GREAT AMERICAN FINANCIAL RESOURCES INC
Form 10-K
March 12, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003	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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Great American Financial Resources, Inc.:	
Common Stock, Par Value $1.00 Per Share	New York
AAG Holding Company, Inc. (Guaranteed By Registrant):	
7-1/2% Senior Notes due November 5, 2033	New York
7-1/4% Senior Notes due January 23, 2034	New York

Other Securities for which reports are submitted pursuant to Section 15(d) of the Act:

American Annuity Group Capital Trust II (Guaranteed by Registrant):
8-7/8% Trust Preferred Securities
AAG Holding Company, Inc. (Guaranteed by Registrant):
6-7/8% Senior Notes due June 1, 2008

Securities Registered Pursuant to Section 12(g) of the Act:

None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and need not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is an accelerated filer. Yes X No __

The aggregate market value of the Registrant's Common Stock held by non-affiliates as of the Registrant's most recently completed second fiscal quarter (June 30, 2003) was approximately $99 million (based upon non-affiliate holdings of 7,553,904 shares and a market price of $13.11 per share).

As of March 1, 2004, there were 47,051,260 shares of the Registrant's Common Stock outstanding, including 38,565,995 owned by its Parent Company.

Documents Incorporated by Reference:

Proxy Statement for the 2004 Annual Meeting of Stockholders (portions of which are incorporated by reference into Part III hereof).

GREAT AMERICAN FINANCIAL RESOURCES, INC.

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ON FORM 10-K

Part I

(*) The response to this item is "none".

GREAT AMERICAN FINANCIAL RESOURCES, INC.

FORWARD-LOOKING STATEMENTS

This Form 10-K, chiefly in Items 1, 3, 5, 7 and 8, contains certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as "anticipates", "believes", "expects", "estimates", "intends", "plans", "seeks", "could", "may", "should", "will", or the negative version of those words or other comparable terminology. Examples of such forward-looking statements relate to: expectations concerning market and other conditions and their effect on future premiums, revenues, earning and investment activities; recoverability of asset values; mortality and the adequacy of reserves for environmental pollution.

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;
- trends in mortality and morbidity;
- regulatory actions;
- changes in regulatory and legal environments;
- tax law changes;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- competitive pressures; and
- changes in debt and claims paying ratings.

Forward-looking statements included in this Form 10-K are made only as of the date of this report and under Section 27A of The Securities Act and Section 21E of the Exchange Act; we do not have any obligation to update any forward-looking statement to reflect subsequent events or circumstances.

PART I

ITEM 1

Business

Please refer to "Forward-Looking Statements" following the index in front of this Form 10-K.

Introduction

Great American Financial Resources, Inc. ("GAFRI" or "the Company"), which was incorporated as a Delaware corporation in 1987, is an 82%-owned subsidiary of American Financial Group, Inc. ("AFG"). GAFRI is a holding company that markets retirement products, primarily fixed and variable annuities, and various forms of life and supplemental health insurance through its subsidiaries listed below. GAFRI and its insurance subsidiaries employ approximately 850 people in the United States and 700 people (including approximately 500 company-employed agents) in Puerto Rico. SEC filings, news releases and other information may be accessed free of charge through GAFRI's Internet site at: ***www.gafri.com.***

Subsidiary	Year acquired
Great American Life Insurance Company ("GALIC")	1992
Annuity Investors Life Insurance Company ("AILIC")	1994
Loyal American Life Insurance Company ("Loyal")	1995
Great American Life Assurance Company of Puerto Rico ("GAPR")	1997
United Teacher Associates Insurance Company ("UTA")	1999
Manhattan National Life Insurance Company ("MNL")	2002

Acquisitions in recent years have supplemented GAFRI's internal growth as the assets of the holding company and its operating subsidiaries have increased from $4.5 billion at the end of 1992 to approximately $10.2 billion at the end of 2003. Premiums over the last five years were as follows (in millions):

	Premiums(1)				
	2003	2002	2001	2000	1999
Life and Annuity Group					
Annuity	$ 868	$1,000	$ 750	$ 746	$588
Life	50	66	61	52	42
Supplemental Insurance	218	185	194	158	35
GA Life of Puerto Rico	68	63	56	52	49
	$1,204	$1,314	$1,061	$1,008	$714

1. Table does not include premiums of subsidiaries or divisions until their first full year following acquisition or formation. All periods exclude premiums of subsidiaries sold.

