GREAT AMERICAN FINANCIAL RESOURCES INC
Form 10-Q
May 11, 2001

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

March 31, 2001

Commission File

No. 1-11632

GREAT AMERICAN FINANCIAL RESOURCES, INC.

Incorporated under

the Laws of Delaware

IRS Employer I.D.

No. 06-1356481

250 East Fifth Street, Cincinnati, Ohio 45202

(513) 333-5300

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 May 1, 2001, there were 42,323,060 shares of the Registrant's Common Stock outstanding.

GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

PART I

FINANCIAL INFORMATION

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Dollars in millions)

	March 31, 2001	December 31, 2000
Assets		
Investments:		
Fixed maturities - at market		
(amortized cost - $6,178.6 and $6,088.0)	$6,290.9	$6,117.1
Equity securities - at market		
(cost - $35.1 and $30.5)	59.3	67.9
Investment in affiliate	2.7	2.7
Mortgage loans on real estate	25.1	24.4
Real estate	67.7	72.2
Policy loans	212.0	213.5
Short-term investments	28.4	49.5
Total investments	6,686.1	6,547.3
Cash	3.4	38.0
Accrued investment income	94.1	99.2
Unamortized insurance acquisition costs, net	503.4	487.9
Other assets	244.0	269.8

Variable annuity assets (separate accounts)	472.9	533.7
	$8,003.9	$7,975.9
Liabilities and Capital		
Annuity benefits accumulated	$5,549.7	$5,543.7
Life, accident and health reserves	598.1	599.4
Notes payable	156.3	151.9
Payable to affiliates, net	101.8	85.8
Deferred taxes on unrealized gains	43.0	22.6
Accounts payable, accrued expenses and other liabilities	136.0	149.2
Variable annuity liabilities (separate accounts)	472.9	533.7
Total liabilities	7,057.8	7,086.3
Mandatorily redeemable preferred securities of subsidiary trusts	217.9	217.9
Stockholders' Equity:		
Common Stock, $1 par value		
-100,000,000 shares authorized		
- 42,304,030 and 42,302,788 shares outstanding	42.3	42.3
Capital surplus	348.6	348.5
Retained earnings	254.9	237.0
Unrealized gains on marketable securities, net	82.4	43.9
Total stockholders' equity	728.2	671.7
	$8,003.9	$7,975.9

J

GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

(In millions, except per share amounts)

	Three months ended March 31, 2001	2000
Revenues:		
Life, accident and health premiums	$ 69.2	$ 49.9
Net investment income	122.8	124.1
Realized losses on investments	(1.8)	(2.9)
Other income	26.8	15.9
	217.0	187.0
Costs and Expenses:		
Annuity benefits	69.3	66.2
Life, accident and health benefits	54.0	36.7
Insurance acquisition expenses	21.3	15.2
Trust preferred distribution requirement	4.5	4.6
Interest and other debt expenses	2.8	3.6
Other expenses	38.9	37.6
	190.8	163.9
Operating earnings before income taxes	26.2	23.1
Provision for income taxes	8.3	6.5
Net operating earnings	17.9	16.6
Equity in earnings of affiliate, net of tax	-	0.8
Net Income	$ 17.9	$ 17.4

Earnings per common share:		
Basic	$0.42	$0.41
Diluted	$0.42	$0.41
Average number of common shares:		
Basic	42.3	42.4
Diluted	42.8	42.6

3

GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In millions)

	Three months ended March 31,	
	2001	2000
Common Stock:		
Balance at beginning of period	$ 42.3	$ 42.4
Common Stock retired	-	(0.1)
Balance at end of period	$ 42.3	$ 42.3
Capital Surplus:		
Balance at beginning of period	$348.5	$349.7
Common Stock issued	0.1	0.5
Common Stock retired	-	(1.8)
Balance at end of period	$348.6	$348.4

Retained Earnings:		
Balance at beginning of period	$237.0	$186.5
Net income	17.9	17.4
Balance at end of period	$254.9	$203.9
Unrealized Gains (Losses), Net:		
Balance at beginning of period	$ 43.9	($ 52.9)
Change during period	38.5	(11.3)
Balance at end of period	$ 82.4	($ 64.2)

