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 September 30, 2005	Commission File No. 1-11632

Incorporated under	IRS Employer I.D.
the Laws of Delaware	No. 06-1356581

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___

Indicate by check mark whether the Registrant is an accelerated filer. Yes_X_ No___

Indicate by check mark whether the Registrant is a shell company. Yes___ No_X_

As of November 1, 2005, there were 47,135,595 shares of the Registrant's Common Stock outstanding.

GREAT AMERICAN FINANCIAL RESOURCES, INC.

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PART I

FINANCIAL INFORMATION

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Dollars in millions)

	September 30, 2005	December 31, 2004
Assets		
Investments:		
Fixed maturities:		
Available-for-sale - at market		
(amortized cost - $8,662.7 and $8,383.2)	$ 8,827.0	$ 8,700.1
Trading securities - at market	276.4	292.2
Equity securities - at market		
(cost - $171.4 and $134.1)	180.1	159.2
Mortgage loans on real estate	23.7	22.4
Real estate	138.9	108.8
Policy loans	255.6	250.2
Short-term investments	138.5	145.7
Total investments	9,840.2	9,678.6
Cash	34.5	24.5
Accrued investment income	113.5	115.6
Unamortized insurance acquisition costs	894.1	841.2
Reinsurance recoverable	296.5	327.6
Other assets	108.2	114.5
Variable annuity assets (separate accounts)	629.6	620.0

	$11,916.6	$11,722.0
Liabilities and Capital		
Annuity benefits accumulated	$ 8,340.3	$ 8,132.1
Unearned revenue	111.8	110.4
Life, accident and health reserves	1,070.6	1,022.0
Notes payable	299.9	300.0
Payable to subsidiary trusts	62.8	62.8
Payable to affiliates, net	132.6	115.3
Deferred taxes on unrealized gains	50.8	98.9
Accounts payable, accrued expenses and other liabilities	179.7	191.4
Variable annuity liabilities (separate accounts)	629.6	620.0
Total liabilities	10,878.1	10,652.9
Stockholders' Equity:		
Common Stock, $1 par value -100,000,000 shares authorized -47,135,595 and 47,062,384 shares outstanding	47.1	47.1
Capital surplus	406.5	407.1
Retained earnings	486.3	424.0
Unrealized gains on marketable securities, net	98.6	190.9
Total stockholders' equity	1,038.5	1,069.1
	$11,916.6	$11,722.0

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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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues:				
Life, accident and health premiums	$ 91.9	$ 86.0	$276.3	$263.8
Net investment income	140.1	135.4	423.8	394.2
Realized gains (losses) on:				
Investments	3.5	44.3	9.7	48.4
Goodwill impairment	-	(4.0)	-	(4.0)
Retirement of subsidiary trust debt	-	-	-	(1.3)
Other income	38.9	34.8	97.2	80.8
	274.4	296.5	807.0	781.9
Costs and Expenses:				
Annuity benefits	81.6	82.5	246.5	228.5
Life, accident and health benefits	72.5	63.9	211.0	199.2
Insurance acquisition expenses	34.3	29.5	103.4	92.3
Interest on subsidiary trust obligations	1.3	1.3	3.9	5.4
Other interest and debt expenses	5.8	5.1	17.0	15.2
Other expenses	52.1	44.0	138.0	122.0
	247.6	226.3	719.8	662.6
Operating earnings before income taxes	26.8	70.2	87.2	119.3
Provision for income taxes	8.0	22.9	24.9	37.8
Income before accounting change	18.8	47.3	62.3	81.5
Cumulative effect of accounting change, net of tax	-	-	-	(2.2

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Net Income	$ 18.8	$ 47.3	$ 62.3	$ 79.3
Basic earnings per common share:				
Income before accounting change	$ 0.40	$ 1.00	$ 1.32	$ 1.73
Accounting change	-	-	-	(0.05)
Net income	$ 0.40	$ 1.00	$ 1.32	$ 1.68
Diluted earnings per common share:				
Income before accounting change	$ 0.39	$ 1.00	$ 1.31	$ 1.72
Accounting change	-	-	-	(0.04)
Net income	$ 0.39	$ 1.00	$ 1.31	$ 1.68
Average number of common shares:				
Basic	47.1	47.1	47.1	47.1
Diluted	47.7	47.2	47.5	47.3

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In millions)

Nine months ended
September 30,

	2005	2004
Common Stock:		
Balance at beginning of period	$ 47.1	$ 47.0
Common Stock issued	0.4	0.1
Common Stock retired	(0.4)	-
Balance at end of period	$ 47.1	$ 47.1
Capital Surplus:		
Balance at beginning of period	$407.1	$406.0
Common Stock issued	5.2	1.8
Common Stock retired	(5.8)	(0.8)
Balance at end of period	$406.5	$407.0
Retained Earnings:		
Balance at beginning of period	$424.0	$326.9
Net income	62.3	79.3
Balance at end of period	$486.3	$406.2
Unrealized Gains, Net:		
Balance at beginning of period	$190.9	$162.6
Change during period	(92.3)	11.5
Balance at end of period	$ 98.6	$174.1