Annuities

GAFRI's principal products are Flexible Premium Deferred Annuities ("FPDAs") and Single Premium Deferred Annuities ("SPDAs"). Annuities are long-term retirement savings instruments that benefit from income accruing on a tax-deferred basis. The issuer of the annuity collects premiums, credits interest or earnings on the policy and pays out a benefit upon death, surrender or annuitization. FPDAs are characterized by premium payments that are flexible in both amount and timing as determined by the policyholder and generally made through payroll deductions. SPDAs are generally issued in exchange for a one-time lump-sum premium payment.

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The following table (in millions) presents combined financial information of GAFRI's principal annuity operations.

Generally Accepted Accounting Principles ("GAAP") Basis

	2003	2002	2001	2000	1999
Total assets	$8,663	$8,014	$7,456	$7,052	$6,657
Fixed annuity benefits accumulated	6,492	6,111	5,632	5,365	5,349
Variable annuity liabilities	568	455	530	534	354
Stockholder's equity	1,220	1,139	1,023	915	801

Statutory Accounting Principles Basis

	2003	2002	2001	2000	1999
Total assets	$7,889	$7,319	$6,896	$6,620	$6,493
Fixed annuity reserves	6,578	6,192	5,729	5,536	5,564
Variable annuity liabilities	568	455	530	534	354
Capital and surplus	515	419	388	363	404
Asset valuation reserve(a)	53	63	79	77	67
Interest maintenance reserve(a)	22	27	11	3	10

Fixed annuity receipts:					
Flexible premium:					
First year	$ 34	$ 29	$ 24	$ 24	$ 26
Renewal	114	106	105	113	127
	148	135	129	137	153
Single premium	556	639	392	270	230
Total fixed annuity receipts	$ 704	$ 774	$ 521	$ 407	$ 383
Variable annuity receipts:					
Flexible premium:					
First year	$ 9	$ 16	$ 30	$ 39	$ 28
Renewal	65	71	62	39	18
	74	87	92	78	46
Single premium	48	95	107	242	159
Total variable annuity receipts	$ 122	$ 182	$ 199	$ 320	$ 205

(a) Allocation of surplus.

Sales of annuities, including renewal premiums, are affected by many factors, including: (i) competitive annuity products and rates; (ii) the general level of interest rates; (iii) the favorable tax treatment of annuities; (iv) commissions paid to agents; (v) services offered; (vi) ratings from independent insurance rating agencies; (vii) other alternative investments; (viii) performance of the equity markets and (ix) general economic conditions.

Annuity contracts are generally classified as either fixed rate (including equity-indexed) or variable. The following table presents premiums by classification:

Annuity Premiums	2003	2002	2001	2000	1999
Traditional fixed	85%	77%	68%	50%	55%
Variable	14	18	27	43	35
Equity-indexed	1	5	5	7	10
	100	100	100	100	100
	%	%	%	%	%

With a traditional fixed rate annuity, the interest crediting rate is initially set by the issuer and thereafter may be changed from time to time by the issuer subject to any guaranteed minimum interest crediting rates or any guaranteed term in the policy.

The Company seeks to maintain a desired spread between the yield on its investment portfolio and the rate it credits to its fixed rate annuities. GAFRI accomplishes this by: (i) offering crediting rates which it has the option to change after any initial guarantee period; (ii) designing annuity products that encourage persistency and (iii) maintaining an appropriate matching of assets and liabilities.

The majority of GAFRI's fixed rate annuities permit GAFRI to change the crediting rate at any time, subject to minimum interest rate guarantees (as determined by applicable law). In the fourth quarter of 2003, GAFRI began issuing products with guaranteed minimum crediting rates of less than 3% in states where required approvals have been received. At December 31, 2003, less than 1% of annuity benefits accumulated related to these policies. Approximately one-half of the annuity benefits accumulated relate to policies that have a minimum guarantee of 3%; the balance have a guarantee of 4%. Historically, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. The recent interest rate environment has resulted in a spread compression, which could continue through at least 2004.

In addition to traditional fixed rate annuities, GAFRI offers variable annuities and, prior to 2003, sold equity-indexed annuities. Industry sales of such annuities increased substantially in the 1990's as investors sought to obtain the returns available in the equity markets while enjoying the tax-deferred status of annuities. With a variable annuity, the earnings credited to the policy vary based on the investment results of the underlying investment options chosen by the policyholder, generally without any guarantee of principal except in the case of death of the insured annuitant. Premiums directed to the variable options in policies issued by GAFRI are invested in funds maintained in separate accounts managed by various independent investment managers. GAFRI earns a fee on amounts deposited into variable accounts. Subject to contractual provisions, policyholders may also choose to direct all or a portion of their premiums to various fixed rate options, in which case GAFRI earns a spread on amounts deposited. With the downturn in the stock market during 2000 through 2002, industrywide sales of variable annuities, including GAFRI sales, decreased substantially.