Comprehensive Income:		
Net income	$ 17.9	$ 17.4
Other comprehensive income (loss) - change in net unrealized gains (losses)	38.5	(11.3)
Comprehensive income	$ 56.4	$ 6.1

GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

	Three months ended March 31,	
	2001	2000
Cash Flows from Operating Activities:		
Net income	$ 17.9	$ 17.4
Adjustments:		
Equity in earnings of affiliate, net of tax	-	(0.8)
Increase in life, accident and health reserves	17.7	3.6
Benefits to annuity policyholders	69.3	66.2
Amortization of insurance acquisition costs	21.3	15.2
Depreciation and amortization	2.4	2.3
Realized losses on investments	1.8	2.9
Increase in insurance acquisition costs	(35.6)	(33.7)
Other, net	(6.4	(12.2
	)	)
	88.4	60.9
Cash Flows from Investing Activities:		
Purchases of and additional investments in:		
Fixed maturity investments	(267.5)	(240.9)
Equity securities	(2.0)	(2.5)
Real estate, mortgage loans and other assets	(4.0)	(9.1)
Maturities and redemptions of fixed maturity investments	82.9	103.3
Sales of:		
Fixed maturity investments	84.8	135.6
Equity securities	1.0	0.2
Real estate, mortgage loans and other assets	12.5	0.2
Decrease in policy loans	1.5	2.0
	(90.8	(11.2
	)	)

Cash Flows from Financing Activities:		
Fixed annuity receipts	126.2	126.4
Annuity surrenders, benefits and withdrawals	(186.9)	(192.8)
Net transfers (to) from variable annuity assets	2.9	(21.5)
Additions to notes payable	4.6	-
Reductions of notes payable	(0.2)	(0.2)
Issuance of Common Stock	0.1	0.5
Retirement of Common Stock	-	(1.9)
Repurchase of trust preferred securities	-	(1.3)
	(53.3)	(90.8)
Net decrease in cash and short-term investments	(55.7)	(41.1)
Beginning cash and short-term investments	87.5	119.6
Ending cash and short-term investments	$ 31.8	$ 78.5

M

GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A.

Description of the Company

Great American Financial Resources, Inc. ("GAFRI" or "the Company") markets retirement products, primarily fixed and variable annuities, and various forms of life and supplemental health insurance through independent agents, payroll deduction plans, financial institutions and in-home sales.

American Financial Group, Inc. ("AFG") and its subsidiaries owned 83% of GAFRI's Common Stock at May 1, 2001.

B.

Accounting Policies

Basis of Presentation

The accompanying Consolidated Financial Statements for GAFRI and its 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 periods to conform to the current period'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 stockholders' equity. Short-term investments are carried at cost; mortgage loans on real estate are generally carried at amortized cost; policy loans are stated at the aggregate unpaid balance. Premiums and discounts on mortgage-backed securities are amortized over their expected average lives using the interest method.

Gains or losses on sales of securities are recognized at the time of disposition with the amount of gain or loss 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.

Investment in Affiliate

GAFRI's investments in equity securities of companies that are 20% to 50% owned by AFG and its subsidiaries are generally carried at cost, adjusted for a proportionate share of their undistributed earnings or losses.

Due to Chiquita's announced intention to pursue a plan to restructure its public debt, GAFRI wrote down its investment in Chiquita common stock to market value at December 31, 2000, and may suspend accounting for Chiquita under the equity method pending resolution of the current uncertainty.

Insurance Acquisition Costs and Expenses

Insurance acquisition costs and expenses consist primarily of deferred policy acquisition costs and the present value of future profits on business in force of acquired insurance companies. In addition, certain marketing and commission costs are expensed as paid and included in insurance acquisition expenses.

Deferred Policy Acquisition Costs ("DPAC")

DPAC (principally commissions, advertising, underwriting, policy issuance and sales expenses that vary with and are primarily related to the production of new business) is deferred to the extent that such costs are deemed recoverable.