Comprehensive Income (Loss)		
Net income	$ 62.3	$ 79.3
Other comprehensive income (loss) - change in net unrealized gains on marketable securities	(92.3)	11.5
Comprehensive income (loss)	($ 30.0)	$ 90.8

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

	Nine months ended September 30,	
	2005	2004
Cash Flows from Operating Activities:		
Net income	$ 62.3	$ 79.3
Adjustments:		
Cumulative effect of accounting change	-	2.2
Increase in life, accident and health reserves	50.0	48.0
Benefits to annuity policyholders	246.5	228.5
Amortization of insurance acquisition costs	77.2	68.1
Depreciation and amortization	24.6	19.8
Realized gains on investments	(9.7)	(48.4)
Realized loss on goodwill impairment	-	4.0
Realized loss on retirement of subsidiary trust debt	-	1.3
Net trading portfolio activity	11.7	(86.0)

Increase in insurance acquisition costs	(94.0)	(95.0)
Decrease (increase) in reinsurance recoverable	0.9	(19.6)
Decrease (increase) in other assets	3.9	(2.1)
Increase in other liabilities	11.0	8.1
Increase in payable to affiliates, net	17.3	20.2
Other, net	(0.5)	3.8
	401.2	232.2
Cash Flows from Investing Activities:		
Purchases of and additional investments in:		
Fixed maturity investments	(1,581.5)	(2,078.0)
Equity securities	(87.0)	(62.3)
Real estate, mortgage loans and other assets	(38.6)	(40.8)
Maturities and redemptions of fixed maturity investments	518.9	621.4
Sales of:		
Fixed maturity investments	774.2	1,339.2
Equity securities	66.8	7.2
Real estate, mortgage loans and other assets	0.7	0.7
Cash and short-term investments of acquired (former) businesses, net	-	26.6
Increase in policy loans	(5.4)	(2.5)
	(351.9)	(188.5)
Cash Flows from Financing Activities:		
Fixed annuity receipts	632.5	524.0
Annuity surrenders, benefits and withdrawals	(688.4)	(534.3)
Net transfers from variable annuity assets	10.1	2.0
Additions to notes payable	-	83.5
Reductions of notes payable	(0.1)	(0.2)
Issuance of Common Stock	1.9	1.9
Retirement of Common Stock	(2.5)	(0.8)
Repurchase of Trust Preferred Securities	-	(93.5)
	(46.5)	(17.4)

	)	)
Net increase in cash and short-term investments	2.8	26.3
Beginning cash and short-term investments	170.2	164.0
Ending cash and short-term investments	$ 173.0	$ 190.3

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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"), through its subsidiaries, markets fixed and variable annuities, and various forms of supplemental insurance and life products through independent agents, payroll deduction plans, financial institutions and in-home sales.

American Financial Group, Inc. ("AFG") and its subsidiaries owned 82% of GAFRI's Common Stock at November 1, 2005.

- **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 ("GAAP").

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

Fixed maturity securities and equity securities classified as "available-for-sale" are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. Fixed maturity securities classified as "trading" are reported at fair value with changes in unrealized gains or losses during the period included in investment income. Short-term investments are carried at cost; mortgage loans on real estate are carried at the unpaid principal balance adjusted for the amortization of premium and accrual of discounts; and policy loans are carried at the aggregate unpaid balance. Premiums and discounts on mortgage-backed securities are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. The most significant determinants of prepayments are the differences between interest rates of the underlying mortgages and current mortgage loan rates and the structure of the security. Other factors affecting prepayments include the size, type and age of underlying mortgages, the geographic location of the mortgaged properties and the creditworthiness of the borrowers. Variations from anticipated prepayments will affect the life and yield of these securities.

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 (included in realized gains (losses) on investments) and the cost basis of that investment is reduced.

Derivatives

Derivatives included in GAFRI's Balance Sheet consist primarily of (i) the interest component of certain life reinsurance contracts (included in other liabilities), (ii) interest rate swaps (included in notes payable), (iii) the equity-based component of certain annuity products (included in annuity benefits accumulated) and (iv) related call options (included in other assets) designed to be consistent with the characteristics of the liabilities and used to mitigate the risk embedded in those annuity products. Changes in the fair value of derivatives are included in current earnings.

The terms of the interest rate swaps match those of the hedged debt; therefore, the swaps are considered to be (and are accounted for as) effective fair value hedges. Both the swaps and the hedged debt are adjusted for changes in fair value by offsetting amounts. Accordingly, since the swaps are included with notes payable in the Balance Sheet, the only effect on GAFRI's financial statements is that the interest expense on the hedged debt is recorded based on the variable rate.