An equity-indexed fixed annuity provides policyholders with a crediting rate tied, in part, to the performance of an existing stock market index while protecting them against the related downside risk through a guarantee of principal. GAFRI purchases call options designed to offset substantially all of the increases in the liabilities associated with equity-indexed annuities. In 2002, GAFRI suspended new sales of equity-indexed annuities due primarily to a lack of volume.

No individual state accounted for more than 10% of GAFRI's annuity premiums in the past three years except as follows:

	2003	2002	2001
California	19%	15%	17%
Ohio	*	*	13

* Less than 10%

The majority of GAFRI's flexible premium annuities are sold in the qualified markets under section 403(b) and 401(k) of the Internal Revenue Code. In the 403(b) market, schools and certain other not-for-profit organizations may allow employees to save for retirement through contributions made on a before-tax basis. In the 401(k) market, both for-profit and not-for-profit organizations may establish qualified retirement plans where employees are eligible to save for retirement through contributions made primarily on a before-tax basis. For federal income tax purposes, before-tax contributions and earnings are not included in the employee's taxable income until amounts are withdrawn.

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GAFRI distributes its fixed rate products primarily through a network of 130 managing general agents ("MGAs") who, in turn, direct approximately 1,600 actively producing independent agents. The top 15 MGAs accounted for more than two-thirds of GAFRI's fixed rate annuity premiums in 2003. No one MGA represented more than 10% of total fixed annuity premiums in 2003. In addition to the independent insurance agent channel, GAFRI also sells its annuity product lines through financial institutions. Sales of annuities from this distribution channel were approximately 3% of total annuity premiums in 2003.

In 2002, GAFRI exited the highly competitive single premium, non-qualified segment of the variable annuity market due primarily to insufficient returns and a lack of critical mass. The Company offers its variable annuity as an ancillary product solely through its 403(b) and 401(k) sales channels. Nearly one-half of GAFRI's variable annuity sales in 2003 were made through the Company's wholly-owned subsidiary, Great American Advisors, Inc. ("GAA"). GAA is a broker/dealer licensed in all 50 states to sell stocks, bonds, options, mutual funds and variable insurance contracts through independent representatives and financial institutions. GAA also acts as the principal underwriter and distributor for the Company's variable annuity products.

GAFRI designs its products with certain provisions to encourage policyholders to maintain their funds with GAFRI for at least five to ten years. Persistency rates reflect the proportion of reserves maintained by the Company and not paid out in the form of surrenders, annuitizations or death benefits. The following table illustrates GALIC's annual persistency rates for its major product groups over the past five years.

	Persistency Rates				
Product Group	2003	2002	2001	2000	1999
Flexible premium	94%	92%	90%	89%	89%
Single premium	89	90	88	87	88

Persistency rates are affected by many of the same factors that affect annuity sales. Although the stock market and interest rate environment affect persistency in the Company's fixed rate annuities, management believes that its persistency rate has benefited from the low interest rate environment and the two-tier design of certain of its in-force products. Two account values are maintained for two-tier annuities - the annuitization (or upper-tier) value and the surrender (or lower-tier) value. The annuitization value is paid upon a policyholder's death or election to annuitize (withdraw funds in a series of periodic payments for at least the minimum number of years specified in the policy). If a lump-sum payment is chosen by the policyholder, the surrender value is paid. GALIC's two-tier annuities are particularly attractive to policyholders who intend to accumulate funds to provide retirement income since the annuitization value is accumulated at a more competitive long-term interest rate. At December 31, 2003, two-tier annuities accounted for one-half of the Company's fixed annuity reserves.

In 2003, more than three-fourths of fixed annuity premiums received were on single-tier policies. After the initial surrender charges have been reduced to zero, single-tier annuities carry one value whether the policy is surrendered or annuitized.

GAFRI is licensed to sell its fixed annuity products in all 50 states; it is licensed to sell its variable products in all states except Vermont. At December 31, 2003, GAFRI had over 335,000 annuity policies in force.

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Life Operations

In 1997, GALIC began offering traditional term and universal life insurance products through national marketing organizations. Beginning in May 2004, GAFRI will suspend new sales of this business due to inadequate volume and returns. The Company will continue to service its in-force block of over 140,000 policies and $27 billion gross ($11 billion net) of life insurance in force. The Company continues to sell life products through its supplemental insurance operations and GA Life of Puerto Rico (see below).