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. These expected gross profits consist principally of estimated future net investment income and surrender, mortality and other policy charges, less estimated future interest on policyholders' funds, policy administration expenses and death benefits in excess of account values. DPAC is reported net of unearned revenue relating to certain policy charges that represent compensation for future services. These unearned revenues are recognized as income using the same assumptions and factors used to amortize DPAC.

To the extent that realized gains and losses result in adjustments to the amortization of DPAC, such adjustments are reflected as components of realized gains. To the extent that unrealized gains (losses) from securities would result in adjustments to DPAC, unearned revenues and policyholder liabilities had those gains (losses) actually been realized, such balance sheet amounts are adjusted, net of deferred taxes.

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. Such anticipated premium revenues were estimated using the same assumptions used for computing liabilities for future policy benefits.

Present Value of Future Profits

Included in insurance acquisition costs are amounts representing the present value of future profits on business in force of acquired insurance companies, which represent the portion of the costs to acquire such companies that is allocated to the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition.

These amounts are amortized with interest over the estimated remaining life of the acquired policies for annuities and universal life products and over the expected premium paying period for traditional life and health insurance products.

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 yields, 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.

The liability for future policy benefits for interest sensitive life and universal life policies is equal to the sum of the accumulated fund balances under such policies.

Variable Annuity Assets and Liabilities

Separate accounts related to variable annuities represent deposits invested in underlying investment funds on which GAFRI earns a fee. The investment funds are selected and may be changed only by the policyholder.

Life, Accident and Health Premiums and Benefits

For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. Policy reserves have been established in a manner which allocates policy benefits and expenses on a basis consistent with the recognition of related premiums and generally results in the recognition of profits over the premium paying period of the policies.

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. Surrender benefits reduce the account value. Death benefits are expensed when incurred, net of the account value.

Income Taxes

GAFRI and Great American Life Insurance Company ("GALIC") have separate tax allocation agreements with American Financial Corporation ("AFC"), a subsidiary of AFG, which designate how tax payments are shared by members of the tax group. In general, both companies compute taxes on a separate return basis. GALIC is obligated to make payments to (or receive benefits from) AFC based on taxable income or loss without regard to temporary differences. If GALIC's taxable income (computed on a statutory accounting basis) exceeds a current period net operating loss of GAFRI, the taxes payable or recoverable by GALIC associated with the excess are payable to or receivable from AFC. If the AFC tax group utilizes any of GAFRI's net operating losses or deductions that originated prior to GAFRI's entering AFC's consolidated tax group, AFC will pay to GAFRI an amount equal to the benefit received.

Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis and are measured using enacted tax rates. The Company recognizes deferred tax assets if it is more likely than not that a benefit will be realized. Current and deferred tax assets and liabilities of companies in AFC's consolidated tax group are aggregated with other amounts receivable from or payable to affiliates.

Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", GAFRI accounts for stock options and other stock-based compensation plans using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Benefit Plans

GAFRI sponsors an Employee Stock Ownership Retirement Plan ("ESORP") covering all employees who are qualified as to age and length of service. The ESORP, which invests primarily in securities of GAFRI, is a trusteed, noncontributory plan for the benefit of the employees of GAFRI and its subsidiaries. Contributions are discretionary by the directors of GAFRI and are charged against earnings in the year for which they are declared.

Qualified employees having vested rights in the plan are entitled to benefit payments at age 60.

GAFRI and certain of its subsidiaries provide certain benefits to eligible retirees. The projected future cost of providing these benefits is expensed over the period the employees earn such benefits.

Derivatives

Effective October 1, 2000, GAFRI implemented 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 GAFRI'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 assets) used to mitigate the risk embedded in the equity-indexed annuity products.

Earnings Per Share

Basic earnings per share is calculated using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share include the effect of the assumed exercise of dilutive common stock options.

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 annuity receipts, benefits and withdrawals and obtaining resources from owners and providing them with a return on their investments. 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.