Reinsurance

In the normal course of business, GAFRI's insurance subsidiaries cede reinsurance to other companies under various coinsurance agreements to diversify risk and limit maximum exposure. These transactions may also provide a source of additional capital and liquidity. GAFRI remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. GAFRI reviews the financial condition of its reinsurers and monitors the amount of reinsurance it has with each company.

Under these agreements, GAFRI's insurance subsidiaries cede life insurance policies to a third party on a funds withheld basis whereby GAFRI retains the assets (securities) associated with the reinsurance contracts. Interest is credited to the reinsurer based on the actual investment performance (including realized gains and losses) of the retained assets. These reinsurance contracts are considered to contain embedded derivatives (that must be marked to market) because the yield on the payables is based on specific blocks of the ceding companies' assets, rather than the overall creditworthiness of the ceding company. GAFRI determined that changes in the fair value of the underlying portfolios of fixed maturity securities is an appropriate measure of the value of the embedded derivative. The Company classifies the securities related to these transactions as "trading." The mark to market on the embedded derivatives offsets the investment income recorded on the mark to market of the related trading portfolios.

Insurance Acquisition Costs and Expenses

Unamortized insurance acquisition costs consist of deferred policy acquisition costs ("DPAC") and the present value of future profits on business in force ("PVFP" or "VOBA") of acquired insurance companies.

Insurance acquisition expenses in the income statement reflect primarily the amortization of DPAC and VOBA. In addition, certain commission costs are expensed as paid and included in insurance acquisition expenses. All other uncapitalized acquisition costs such as marketing and underwriting expenses are included in "Other expenses."

Deferred Policy Acquisition Costs ("DPAC")

Policy acquisition costs (principally commissions, advertising, underwriting, policy issuance and sales expenses that vary with and are primarily related to the production of new business) are deferred to the extent that such costs are deemed recoverable. DPAC also includes capitalized costs associated with sales inducements offered to fixed annuity policyholders such as enhanced interest rates and premium and persistency bonuses.

DPAC related to annuities and universal life insurance products is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of actual and expected gross profits on the policies. Expected gross profits consist principally of estimated future investment margin (estimated future net investment income less interest credited on policyholder funds) and surrender, mortality, and other life and variable annuity policy charges, less death and annuitization benefits in excess of account balances and estimated future policy administration expenses.

To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains. DPAC related to annuities is also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from securities had actually been realized. This adjustment is included in "Unrealized gains on marketable securities, net" in the stockholders' equity section of the Balance Sheet.

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.

Life and health insurance contracts are reviewed periodically using actuarial assumptions revised based on actual and anticipated experience, to determine if there is a potential premium deficiency. If any such deficiency exists, it is recognized by a charge to income and a reduction in unamortized acquisition costs.

Present Value of Future Profits ("PVFP")

Insurance acquisition costs include the PVFP on business in force of acquired insurance companies, which represents 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.

The PVFP is amortized with interest in relation to expected gross profits of the acquired policies for annuities and universal life products and in relation to the premium payments 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.

Reserves for two-tier annuities (annuities with different stated account values depending on whether a policyholder annuitizes, dies or surrenders) are recorded at the lower-tier value plus additional reserves for (i) accrued persistency and premium bonuses and (ii) excess benefits expected to be paid on future deaths and annuitizations ("EDAR") that require payment of the upper-tier value. The liability for EDAR is accrued for and modified using assumptions consistent with those used in determining DPAC and DPAC amortization, except that accruals are in relation to the present value of total expected assessments. Total expected assessments consist principally of estimated future investment margin, surrender, mortality, and other life and variable annuity policy charges, and unearned revenues once they are recognized as income.

Reserves for traditional single-tier fixed annuities are generally recorded at the stated annuitization value.

Reserves for fixed indexed annuities are recorded at the sum of the host contract plus the embedded derivative for each policy.

Unearned Revenue

The liability for unearned revenue relating to certain policy charges representing compensation for future services is recognized as income using the same assumptions and estimated gross profits used to amortize DPAC.

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 the original projections of 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 plus an additional mortality reserve required under SOP 03-1 for certain products.

Variable Annuity Assets and Liabilities

Separate accounts related to variable annuities represent the market value of deposits invested in underlying investment funds on which GAFRI earns a fee. Investment funds are selected and may be changed only by the policyholder, who retains investment risk.

Variable annuity contracts contain a guaranteed minimum death benefit ("GMDB") to be paid if the policyholder dies before the annuity payout period commences. In periods of declining equity markets, the GMDB may exceed the value of the policyholder's account. A GMDB liability is established for future excess death benefits using assumptions together with a range of reasonably possible scenarios for investment fund performance that are consistent with DPAC capitalization and amortization assumptions.

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 that 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.

Payable to Subsidiary Trusts

GAFRI has formed wholly-owned subsidiary trusts that issued preferred securities and, in turn, purchased a like amount of subordinated debt from their parent company. Interest and principal payments from the parent fund the respective trust obligations. GAFRI does not consolidate these subsidiary trusts because they are "variable interest entities" in which GAFRI is not considered to be the primary beneficiary. Accordingly, the subordinated debt due to the trusts is shown as a liability in the Balance Sheet.