In June 2002, GAFRI acquired MNL for $48.5 million in cash. GAFRI has reinsured 90% of MNL's business in force. While MNL is no longer writing new policies, as of December 31, 2003, it had approximately 75,000 life policies and $10 billion gross ($0.7 billion net) of life insurance in force (primarily term life).

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Supplemental Insurance

In 1999, GAFRI acquired UTA. UTA offers a variety of supplemental insurance products and annuities through independent agents. UTA's principal health products include coverage for Medicare supplement, cancer and long-term care. UTA utilizes endorsements from various state retired teachers associations to sell some of its products.

Loyal American Life Insurance Company offers a variety of supplemental health and life products. The principal products sold by Loyal include cancer, accidental injury, short-term disability, hospital indemnity and traditional whole life. In 2001, Loyal reinsured a substantial portion of its life insurance business and reduced its marketing efforts in that line of business. During 2002, Loyal's remaining operations were moved to Austin, Texas and combined with UTA's operations. Together, UTA and Loyal employ more than 200 people in Austin.

At year-end 2003, GAFRI's operating units selling supplemental insurance products had assets of more than $850 million and approximately 370,000 policies with annualized health premiums in force of more than $225 million and gross life insurance in force of $1.4 billion.

GA Life of Puerto Rico

GAPR sells in-home service life and supplemental health products through a network of company-employed agents. Ordinary life, cancer, credit and group life products are sold through independent agents. GAPR employs over 700 people in Puerto Rico (including approximately 500 company-employed agents), and is the largest in-home provider of life insurance in Puerto Rico.

Investments

Investments comprise almost 90% of the Company's assets (excluding variable annuity assets) and are the principal source of income. Fixed income investments (consisting of fixed maturity investments, policy loans, mortgage loans and short-term investments) comprise 98% of GAFRI's investment portfolio. Risks inherent in connection with fixed income securities include market price volatility and loss upon default. Factors which can affect the market price of these securities include: (i) changes in market interest rates; (ii) creditworthiness of issuers; (iii) the number of market makers and investors and (iv) defaults by major issuers of securities.

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The Company's investment strategy emphasizes high-quality fixed income securities which management believes should produce a relatively consistent and predictable level of investment income.

The insurance laws of the domiciliary jurisdiction of each of GAFRI's life

insurance subsidiaries govern the types and amounts of investments which are permissible. These rules are designed to ensure the safety and liquidity of the insurers' investment portfolio by placing restrictions on the quality, quantity and diversification of permitted investments.

The National Association of Insurance Commissioners ("NAIC") is an organization comprised of the chief insurance regulators for each of the 50 states, the District of Columbia and the four U.S. territories. The NAIC assigns quality ratings to publicly traded as well as privately placed securities. These ratings range from Class 1 (highest quality) to Class 6 (lowest quality). The following table shows the Company's fixed maturity portfolio at market value by NAIC designation (and comparable Standard & Poor's Corporation rating).

NAIC Rating	Comparable S&P Rating	2003	2002
1	AAA, AA, A	73%	73%
2	BBB	21	20
	Total investment grade	94	93
3	BB	3	4
4	B	2	2
5	CCC, CC, C	1	1
6	D	*	*
	Total non-investment grade	6	7
	Total fixed maturities	100 %	100 %

* less than one-half of 1%

GAFRI's primary investment objective in selecting securities for its fixed maturity portfolio is to optimize interest yields while maintaining an appropriate relationship of maturities between assets and liabilities. The Company invests in bonds that have primarily intermediate-term maturities. This practice provides flexibility to respond to fluctuations in the marketplace.

At December 31, 2003, the average maturity of GAFRI's fixed maturity investments was approximately seven and one-half years (including mortgage-backed securities, which had an estimated average life of approximately six and one-half years). The table below sets forth the maturities of the Company's fixed maturity investments based on their market value.

Maturity	2003	2002
One year or less	2%	6%
After one year through five years	20	21
After five years through ten years	33	28
After ten years	16	13
	71	68
Mortgage-backed securities	29	32
	100 %	100 %

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The following table shows the performance of GAFRI's investment portfolio, excluding real estate investments (dollars in millions).

	2003	2002	2001
Average cash and investments at cost	$7,992	$7,136	$6,582
Gross investment income	517	532	508
Realized losses*	(9)	(46)	(52)
Yield earned:			
Excluding realized losses	6.5%	7.5%	7.7%
Including realized losses	6.3%	6.8%	6.9%

*Includes charges for "other than temporary" impairments of $41.4 million, $97.4 million and $77.0 million in 2003, 2002 and 2001, respectively.