C. Segments of Operations

GAFRI's life and annuity operations offer fixed and variable annuity products and traditional life insurance products. GAFRI's annuity products are sold through managing general agents and independent agents to employees of primary and secondary educational institutions, hospitals and in the non-qualified markets. Traditional term, universal and whole life insurance products are sold through national marketing organizations. Approximately one-fourth of GAFRI's annuity premiums came from California in the first three months of 2001 and in the comparable period in 2000. Approximately 11% of GAFRI's annuity premiums came from Ohio in the first quarter of 2001. No other state accounted for more than 10% in either the first quarter of 2001 or the first quarter of 2000. Sales from GAFRI's top two Managing General Agencies accounted for one-eighth of retirement annuity premiums in the first three months of 2001.

GAFRI's supplemental insurance businesses, United Teacher Associates Insurance Company ("UTA") and Loyal American Life Insurance Company, offer a variety of supplemental health and life products. Loyal's marketing strategy emphasizes third-party sponsorship, including employers and credit unions, while UTA offers its products through independent agents.

GA Life of Puerto Rico sells in-home life and supplemental health products through a network of company-employed agents. Sales in Puerto Rico accounted for approximately 20% of GAFRI's life, accident and health premiums in the first three months of 2001 compared to 25% in the comparable period in 2000.

Corporate and other consists primarily of GAFRI (parent) and AAG Holding.

The following table shows GAFRI's revenues and operating profit by significant business segment (in millions):

	Three months ended March 31,	
	2001	2000
Revenues		
Life and annuity products	$142.1	$132.2
Supplemental insurance products	59.2	40.8
GA Life of Puerto Rico	15.5	14.6
Corporate and other	2.0	2.3
Total operating revenues	218.8	189.9
Realized losses on investments	(1.8)	(2.9)
Total revenues per income statement	$217.0	$187.0

Operating profit - pretax		
Life and annuity products	$35.3	32.7
Supplemental insurance products	(1.2)	(0.2)
GA Life of Puerto Rico	2.5	2.0
Corporate and other	(8.6)	(8.5)
Pretax earnings from operations	28.0	26.0
Realized losses on investments	(1.8)	(2.9)
Total pretax income per income statement	$ 26.2	$ 23.1

10

GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

D. Investment in Affiliate

Investment in affiliate reflects GAFRI's 4% ownership (2.7 million shares) of the common stock of Chiquita Brands International. AFG and its other subsidiaries own an additional 29% interest in the common stock of Chiquita. Chiquita is a leading international marketer, producer and distributor of quality fresh fruits and vegetables and processed foods.

The market value of GAFRI's investment in Chiquita was approximately $3.5 million at March 31, 2001 and $2.7 million at December 31, 2000.

In January 2001, Chiquita announced a restructuring initiative that included discontinuing all interest and principal payments on its public debt. If successful, the restructuring would result in the conversion of a significant portion of Chiquita's $862 million in public debt into common equity.

E. Unamortized Insurance Acquisition Costs

Unamortized insurance acquisition costs consisted of the following (in millions):

	March 31, 2001	December 31, 2000

Deferred policy acquisition costs	$552.3	$536.9
Present value of future profits acquired	90.0	93.4
Unearned revenues	(138.9)	(142.4)
	$503.4	$487.9

F. Notes Payable

Notes payable consisted of the following (in millions):

	March 31, 2001	December 31, 2000
Direct obligations of GAFRI	$ 2.0	$ 2.0
Obligations of AAG Holding (guaranteed by GAFRI):		
6-7/8% Senior Notes due 2008	100.0	100.0
Bank Credit Line	53.1	48.5
Other subsidiary debt	1.2	1.4
Total	$156.3	$151.9

In January 2001, AAG Holding replaced its existing bank line with a $155 million unsecured credit agreement. Loans under the credit agreement mature on December 31, 2004. At March 31, 2001, the weighted-average interest rate on amounts borrowed under its credit line was 6.04%.