Income Taxes

GAFRI and Great American Life Insurance Company ("GALIC") have separate tax allocation agreements with American Financial Group ("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) AFG based on taxable income 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 receivable by GALIC associated with the excess are payable to or receivable from AFG. If the AFG tax group utilizes any of GAFRI's net operating losses or deductions that originated prior to GAFRI's entering AFG's consolidated tax group, AFG will pay to GAFRI an amount equal to the benefit received. The tax allocation agreements with AFG have not impacted the recognition of income tax expense and income tax payable in GAFRI's financial statements.

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 AFG's consolidated tax group are aggregated with other amounts receivable from or payable to affiliates.

Stock-Based Compensation

As permitted under 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 ("APB") No. 25, "Accounting for Stock Issued to Employees." Under GAFRI's stock option plans, options are granted at exercise prices equal to the fair value of the shares at the dates of grant. No compensation expense is recognized for stock option grants.

The following table illustrates the effect on net income (in millions) and earnings per share had compensation cost been recognized and determined based on the fair values at grant dates consistent with the method prescribed by SFAS No. 123.

For SFAS No. 123 purposes, the "fair value" of $5.28 per option granted in the first nine months of 2005 and $4.58 for the first nine months of 2004 was calculated using the Black-Scholes option pricing model and the following assumptions: dividend yield of less than 1%; expected volatility of 20%; 2005 risk-free interest rate of 4%; 2004 risk-free interest rate of 3%; and expected option life of 7.5 years. There is no single reliable method to determine the actual value of options at grant date. Accordingly, actual value of the option grants may be higher or lower than the SFAS No. 123 "fair value."

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net income, as reported	$18.8	$47.3	$62.3	$79.3
Pro forma stock option expense, net of tax	(0.4)	(0.5)	(1.2)	(1.3)
Adjusted net income	$18.4	$46.8	$61.1	$78.0
Earnings per share (as reported):				
Basic	$0.40	$1.00	$1.32	$1.68
Diluted	$0.39	$1.00	$1.31	$1.68
Earnings per share (adjusted):				
Basic	$0.39	$0.99	$1.30	$1.66
Diluted	$0.38	$0.99	$1.29	$1.65

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment," which revises SFAS 123 and eliminates the use of the intrinsic value method prescribed by APB 25. Under SFAS 123(R), companies must recognize compensation expense for all new share-based awards (including employee stock options), and the non-vested portions of

prior awards, based on their fair value at the date of grant. GAFRI expects to implement the new standard on January 1, 2006, on a prospective basis. After that date, compensation expense will be recognized for all share-based grants over their respective vesting periods. While GAFRI currently uses the Black-Scholes pricing model to measure the fair value of stock options for purposes of disclosing pro forma earnings, the use of other models is also permitted under SFAS No. 123(R). GAFRI has not yet determined which model it will use to measure the fair value of future stock option grants, and accordingly, cannot quantify the impact of implementing the new standard.

Benefit Plans

GAFRI provides retirement benefits to qualified employees of participating companies through the GAFRI Retirement and Savings Plan, a defined contribution plan. GAFRI makes all contributions to the retirement fund portion of the Plan (at the discretion of the GAFRI Board of Directors) and matches a percentage of employee contributions to the savings fund. Employees have been permitted to direct the investment of their contributions to independently managed investment funds. Matching contributions to the savings fund are also invested in accordance with participant elections, while Company contributions to the retirement fund have been invested primarily in GAFRI Common Stock. Company contributions are expensed in the year for which they are declared.

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.

Earnings Per Share

Basic earnings per share is calculated using the weighted-average number of shares of common stock outstanding during the period. The calculation of diluted earnings per share includes the following dilutive effect of common stock options: third quarter and first nine months of 2005 - 0.6 million and 0.4 million shares and third quarter and first nine months of 2004 - 0.1 million and 0.2 million shares, respectively.

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. Acquisition

In May 2004, GAFRI acquired the fixed annuity block of National Health Insurance Company ("NHIC"). At the date of acquisition, the block consisted of approximately 33,000 policies with GAAP reserves of approximately $765 million.

D. Segments of Operations

Revenue from GAFRI's annuity operations consists primarily of investment income as well as operating revenues from its real estate investments. GAFRI's annuity products are sold through independent agents to employees of primary and secondary educational institutions, hospitals and in the non-qualified markets. GAFRI is engaged in a variety of real estate operations including hotels and marinas. The seasonal nature of the Company's hotel operations and the discretionary sales of assets cause the quarterly results not to be indicative of results for longer periods of time.

GAFRI's supplemental insurance businesses (United Teacher Associates Insurance Company ("UTA") and Loyal American Life Insurance Company) primarily offer a variety of limited benefit policies to supplement primary health insurance and other insurance coverage. UTA offers its products through independent agents.