Competition

The Company's principal insurance subsidiaries ("Insurance Companies") operate in highly competitive markets. They compete with other insurers and financial institutions based on many factors, including: (i) ratings; (ii) financial strength; (iii) reputation; (iv) service to policyholders and agents; (v) product design (including interest rates credited and premium rates charged), (vi) commissions and (vii) number of school districts a company has approval to sell in.

Since policies are marketed and distributed primarily through independent agents (except at GAPR), the Insurance Companies must also compete for agents.

No single insurer dominates the markets in which the Insurance Companies compete. Competitors include: (i) individual insurers and insurance groups; (ii) mutual funds and (iii) other financial institutions. In a broader sense, GAFRI's Insurance Companies compete for retirement savings with a variety of financial institutions offering a full range of financial services. Financial institutions have demonstrated a growing interest in marketing investment and savings products other than traditional deposit accounts.

Regulation

The Insurance Companies are subject to comprehensive regulation under the insurance laws of their states of domicile and the other states in which they operate. These laws, in general, require approval of the particular insurance regulators prior to certain actions such as the payment of dividends in excess of statutory limitations, continuing service arrangements with affiliates and certain other transactions. Regulation and supervision are administered by a state insurance commissioner who has broad statutory powers with respect to granting and revoking licenses, approving forms of insurance contracts and determining types and amounts of business which may be conducted in light of the financial strength and size of the particular company.

The maximum amount of dividends which can be paid in any 12 month period to stockholders by life insurance companies domiciled in the State of Ohio (including GALIC, AILIC and Loyal) without prior approval of the Ohio Insurance Commissioner is the greater of 10% of policyholder surplus or prior year's net income, but only to the extent of earned surplus as of the preceding December 31. Under applicable restrictions, the maximum amount of dividends available to GAFRI in 2004 from GALIC, its principal Ohio domiciled insurance subsidiary, without seeking regulatory clearance, is $56.5 million. In addition, the amount of dividends available to GAFRI in 2004 from GA Life of Puerto Rico is $32.9 million.

State insurance departments periodically examine the business and accounts of the Insurance Companies and require such companies to submit detailed annual financial statements prepared in accordance with statutory requirements. State insurance laws also regulate the character of each insurance company's investments, reinsurance and security deposits.

The Insurance Companies may be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments (up to certain prescribed limits) to fund policyholder losses or liabilities of insurance companies that become insolvent. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes.

One of the NAIC's major roles is to develop model laws and regulations affecting insurance company operations and encourage uniform regulation through the adoption of such model laws in all states. As part of the overall insurance regulatory process, the NAIC forms numerous task forces to review, analyze and recommend changes to a variety of areas affecting both the operating and financial aspects of insurance companies.

Many of the Company's other subsidiaries are subject to regulation by various state, federal and other regulatory authorities. Several subsidiaries are insurance agencies and as such are regulated by state insurance departments. Great American Advisors is subject to the rules of the National Association of Securities Dealers, Inc. and the securities laws of the states in which it transacts business. AILIC's variable insurance products are subject to the rules and regulations of the Securities and Exchange Commission and "Blue Sky" laws of the states in which their products are sold.

Foreign Operations

In 1998, GAFRI opened an office in Bangalore, India. Employees located at this office perform computer programming and certain back office functions for the Company's insurance operations.

In 2003, GAFRI entered into an agreement to sell its Indian operation to an unaffiliated third party. The Company will receive a minimum of $500,000 per year over the next four years based on the amount of business administered by the Indian operation. The Company has also entered into an agreement with the third party to obtain certain services currently provided by this operation for the next five years. This transaction did not have a material impact on the Company or its results.

GAFRI also owns an insurance company in Puerto Rico (see Item 1 - "GA Life of Puerto Rico").

Uncertainties

Proposed Retirement Account Changes The federal budget for fiscal year 2005 contains several proposals designed to increase private savings by simplifying and consolidating current retirement savings vehicles. Included is one proposal to consolidate 401(k), 403(b) and governmental 457 plans, as well as certain other retirement accounts, into one plan. It is too early to predict the specific proposals which might be included in any legislation to be introduced, whether such legislation would become law, or their impact if adopted.

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Proposed Regulatory Changes Various competitors, schools and other entities have proposed measures that would restrict product designs and the number of companies qualified to sell annuities to teachers. In addition, certain school districts have proposed charging policy fees to annuity providers. While efforts in these areas have been largely unsuccessful to date, widespread acceptance of such measures could negatively impact GAFRI's 403(b) annuity operations to the extent the Company's access to school districts is limited or reduced, and to the extent policy fees are not recovered by GAFRI.