At March 31, 2001, scheduled principal payments on debt for the remainder of 2001 and the subsequent five years were as follows (in millions):

2001	2002	2003	2004	2005	2006
$0.5	$0.7	$0.6	$53.3	$0.2	$0.2

G. Mandatorily Redeemable Preferred Securities of Subsidiary Trusts

Wholly-owned subsidiary trusts of GAFRI issued $225 million of preferred securities and, in turn, purchased a like amount of subordinated debt which provides interest and principal payments to fund the Trusts' obligations. The preferred securities are mandatorily redeemable upon maturity or redemption of the subordinated debt. GAFRI effectively provides an unconditional guarantee of the Trusts' obligations. The three preferred securities issues are summarized as follows:

Date of Issuance	Issue (Maturity Date)	03/31/01	12/31/00	Optional Redemption Dates
November 1996	9-1/4% TOPrS* (2026)	$72,912,500	$72,912,500	On or after 11/7/2001
March 1997	8-7/8% Pfd (2027)	70,000,000	70,000,000	On or after 3/1/2007
May 1997	7-1/4% ROPES** (2041)	75,000,000	75,000,000	After 9/28/2001

* Trust Originated Preferred Securities

** Remarketed Par Securities

Until September 28, 2001 (the "Remarketing Date"), the obligations of GAFRI under the ROPES indenture and guarantee are senior unsecured obligations of the Company. Following the Remarketing, whereby the distribution rate on the ROPES will be reset to current market rates (not to exceed 8.8%), the obligations will be subordinate to all senior indebtedness of the Company. Given the current interest rate environment for these types of securities, GAFRI expects to redeem its ROPES in September 2001.

H. Stockholders' Equity

The Company is authorized to issue 25,000,000 shares of Preferred Stock, par value $1.00 per share.

At March 31, 2001, there were 4.0 million shares of GAFRI Common Stock reserved for issuance under GAFRI's stock option plans. Under the plans, the exercise price of each option equals the market price of GAFRI Common Stock at the date of grant. Options generally become exercisable at the rate of 20% per year commencing one year after grant. All options expire ten years after the date of grant.

The change in net unrealized gains (losses) on marketable securities for the three months ended March 31 included the following (in millions):

	2001			2000		
	Pretax	Taxes	Net	Pretax	Taxes	Net
Unrealized holding gains (losses) on securities arising during the period	$57.1	($19.8)	$37.3	($20.7)	$7.5	($13.2)
Reclassification adjustment for investment losses realized in net income	1.8	(0.6)	1.2	2.9	(1.0)	1.9
Change in net unrealized gains (losses) on	$58.9	($20.4)	$38.5	($17.8)	$6.5	($11.3)

marketable securities

I. Earnings Per Share

The number of common shares outstanding used in calculating diluted earnings per share in the first quarter of 2001 includes 0.5 million shares compared to 0.2 million shares for the same period in 2000 for the effect of the assumed exercise of GAFRI's stock options.

J. Contingencies

In March 2000, a jury in Dallas, Texas, returned a verdict against GALIC with total damages of $11.2 million in a lawsuit brought by two former agents of GALIC. The Company believes the verdict was contrary to both the facts and the law and expects to prevail on appeal. The ultimate outcome of this case will not have a material adverse impact on the financial condition of the Company.

K. Additional Information

Statutory Information of Great American Life Insurance Company

Insurance companies are required to file financial statements with state insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis). Certain statutory amounts for GALIC, GAFRI's primary insurance subsidiary, were as follows (in millions):

	March 31, 2001	December 31, 2000
Capital and surplus	$353.6	$362.5
Asset valuation reserve	78.6	75.6
Interest maintenance reserve	3.0	3.3

	Three months ended March 31	
,	2001	2000

Pretax income from operations	$10.5	$19.1
Net income from operations	8.0	14.9
Net income	12.6	14.9

The amount of dividends which can be paid by GALIC without prior approval of regulatory authorities is subject to restrictions relating to capital and surplus and statutory net income. Based on net income for the year ended December 31, 2000, GALIC may pay $52.1 million in dividends in 2001 without prior approval. In the first three months of 2001, GALIC did not pay any dividends.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

GENERAL

Great American Financial Resources, Inc. ("GAFRI" or "the Company") and its subsidiary, AAG Holding Company, Inc., are organized as holding companies with nearly all of their operations being conducted by their subsidiaries. These companies, however, have continuing expenditures for administrative expenses, corporate services and for the payment of interest and principal on borrowings and stockholder dividends.

