. Excluding the effect of this agreement, the Personal group's net written premiums declined slightly for the third quarter and nine months as lower business volume was partially offset by the impact of significant rate increases. Through the first nine months of 2001, the group has implemented rate increases of 12%. As a result, the combined ratio improved to 107.7% for the third quarter of 2001.

## Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

**Life, Accident and Health Premiums and Benefits** The increase in life, accident and health premiums and benefits for the nine months is due primarily to the acquisition of a block of supplemental health insurance business in 2000.

**Real Estate Operations** AFC's subsidiaries are engaged in a variety of real estate operations including hotels, apartments, office buildings and recreational facilities; they also own several parcels of land. Revenues and expenses of these operations, including gains and losses on disposal, are included in AFC's statement of earnings as shown below (in millions).

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Other income | $24.3 | $26.8 | $85.7 | $71.2 |
| Other operating and general expenses | 17.9 | 18.5 | 49.5 | 49.8 |
| Interest charges on borrowed money | .3 | .6 | 1.6 | 1.9 |
| Minority interest expense, net | .5 | .7 | 3.8 | 1.9 |

Other income includes net pretax gains on the sale of real estate assets of $2.0 million in the third quarter and $26.6 million in the first nine months of 2001 compared to $.8 million and $7.5 million for the 2000 periods.

**Other Income** Excluding gains on the sale of real estate assets (discussed above), other income decreased $25.8 million (15%) in the first nine months of 2001 due primarily to income of $11.2 million from the sale of certain lease rights in the third quarter of 2000 and income from the sale of operating assets and lease residuals in the first quarter of 2000.

**Realized Gains** Realized capital gains have been an important part of the return on investments. Individual assets are sold creating gains and losses as market opportunities exist.

**Gains (Losses) on Securities** In addition to gains (losses) on sales of securities, provisions for other than temporary impairment of securities still held are included as follows: third quarter of 2001 and 2000 - $22.9 million and $6.6 million; nine months of 2001 and 2000 - $60.1 million and $9.9 million, respectively. The provisions for the 2001 periods include $8 million for the write-down of AFC's investment in Chiquita from $1.00 per share to $.67 per share.

Under SFAS No. 133, which was adopted as of October 1, 2000, warrants to purchase common stock of publicly traded companies are generally considered derivatives and marked to market through current earnings as realized gains and losses. Realized losses on securities in 2001 includes gains of $60,000 in the third quarter and $2.4 million in the first nine months to adjust the carrying value of AFC's investment in warrants to market value.

**Gain (Loss) on Subsidiaries** Gain (loss) on sales of subsidiaries in 2001 includes a third quarter pretax gain of $7.1 on the sale of Seven Hills Insurance Company and a first quarter pretax loss of $1.6 million representing an adjustment to the fourth quarter 2000 loss recorded on the sale of the Japanese division. In 2000, AFC recognized a $25 million gain in the second quarter representing an earn-out related to the 1998 sale of its Commercial lines division and a $6 million loss in the third quarter on the sale of Stonewall Insurance Company.

## Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

**Gain on Other Investments** In September 2000, GAFRI realized a $27.2 million pretax gain on the sale of its minority ownership in a company engaged in the production of ethanol.

**Annuity Benefits** Annuity benefits reflect amounts accrued on annuity policyholders' funds accumulated. The majority of GAFRI's fixed rate annuity products permit GAFRI to change the crediting rate at any time (subject to minimum interest rate guarantees of 3% or 4% per annum). As a result, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. In 2000, annuity benefits also includes a second quarter charge of $14.2 million related to the settlement of a policyholder class action lawsuit.

GAFRI's equity-indexed fixed annuities provide policyholders with a crediting rate tied, in part, to the performance of an existing stock market index. GAFRI attempts to mitigate the risk in the equity-based component of these products through the purchase of call options on the appropriate index. GAFRI's strategy is designed so that an increase in the liabilities due to an increase in the market index will be substantially offset by unrealized gains on the call options. Under SFAS No. 133, both the equity-based component of the annuities and the related call options are considered derivatives and marked to market through current earnings as annuity benefits. Adjusting these derivatives to market value had a net effect of less than $1 million on annuity benefits during the third quarter or the first nine months of 2001.

**Interest Expense** Interest expense for the third quarter and nine months of 2001 decreased compared to 2000 as lower average interest rates on AFC's variable rate debt and lower average subsidiary indebtedness more than offset higher average borrowings under the AFC bank line.

**Other Operating and General Expenses** Other operating and general expenses for 2000 include second quarter charges of $18.3 million related to the settlement of the policyholder class action lawsuit against a GAFRI subsidiary and $8.8 million for an adverse California Supreme Court ruling against an AFC property and casualty subsidiary. Excluding these litigation charges, other operating and general expenses increased $21 million (7%) for the first nine months of 2001 compared to 2000 due primarily to increased expenses associated with the IT initiative and slightly higher holding company expenses.

**Investee Corporations** Equity in losses of investee corporations in 2001 represents losses of two start-up manufacturing businesses (see Note D). Investee losses in 2001 include a third quarter judgement of $2.7 million against one of the companies for the misappropriation of a trade secret and the infringement of a patent. In November 2001, an injunction was issued which would prohibit the company from using the equipment which was the subject of the trade secret claim and effectively close the plant. The injunction was subsequently modified, pending appeal, to permit operations to continue and require certain escrow payments. If the investee is unsuccessful in its attempt to have the injunction lifted or further modified, a substantial portion of AFC's investment ($35 million as of November 1, 2001), may be written off.

Equity in net losses of investees in 2000 represents AFC's proportionate share of Chiquita's earnings. Due to Chiquita's restructuring plans, AFC suspended its use of equity accounting in 2001.

## Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

**Cumulative Effect of Accounting Change** The cumulative effect of accounting change represents the implementation of a new accounting standard (EITF 99-20) which resulted in a pretax write-down of $16.9 million ($10 million after-tax and minority interest) of the carrying value of certain collateralized debt obligations as of April 1, 2001.

**Recent Accounting Standards** In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 141, business combinations initiated after June 30, 2001 are required to be accounted for using the purchase method of accounting. Under SFAS No. 142, goodwill will no longer be required to be amortized beginning January 1, 2002, but will be subject to an impairment test at least annually. A transitional test for impairment is required to be completed in 2002 with any resulting writedown reported during the first quarter as a cumulative effect of a change in accounting principle. Based on current levels of goodwill, amortization is approximately $3.5 million per quarter.

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## Item 3

## Quantitative and Qualitative Disclosure of Market Risk

As of September 30, 2001, there were no material changes to the information provided in AFC's Form 10-K for 2000 under the caption "Exposure to Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Item 6

**Exhibits and Reports on Form 8-K**

(a) Exhibits: none

(b) Reports on Form 8-K: none

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**Signature**

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

American Financial Corporation

November 14, 2001

BY: Fred J. Runk
Fred J. Runk
Senior Vice President and Treasurer