ITEM 2

Properties

GAFRI and GALIC rent office space in Cincinnati, Ohio totaling approximately 180,000 square feet under leases expiring primarily in 2006 through 2008. Several of the Company's subsidiaries lease marketing and administrative offices in locations throughout the United States.

GAPR rents office space in Puerto Rico totaling approximately 81,000 square feet under leases expiring primarily in 2005.

GAFRI owns a building in Austin, Texas totaling approximately 40,000 square feet, the vast majority of which is used by UTA for its own operations. The remainder of the space is leased to other tenants.

Management believes that its corporate offices are generally well maintained and adequate for the Company's present needs.

GAFRI owns facilities related to its former manufacturing operations totaling approximately 150,000 square feet in North Adams, Massachusetts and 60,000 square feet in Longwood, Florida. A portion of the space in these facilities is currently being leased to companies using it for manufacturing and other operations.

ITEM 3

Please refer to "Forward-Looking Statements" following the index in front of this Form 10-K.

Legal Proceedings

Federal and state laws and regulations, including the Federal Comprehensive Environmental Response, Compensation, and Liability Act and similar state laws, impose liability on the Company, (as the successor to Sprague Technologies, Inc.), for the investigation and clean-up of hazardous substances disposed of or spilled by its former manufacturing operations at facilities still owned by the Company, and facilities transferred in connection with the sales of certain operations, as well as at disposal sites operated by third parties. In addition, the Company has indemnified the purchasers of its former operations for the cost of such activities. At several sites, the Company is conducting clean-up activities of soil and ground water contamination in accordance with consent agreements between the Company and state environmental agencies. The Company has also conducted or is aware of investigations at a number of other locations of its former operations that have disclosed environmental contamination that could cause the Company to incur additional investigative, remedial and legal costs. The Company has also been identified by state and federal regulators as a potentially responsible party at a number of other disposal sites.

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Based on the costs incurred by the Company over the past several years and discussions with its independent environmental consultants, management believes that reserves recorded are sufficient in all material respects to satisfy the estimated liabilities. However, the regulatory standards for clean-up are continually evolving and may impose more stringent requirements. In addition, many of the environmental investigations at the Company's former operating locations and third-party sites are still preliminary, and where clean-up plans have been proposed, they have not yet received full approval from the relevant regulatory agencies. Further, the presence of Company-generated wastes at third-party disposal sites exposes the Company to joint and several liability for the potential additional costs of cleaning up wastes generated by others.

Accordingly, there can be no assurance that the costs of environmental clean-up for the Company may not be significantly higher in future years, possibly necessitating additional charges.

There are certain other claims involving the Company, including claims relating to the generation, disposal or release into the environment of allegedly hazardous substances. In management's opinion, the outcome of these claims will not, individually or in the aggregate, have a material adverse effect on the Company's financial condition.

UTA was named a defendant in a purported class action lawsuit. (Peggy Berry, et al. v. United Teacher Associates Insurance Company, Travis County District Court, Cause No. GN100461, filed February 11, 2001). The complaint seeks unspecified damages based on the alleged misleading disclosure of UTA's interest crediting practices on its fixed rate annuities and various other allegations with respect to the marketing and administration of those annuities. The case was settled based on the agreement of UTA to make certain changes in its business practices with respect to fixed annuities and to pay the attorneys' fees of counsel for the plaintiffs. Settlement of this matter did not have a material impact on the Company or its financial results.

GAFRI is subject to other litigation and arbitration in the normal course of business. GAFRI is not a party to any material pending litigation or arbitration.

PART II

Please refer to "Forward-Looking Statements" following the index in front of this Form 10-K.

ITEM 5

Market for Registrant's Common Equity

and Related Stockholder Matters

GAFRI's Common Stock is listed and traded principally on the New York Stock Exchange ("NYSE") under the symbol GFR. On March 1, 2004, there were approximately 4,900 holders of record of Common Stock. The following table sets forth the range of high and low sales prices for the Common Stock on the NYSE Composite Tape.

	2003		2002	
	High	Low	High	Low
First quarter	$17.45	$13.25	$18.85	$16.99
Second quarter	16.20	13.08	20.00	16.80
Third quarter	15.00	13.10	19.86	13.35
Fourth quarter	16.25	14.34	17.60	14.82

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The Company paid annual common dividends of $0.10 per share in 2003 and 2002. Although no future dividend policy has been determined, management believes the Company will continue to have the capability to pay similar dividend amounts.

At March 1, 2004, approximately 82% of GAFRI's Common Stock was beneficially owned by AFG.