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;
- tax law changes;
- availability of reinsurance; and
- competitive pressures.

Forward-looking statements speak only as of the date made. GAFRI 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

GAFRI's ratio of earnings to fixed charges exceeded 4.3 times in the first quarter of 2001 compared to 3.6 times in the first quarter of 2000. Its consolidated debt to capital ratio was 23% at March 31, 2001, compared to 27% one year ago. Consolidated debt includes the Company's notes payable and its Remarketed Par Securities ("ROPES"). Capital represents the sum of consolidated debt, redeemable preferred securities of subsidiary trusts and stockholders' equity (excluding unrealized gains on marketable securities).

The National Association of Insurance Commissioners' ("NAIC") risk-based capital ("RBC") formulas determine the amount of capital that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. At March 31, 2001, the capital ratio of GAFRI's principal insurance subsidiary was 4.2 times its authorized control level RBC.

Sources and Uses of Funds

To pay interest and principal on borrowings and other holding company costs, GAFRI (parent) and AAG Holding use cash and investments on hand, capital distributions from their principal subsidiary, Great American Life Insurance Company ("GALIC") and bank borrowings. The amount of capital distributions which can be paid by GALIC is subject to restrictions relating to statutory surplus and earnings. The maximum amount of dividends payable by GALIC in 2001 without prior regulatory approval is $52.1 million.

In the third quarter of 2000, GAFRI paid down approximately $50 million of its bank credit line. In January 2001, the Company replaced its existing agreement with a $155 million unsecured credit agreement which matures on December 31, 2004. At March 31, 2001, GAFRI (parent) had over $100 million available under its bank credit line.

Given the current interest rate environment, GAFRI expects to redeem its ROPES in September 2001. In May 2001, GAFRI filed to amend its shelf registration statement to provide for the issuance of up to $250 million of debt and preferred securities.

Based upon the current level of operations and anticipated growth, GAFRI believes that it will have sufficient resources to meet its liquidity requirements.

Investments

GAFRI invests primarily in fixed income investments which, including loans and short-term investments, comprised 98% of its investment portfolio at March 31, 2001. GAFRI generally invests in securities having intermediate-term maturities with an objective of optimizing interest yields while maintaining an appropriate relationship of maturities between GAFRI's assets and expected liabilities.

The NAIC assigns quality ratings to publicly traded as well as privately placed securities. At March 31, 2001, 92% of GAFRI's fixed maturity portfolio was comprised of investment grade bonds (NAIC rating of "1" or "2"). Management believes that the high credit quality of GAFRI's investment portfolio should generate a stable and predictable investment return.

At March 31, 2001, GAFRI's mortgage-backed securities ("MBSs") portfolio represented approximately one-third of its fixed maturity investments. GAFRI invests primarily in MBSs which have a lower risk of prepayment. In addition, the majority of MBSs held by GAFRI were purchased at a discount. Management believes that the structure and discounted nature of the MBSs will reduce the effect of prepayments on earnings over the anticipated life of the MBS portfolio.

Approximately 90% of GAFRI's MBSs are rated "AAA" with substantially all being investment grade quality. The market in which these securities trade is highly liquid. Aside from interest rate risk, GAFRI does not believe a material risk (relative to earnings or liquidity) is inherent in holding such investments.

RESULTS OF OPERATIONS

General

Net earnings from operations (before realized losses and equity in earnings of affiliate) for the first quarter of 2001 were $19.1 million compared to $18.5 million in 2000. On a diluted basis, net earnings from operations (as defined above) were $0.45 per share and $0.43 per share in each of the respective periods.