GA Life of Puerto Rico ("GAPR") sells in-home life and supplemental health products through a network of company-employed agents. It also sells other life products through independent agents. Sales in Puerto Rico accounted for approximately 20% of GAFRI's life, accident and health premiums in the first nine months of 2005 and 2004, respectively.

Traditional term and universal life insurance products had been marketed through national marketing organizations. In the second quarter of 2004, GAFRI suspended new sales of these life insurance products due to inadequate volume and returns. The Company will continue to service its in-force block of these policies. The Company continues to sell life products through its supplemental insurance operations and GA Life of Puerto Rico.

Corporate and other consists primarily of GAFRI (parent) and AAG Holding (intermediate holding company). The following table shows GAFRI's revenues and operating profit by significant business segment (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues				
Fixed annuity operations	$120.9	$118.1	$368.9	$343.6
Variable annuity operations	5.7	5.9	17.2	17.5
Real estate operations	24.2	20.3	53.7	38.2

Total annuity operations	150.8	144.3	439.8	399.3
Supplemental insurance operations	77.0	69.4	227.6	212.1
GA Life of Puerto Rico	21.3	20.4	64.7	60.8
Life operations	18.8	19.1	57.3	58.6
Corporate and other	3.0	3.0	7.9	8.0
Total operating revenues	270.9	256.2	797.3	738.8
Realized gains	3.5	40.3	9.7	43.1
Total revenues per income statement	$274.4	$296.5	$807.0	$781.9
Operating profit - pre-tax				
Fixed annuity operations	$ 20.8	$ 18.4	$66.1	$ 65.9
Variable annuity operations	0.6	0.2	2.0	0.8
Real estate operations:				
Operating cash flow	9.4	7.7	18.3	11.4
Depreciation and other	(2.0	(1.7	(7.4	(5.0
	)	)	)	)
Total annuity operations	28.8	24.6	79.0	73.1
Supplemental insurance operations	6.6	6.0	20.4	16.1
GA Life of Puerto Rico	2.9	5.5	9.3	11.9
Life operations	1.7	0.7	1.3	(2.1)
Corporate and other	(16.7	(6.9	(32.5	(22.8
	)*	)	)*	)
Pre-tax earnings from operations	23.3	29.9	77.5	76.2
Realized gains	3.5	40.3	9.7	43.1
Total operating earnings before income taxes per income statement	$ 26.8	$ 70.2	$ 87.2	$119.3

*Includes pre-tax charge of $9.5 million related to environmental liabilities at the Company's former manufacturing operations.

E. Unamortized Insurance Acquisition Costs

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

	September 30, 2005	December 31, 2004
Deferred policy acquisition costs ("DPAC")	$783.8	$764.4
Sales inducements	71.6	63.6
Unrealized DPAC adjustment*	(27.3)	(59.5)
Present value of future profits acquired ("PVFP")	66.0	72.7
	$894.1	$841.2

*Reflects the change in DPAC assuming the unrealized gains on securities had actually been realized. (See Note B)

Included in PVFP at September 30, 2005 is $16.3 million relating to the May 2004 acquisition of the fixed annuity business of NHIC. The PVFP amounts in the table above are net of $80.7 million and $73.2 million of accumulated amortization at September 30, 2005 and December 31, 2004, respectively. Amortization of the PVFP was $1.6 million in the third quarter of 2005 and $7.5 million in the first nine months of 2005 compared to $1.7 million in the third quarter of 2004 and $5.2 million in the first nine months of 2004.

F. Notes Payable

Notes payable consisted of the following (in millions):

	September 30, 2005	December 31, 2004
Direct obligations of GAFRI	$ 1.1	$ 1.2
Obligations of AAG Holding (guaranteed by GAFRI):		

7-1/2% Senior Debentures due 2033	112.5	112.5
6-7/8% Senior Notes due 2008	100.0	100.0
7-1/4% Senior Debentures due 2034	86.3	86.3
Total	$299.9	$300.0

GAFRI has entered into interest rate swaps that effectively convert its 6-7/8% Senior Notes to a floating rate of 3-month LIBOR plus 2.9% (effective rate of approximately 6.8% and 5.4% at September 30, 2005 and December 31, 2004, respectively). The swaps realign GAFRI's mix of floating and fixed rate debt.

In January 2004, the Company issued $86.3 million of 7-1/4%, 30-year Senior Debentures, using the proceeds to redeem all of its $65.0 million principal amount of 9-1/4% trust preferred securities at face value and to repurchase a portion of its outstanding 8-7/8% preferred securities.

At September 30, 2005, scheduled principal payments on debt for the remainder of 2005 and the subsequent five years were as follows (in millions):

2005	2006	2007	2008	2009	2010
$0.1	$0.2	$0.1	$100.1	$0.1	$0.1

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

G. Payable to Subsidiary Trusts

The preferred securities supported by the payable to subsidiary trusts consisted of the following:

Date of Issuance	Issue (Maturity Date)	Amount Outstanding 9/30/05	12/31/04	Optional Redemption Dates
March 1997	8.875% Pfd (2027)	$42,800,000	$42,800,000	On or after 3/1/2007
May 2003	7.35% Pfd (2033)	20,000,000	20,000,000	On or after 5/15/2008

GAFRI effectively provides an unconditional guarantee of the trusts' obligations.