Equity Compensation Plan Information

The following reflects certain information about shares of GAFRI Common Stock authorized for issuance (at

December 31, 2003) under equity compensation plans.

Equity Compensation Plans	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Approved by shareholders	3,324,402	$16.75	2,235,885 (1)
Not approved by shareholders	764,161	$18.14	1,826,172 (2)

- Includes options exercisable into 1.4 million shares available for issuance under GAFRI's Stock Option Plans for employees and directors, 0.8 million shares issuable under GAFRI's Employee Stock Purchase Plan and 62,095 shares issuable under GAFRI's Non-employee Directors' Compensation Plan.
- Represents shares issuable under GAFRI's Deferred Compensation Plan (0.3 million shares), Agent Stock Purchase Plan (0.9 million shares), Agent Stock Option Plan (0.2 million shares) and GAFRI's Bonus Plan (0.4 million shares).

Under the GAFRI Deferred Compensation Plan, certain highly compensated employees of GAFRI and its subsidiaries may defer a portion of their annual salary and/or bonus. Participants may elect to have the value of deferrals (i) earn a fixed rate of interest set annually by the Board of Directors or a committee thereof, or (ii) fluctuate based on the market value of GAFRI Common Stock, as adjusted to reflect stock splits, distributions, dividends, and a 7-1/2% match to participant deferrals.

Under the Agent Stock Purchase Plan, selected agents are able to utilize commissions earned from the sale of insurance products issued by the Company's subsidiaries to purchase GAFRI Common Stock at 92.5% of the fair market value. The Plan provides that up to 1,000,000 shares of GAFRI Common Stock may be issued.

Under the Agent Stock Option Plan, selected agents are able to earn options to purchase GAFRI Common Stock based on the amount of premium the agents produce from the sale of insurance products issued by the Company's subsidiaries. The options have an exercise price equal to the fair market value of GAFRI Common Stock at the time of grant. The options include vesting provisions based on future premium production. The Plan provides that up to 1,000,000 shares of GAFRI Common Stock may be issued upon the exercise of options.

Under GAFRI's Bonus Plan covering the majority of the Company's officers, participants are required to receive 25% of their annual bonus in the form of GAFRI Common Stock. The Bonus Plan provides for the issuance of up to 500,000 shares of GAFRI Common Stock as partial payment of annual bonuses.

ITEM 6

Selected Financial Data

The following financial data has been summarized from, and should be read in conjunction with, the Company's Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The data reflects the acquisitions of MNL in June 2002 and UTA in October 1999 (in millions, except per share amounts).

	2003	2002	2001	2000	1999
Income Statement Data:					
Total revenues	$920.6	$883.2	$830.1	$824.3	$661.5
Operating earnings before income taxes	$ 69.6	$ 38.9	$ 59.9	$ 81.1	$ 92.0
Income before accounting changes	$ 49.7	$ 33.9	$ 42.7	$ 53.9	$ 63.5
Cumulative effect of accounting changes (a)	-	(17.7)	(5.5)	0.8	(4.7)
Net income	$ 49.7	$ 16.2	$ 37.2	$ 54.7	$ 58.8
Basic earnings per common share:					
Income before accounting changes	$ 1.14	$ 0.80	$ 1.01	$ 1.27	$ 1.50
Accounting changes (a)	-	(0.42)	(0.13)	0.02	(0.11)
Net income	$ 1.14	$ 0.38	$ 0.88	$ 1.29	$ 1.39
Diluted earnings per common share:					
Income before accounting changes	$ 1.13	$ 0.79	$ 1.00	$ 1.26	$ 1.48
Accounting changes (a)	-	(0.41)	(0.13)	0.02	(0.11)

	)	)		)	
Net income	$ 1.13	$ 0.38	$ 0.87	$ 1.28	$ 1.37
Cash dividends per common share	$0.10	$0.10	$0.10	$0.10	$0.10
Balance Sheet Data at year-end:					
Total assets	$10,194.3	$9,362.6	$8,400.4	$7,975.9	$7,530.7
Notes payable	214.0	250.3	223.0	151.9	201.3
Payable to subsidiary trusts	155.0	-	-	-	-
Mandatorily redeemable preferred securities of subsidiary trusts	-	142.9	142.9	217.9	219.6
Net unrealized gains (losses) included in stockholders' equity	162.6	180.0	89.8	43.9	(52.9)
Total stockholders' equity	942.5	851.9	748.8	671.7	525.7

a. Reflects the implementation of the following accounting changes mandated by recently enacted accounting standards:

2002 - SFAS #142 (Goodwill and Other Intangibles)

2001 - EITF #99-20 (Asset-backed Securities)

2000 - SFAS #133 (Derivatives)

1999 - SOP 98-5 (Start-up Costs)

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ITEM 7

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Index to MD&A

Please refer to "Forward-Looking Statements" following the index in front of this Form 10-K.