Retirement Products

The following table summarizes GAFRI's premiums for its retirement annuities (in millions).

	Three months ended March 31,	
	2001	2000
Annuity Premiums		
Single premium fixed rate annuities	$ 78	$ 66
Flexible premium fixed rate annuities	38	41
Single premium variable annuities	22	73
Flexible premium variable annuities	24	17
	$162	$197

Sales of annuity products linked to the performance of the stock market (variable and equity-indexed annuities) were down substantially in the first quarter of 2001 compared to the same period in 2000. Management believes this decrease was consistent with an industry wide trend attributed to the volatile equity markets.

Life, Accident and Health Premiums and Benefits

The following table summarizes GAFRI's life, accident and health premiums and benefits as shown in the Consolidated Income Statement (in millions).

	Three months ended March 31,	
	2001	2000
Premiums		
Supplemental insurance products	$48	$31
GA Life of Puerto Rico	13	12

Life products	8	7
	$69	$50
Benefits		
Supplemental insurance products	$39	$25
GA Life of Puerto Rico	7	7
Life products	8	5
	$54	$37

The increase in supplemental insurance premiums and benefits in the first quarter of 2001 over the same period in 2000 reflects primarily the acquisitions of blocks of Medicare supplement business in the third quarter of 2000.

Real Estate Operations

GAFRI is engaged in a variety of real estate operations including hotels, an office building and a marina; GAFRI also owns several parcels of land. Revenues and expenses of these operations, including gains on disposal, are included in GAFRI's Consolidated Income Statement as shown below (in millions).

	Three months ended March 31,	
	2001	2000
Other income	$14 8	$5.0
Other expenses	6.7	5.8

Other income included a pretax gain on the sale of real estate assets of $8.5 million in the first quarter of 2001.

Other Income

Other income increased $10.9 million in the first quarter of 2001 compared to the same period in 2000 due primarily to income from the sale of real estate and, to a lesser extent, increased fees earned on GAFRI's variable annuity and life business.

Realized Gains

Individual securities are sold from time to time as market opportunities appear to present optimal situations under GAFRI's investment strategies.

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.

On its deferred annuities (annuities in the accumulation phase), GAFRI generally credits interest to policyholders' accounts at their current stated "surrender" interest rates. Furthermore, for "two-tier" deferred annuities (annuities under which a higher interest amount can be earned if a policy is annuitized rather than surrendered), GAFRI accrues an additional liability to provide for expected deaths and annuitizations. Changes in crediting rates, actual surrender and annuitization experience or modifications in actuarial assumptions can affect this accrual.

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 virtually no net effect on annuity benefits in the first quarter of 2001.

Insurance Acquisition Expenses

Insurance acquisition expenses include amortization of deferred policy acquisition costs ("DPAC") as well as commissions on sales of life insurance products. Insurance acquisition expenses also include amortization of the present value of future profits of businesses acquired amounting to $3.3 million in the first quarter of 2001 and $3.1 million in the first quarter of 2000.

Interest and Other Debt Expenses

The decrease in interest and other debt expenses in the first quarter of 2001 compared to the same period in 2000 is due primarily to lower bank borrowings as well as lower interest rates on these borrowings.

Equity in Earnings of Affiliate

Equity in earnings of affiliate in 2000 represents GAFRI's proportionate share of the results of Chiquita Brands International. Chiquita reported net income of $0.01 per share for the first quarter of 2001 and $0.46 per share for the first quarter of 2000.

Item 3

Quantitative and Qualitative Disclosure at Market Risk

As of March 31, 2001, there were no material changes to the information provided in GAFRI'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.

PART II

OTHER INFORMATION

Item 6

Exhibits and Reports on Form 8-K

(a) Exhibits: none

(b) Reports on Form 8-K: none

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

GREAT AMERICAN FINANCIAL RESOURCES, Inc.

May 11 2001

BY:/s/Christopher P. Miliano
Christopher P. Miliano
Vice President and Controller (Principal
Financial Officer and Principal
Accounting Officer)
18