H. Stockholders' Equity

At September 30, 2005, there were 7.1 million shares of GAFRI Common Stock reserved for issuance under GAFRI's stock option plans. As of that date, options for 3.6 million shares were outstanding. Under these 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 and generally expire ten years after the date of grant. In 2005, 402,981 shares of Common Stock were issued upon the exercise of stock options. In connection with certain of these exercises, 180,806 shares were delivered as payment of the exercise price and these shares were retired.

The change in net unrealized gains on marketable securities for the nine months

ended September 30 included the following (in millions):

	2005			2004		
	Pre-tax	Taxes	Net	Pre-tax	Taxes	Net
Unrealized holding gains (losses) on securities arising during the period	($130.7)	$46.1	($84.6)	$ 64.4	($22.2)	$42.2
Realized (gains) losses on securities	(9.7)	2.0	(7.7)	(47.1)	16.4	(30.7)
Change in net unrealized gains on marketable securities	($140.4)	$48.1	($92.3)	$ 17.3	($ 5.8)	$11.5

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

I. Income Taxes

The American Jobs Creation Act of 2004 allows a deduction of 85% of repatriated qualified foreign earnings received as dividends in 2005. In June and October 2005, GAFRI's wholly owned subsidiary, GAPR, paid dividends of $30 million and $10 million, respectively, which qualified for this special tax treatment. As a result of deferred taxes previously accrued on these earnings, GAFRI did not recognize any additional income tax expense as a result of the payment of this dividend. While GAFRI is still evaluating whether it will remit any additional qualified foreign earnings under this provision in 2005, it does not believe the impact of any such election will be material to its results of operations.

J. Contingencies

During the quarter ended September 30, 2005, GAFRI completed the annual review of the environmental liabilities of its former manufacturing operations (which were discontinued prior to 1993).

Based on management's review of the information provided by environmental and other consultants, the range of total costs is projected to be between $10 million and $46 million. The projected costs over the next ten years range from a low estimate of $8.5 million to a high estimate of $33.0 million. Based on the consultants' information, the future pre-tax remediation costs related to these manufacturing operations are estimated to be $15.2 million. Prior to this review, GAFRI had an accrued liability for the costs of $5.7 million; accordingly, the Company recorded a pre-tax charge of $9.5 million in the third quarter of 2005. Based on the limited number of sites with exposure, GAFRI believes its liability for future costs is sufficient.

Management knows of no other significant changes to the matters discussed and referred to in Note M "Contingencies" of GAFRI's Annual Report on Form 10-K for 2004.

K. Additional Information

Statutory Information

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):

	September 30, 2005	December 31, 2004
Capital and surplus	$620.5	$577.9
Asset valuation reserve	75.2	69.9
Interest maintenance reserve	14.2	19.0

,	Nine months ended September 30	
	2005	2004
Pre-tax income from operations	$82.5	$63.6
Net income	62.0	51.2

For statutory purposes, the acquisition of the fixed annuity block of business of NHIC was recorded on April 1, 2004 as a reinsurance transaction under which NHIC paid GAFRI a negative ceding commission of $38 million to assume the block of business.

Variable Annuities

At September 30, 2005, the aggregate guaranteed minimum death benefit value (assuming every policyholder died on those dates) on all of GAFRI's variable annuity policies exceeded the market value of the underlying variable annuities by $94 million compared to $106 million at December 31, 2004. Death benefits paid in excess of the variable annuity account balances were $0.6 million and $0.9 million in the first nine months of 2005 and 2004, respectively.

Condensed Consolidating Information

GAFRI has guaranteed all of the outstanding debt of AAG Holding. Condensed consolidating financial statements for GAFRI are as follows:

CONDENSED CONSOLIDATING BALANCE SHEET

(In millions)

SEPTEMBER 30, 2005	GAFRI	AAG HOLDING	ALL OTHER SUBS	CONS ENTRIES	CONS
Assets					
Cash and investments	$ 15.8	$ 0.7	$ 9,858.2	$ -	$ 9,874.7
Investment in subsidiaries	980.1	1,339.3	11.0	(2,330.4)	-
Notes receivable from subs	104.3	-	-	(104.3)	-
Unamortized insurance acquisition costs	-	-	894.1	-	894.1
Other assets	20.6	7.9	442.5	47.2	518.2
Variable annuity assets (separate accounts)	-	-	629.6	-	629.6
	$1,120.8	$1,347.9	$11,835.4	($2,387.5)	$11,916.6
Liabilities and Capital					
Insurance liabilities	$ -	$ -	$ 9,527.6	($ 4.9)	$ 9,522.7
Notes payable to GAFRI	-	102.4	1.9	(104.3)	-
Other notes payable	1.1	298.8	-	-	299.9
Payable to subsidiary trusts	-	97.9	-	(35.1)	62.8
Other liabilities	81.2	8.9	271.8	1.2	363.1
Variable annuity liabilities (separate accounts)	-	-	629.6	-	629.6
	82.3	508.0	10,430.9	(143.1)	10,878.1
Total stockholders' equity	1,038.5	839.9	1,404.5	(2,244.4	1,038.5