GENERAL

Following is a discussion and analysis of the financial statements and other statistical data that management believes will enhance the understanding of the financial condition and results of operations of Great American Financial Resources, Inc. ("GAFRI" or "the Company"). This discussion should be read in conjunction with the financial statements beginning on page F-1.

GAFRI 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.

OVERVIEW

Financial Condition

GAFRI strengthened its capital and liquidity during 2003 with stockholders' equity (excluding unrealized gains) growing by more than $108 million (16%) to $779.9 million and reduced its debt to capital ratio from 36% at December 31, 2002 to 31% at December 31, 2003. In addition, the combined statutory capital of GAFRI's insurance subsidiaries increased more than $100 million (23%) in 2003.

GAFRI and its subsidiaries completed several major cash transactions in 2003, including the following:

- Issued $20 million of trust preferred securities in May;
- Sold $60 million (4.3 million shares) of Common Stock in a rights offering in September;
- Issued $112.5 million of senior debt in November;
- Repaid nearly $150 million in bank debt during the year.

In addition, GAFRI issued just over $86 million of senior debt in January 2004 and used the proceeds to retire higher coupon rate trust preferred securities.

Results of Operations

Through the operations of its insurance subsidiaries, GAFRI is engaged in the sale of retirement annuities and various forms of supplemental insurance products.

GAFRI's 2003 results reflect significantly lower realized losses on investments and improved operating results in the Company's life, supplemental insurance and variable annuity operations, partially offset by the effects of lower interest rates on the Company's fixed annuity operations.

GAFRI's net income for 2003 was $49.7 million ($1.13 per diluted share). Included in net income were investment impairment provisions of $26.9 million, after-tax, and $9.9 million in after-tax DPAC write-offs related to the negative effect of lower interest rates on GAFRI's fixed annuities.

CRITICAL ACCOUNTING POLICIES

Significant accounting policies are described in Note B to the financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that can have a significant effect on amounts reported in the financial statements. As more information becomes known, these estimates and assumptions could change and thus impact amounts reported in the future. Management believes that the establishment of insurance reserves, the determination of "other than temporary" impairments on investments, the recoverability and carrying value of unamortized insurance acquisition costs and environmental reserves of GAFRI's former manufacturing operations are the areas where the degree of judgement required to determine amounts recorded in the financial statements make the accounting policies critical.

LIQUIDITY AND CAPITAL RESOURCES

Ratios

GAFRI's consolidated debt to capital ratio was 31% at December 31, 2003 compared to 36% at December 31, 2002. For purposes of this calculation, consolidated debt includes notes payable, payable to subsidiary trusts in 2003 and redeemable preferred securities of consolidated subsidiary trusts in 2002; capital represents the sum of consolidated debt and stockholders' equity (excluding unrealized gains on fixed maturity securities).

The National Association of Insurance Commissioners' ("NAIC") risk-based capital ("RBC") formula determines the amount of capital that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. At December 31, 2003, the capital ratio of GAFRI's principal insurance subsidiary was 6.2 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 primarily capital distributions from their directly-owned insurance subsidiaries, (Great American Life Insurance Company ("GALIC") and GA Life of Puerto Rico ("GAPR")), bank borrowings and cash and investments on hand. Capital distributions from GAFRI's insurance subsidiaries are subject to regulatory restrictions relating to statutory surplus and earnings. The maximum amount of dividends payable by GALIC and GAPR in 2004 without prior regulatory approval is $56.5 million and $32.9 million, respectively. In 2003, GALIC paid $11.0 million in dividends and GAPR paid $1.2 million in dividends. In 2003, GAFRI made capital contributions to GALIC of $47.2 million.

The Company has an unsecured bank credit agreement that matures on December 31, 2004. Amounts borrowed bear interest at floating rates based on prime or Eurodollar rates. Almost 75% of the combined net proceeds from a $60 million common stock rights offering in September 2003 and a $112.5 million issuance of 30 year Senior Debentures in November 2003 were used to repay borrowings under GAFRI's bank line. The remaining proceeds were used to increase insurance subsidiary capital and for general corporate purposes. GAFRI's credit agreement provides up to $155 million of availability; there were no borrowings outstanding under the line of credit at March 1, 2004.

In January 2004, GAFRI raised approximately $84 million through the issuance of 7-1/4% Senior Debentures