	$1,120.8	$1,347.9	$11,835.4	($2,387.5)	$11,916.6

DECEMBER 31, 2004

Assets					
Cash and investments	$ 1.0	$ -	$ 9,702.2	($ 0.1)	$ 9,703.1
Investment in subsidiaries	1,020.2	1,354.4	11.0	(2,385.6)	-
Notes receivable from subs	104.3	-	-	(104.3)	-
Unamortized insurance acquisition costs	-	-	841.2	-	841.2
Other assets	18.5	8.5	490.4	40.3	557.7
Variable annuity assets (separate accounts)	-	-	620.0	-	620.0
	$1,144.0	$1,362.9	$11,664.8	($2,449.7)	$11,722.0
Liabilities and Capital					
Insurance liabilities	$ -	$ -	$ 9,269.8	($ 5.3)	$ 9,264.5
Notes payable to GAFRI	-	102.4	1.9	(104.3)	-
Other notes payable	1.2	298.8	-	-	300.0
Payable to subsidiary trusts	-	97.9	-	(35.1)	62.8
Other liabilities	73.7	5.1	331.0	(4.2)	405.6
Variable annuity liabilities (separate accounts)	-	-	620.0	-	620.0
	74.9	504.2	10,222.7	(148.9)	10,652.9
Total stockholders' equity	1,069.1	858.7	1,442.1	(2,300.8)	1,069.1
	$1,144.0	$1,362.9	$11,664.8	($2,449.7)	$11,722.0

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

CONDENSED CONSOLIDATING INCOME STATEMENT

(In millions)

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005	GAFRI	AAG HOLDING	ALL OTHER SUBS	CONS ENTRIES	CONS
Revenues:					
Life, accident and health premiums	$ -	$ -	$ 91.9	$ -	$ 91.9
Net investment income and other revenue	5.3	-	180.2	(3.0)	182.5
Equity in earnings of subsidiaries	33.0	41.5	-	(74.5)	-
	38.3	41.5	272.1	(77.5)	274.4
Costs and Expenses:					
Insurance benefits and expenses	-	-	188.4	-	188.4
Interest and debt expenses	0.1	10.3	-	(3.3)	7.1
Other expenses	11.4	1.5	39.1	0.1	52.1
	11.5	11.8	227.5	(3.2)	247.6
Earnings before income taxes	26.8	29.7	44.6	(74.3)	26.8
Provision for income taxes	8.0	10.3	14.1	(24.4)	8.0
Net income	$18.8	$19.4	$ 30.5	($ 49.9)	$ 18.8

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2005

Revenues

:

Life, accident and health premiums	$ -	$ -	$276.3	$ -	$276.3
Net investment income and other revenue	15.4	-	524.4	(9.1)	530.7
Equity in earnings of subsidiaries	87.8	107.8	-	(195.6)	-
	103.2	107.8	800.7	(204.7)	807.0
Costs and Expenses:					
Insurance benefits and expenses	-	-	560.9	-	560.9
Interest and debt expenses	0.1	30.5	-	(9.7)	20.9
Other expenses	15.9	4.5	117.5	0.1	138.0
	16.0	35.0	678.4	(9.6)	719.8
Earnings before income taxes	87.2	72.8	122.3	(195.1)	87.2
Provision for income taxes	24.9	25.2	36.8	(62.0)	24.9
Net income	$62.3	$47.6	$ 85.5	($133.1)	$ 62.3

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

CONDENSED CONSOLIDATING INCOME STATEMENT

(In millions)

FOR THE THREE MONTHS ENDED		AAG	ALL OTHER	CONS	
SEPTEMBER 30, 2004	GAFRI	HOLDING	SUBS	ENTRIES	CONS

Revenues:					
Life, accident and health premiums	$ -	$ -	$ 86.0	$ -	$ 86.0
Net investment income and other revenue	7.3	-	206.1	(2.9)	210.5
Equity in earnings of subsidiaries	65.3	70.8	-	(136.1)	-
	72.6	70.8	292.1	(139.0)	296.5
Costs and Expenses:					
Insurance benefits and expenses	-	-	175.9	-	175.9
Interest and debt expenses	-	9.6	-	(3.2)	6.4
Other expenses	2.4	1.7	39.9	-	44.0
	2.4	11.3	215.8	(3.2)	226.3
Earnings before income taxes	70.2	59.5	76.3	(135.8)	70.2
Provision for income taxes	22.9	21.0	24.9	(45.9)	22.9
Net income	$47.3	$38.5	$ 51.4	($ 89.9)	$ 47.3

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2004

Revenues:					
Life, accident and health premiums	$ -	$ -	$263.8	$ -	$263.8
Net investment income and other revenue	17.7	-	509.9	(9.5)	518.1
Equity in earnings of subsidiaries	108.5	131.2	-	(239.7)	-
	126.2	131.2	773.7	(249.2)	781.9

Costs and Expenses:					
Insurance benefits and expenses	-	-	520.0	-	520.0
Interest and debt expenses	0.1	30.0	-	(9.5)	20.6
Other expenses	6.8	5.1	110.1	-	122.0
	6.9	35.1	630.1	(9.5	662.6
			)		
Earnings before income taxes	119.3	96.1	143.6	(239.7)	119.3
Provision for income taxes	37.8	33.5	45.7	(79.2	37.8
			)		
Income before accounting change	81.5	62.6	97.9	(160.5)	81.5
Accounting change, net	(2.2	-	(2.2	2.2	(2.2
	)	)		)	
Net income	$ 79.3	$ 62.6	$ 95.7	($158.3)	$ 79.3

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005	GAFRI	AAG HOLDING	ALL OTHER SUBS	CONS ENTRIES	CONS

Cash Flows from Operating Activities:					
Net income	$62.3	$47.6	$ 85.5	($133.1)	$ 62.3
Adjustments:					
Equity in net earnings of subsidiaries and affiliates	(62.7)	(70.7)	-	133.4	-
Increase in life, accident and health reserves	-	-	50.0	-	50.0
Benefits to annuity policyholders	-	-	246.5	-	246.5
Amortization of insurance acquisition costs	-	-	77.2	-	77.2
Depreciation and amortization	-	1.5	23.1	-	24.6
Realized gains on investments	-	-	(9.7)	-	(9.7)
Net trading portfolio activity	-	-	11.7	-	11.7
Increase in insurance acquisition costs	-	-	(94.0)	-	(94.0)
Decrease in reinsurance recoverable	-	-	0.9	-	0.9
Decrease (increase) in other assets	(3.3)	0.6	6.6	-	3.9
Increase in other liabilities	4.4	3.8	2.8	-	11.0
Increase (decrease) in payable to affiliates, net	3.1	(0.9)	15.1	-	17.3
Capital contribution from parent (to subsidiary)	(63.6)	48.6	15.0	-	-
Dividends from subsidiaries(to parent)	74.4	(29.4)	(45.0)	-	-
Other, net	0.9	(0.4)	(0.7)	(0.3)	(0.5)
	15.5	0.7	385.0	-	401.2
Cash Flows from Investing Activities:					
Purchases of investments and other assets	-	-	(1,707.1)	-	(1,707.1)
Maturities and redemptions of fixed maturity investments	-	-	518.9	-	518.9
Sales of investments and other assets	-	-	841.7	-	841.7
Increase in policy loans	-	-	(5.4)	-	(5.4)
	-	-	(351.9)	-	(351.9)
Cash Flows from Financing Activities:					
Fixed annuity receipts	-	-	632.5	-	632.5
Annuity surrenders, benefits and withdrawals	-	-	(688.4)	-	(688.4)

Net transfers from variable annuity assets	-	-	10.1	-	10.1
Reductions of notes payable	(0.1)	-	-	-	(0.1)
Issuance of Common Stock	1.9	-	-	-	1.9
Retirement of Common Stock	(2.5)	-	-	-	(2.5)
	(0.7)	-	(45.8)	-	(46.5)
Net increase in cash and short-term investments	14.8	0.7	(12.7)	-	2.8
Beginning cash and short-term investments	1.0	-	169.2	-	170.2
Ending cash and short-term investments	$15.8	$ 0.7	$156.5	$ -	$173.0

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GREAT AMERICAN FINANCIAL RESOURCES, INC. 10-Q

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004	GAFRI	AAG HOLDING	ALL OTHER SUBS	CONS ENTRIES	CONS
Cash Flows from Operating Activities:					
Net income	$ 79.3	$ 62.6	$ 95.7	($158.3)	$ 79.3
Adjustments:					
Cumulative effect of accounting change	2.2	-	2.2	(2.2)	2.2
Equity in net earnings of subsidiaries and affiliates	(72.3)	(86.0)	-	158.3	-
Increase in life, accident and health reserves	-	-	48.0	-	48.0

Benefits to annuity policyholders	-	-	228.5	-	228.5
Amortization of insurance acquisition costs	-	-	68.1	-	68.1
Depreciation and amortization	-	2.1	17.7	-	19.8
Realized gains on investments	(0.4)	-	(48.0)	-	(48.4)
Realized loss on goodwill impairment	-	-	4.0	-	4.0
Realized losses on retirement of subsidiary trust debt	1.0	-	-	0.3	1.3
Net trading portfolio activity	-	-	(86.0)	-	(86.0)
Increase in insurance acquisition costs	-				