Selected Financial Data

(in millions, except per share data)	2004	2003	Pro Forma[a] 2002	2001	2000
Earnings Statement Data:					
Gross written premiums[b]	**$ 956.6**	$ 979.4	$1,067.4	$1,127.6	$1,210.8
Net written premiums	**917.8**	817.6	687.3	902.9	1,207.0
Net earned premiums	**$ 872.3**	$ 698.7	$ 753.1	$1,066.3	$1,172.2
Total revenue	**951.8**	769.0	817.2	1,145.4	1,245.2
Net income	**96.4**	58.2	39.9	0.6	(51.9)
Realized (gains) losses, after-tax	**(9.2)**	(0.6)	4.4	3.8	3.5
Operating income	**$ 87.2**	$ 57.6	$ 44.3	$ 4.4	$ (48.4)
Per share—diluted					
Net earnings	**$ 4.62**	$ 2.83	$ 1.96	$ 0.03	$ (2.55)
Operating earnings	**$ 4.18**	$ 2.79	$ 2.18	$ 0.22	$ (2.38)
Cash dividends declared per common share	**$ 0.22**	$ 0.165	—	—	—
Combined ratio	**89.1%**	92.5%	96.1%	104.9%	109.0%
Balance Sheet Data:					
Total assets	**$1,944.9**	$1,902.7	$1,729.7	$1,960.9	$1,961.2
Long-term debt	**$ 199.3**	$ 195.5	$ 55.0	$ 55.0	$ 55.0
Total shareholders' equity	**547.4**	455.4	386.8	507.8	559.2
Book value per share	**$ 26.60**	$ 22.38	$ 19.01	$ 24.95	$ 27.48
Return on equity (ex FAS 115, based on operating earnings)	**18.6%**	14.7%	10.2%	0.8%	(9.0%)
Average basic shares outstanding	**20.6**	20.3	20.3	20.3	20.3
Average diluted shares outstanding	**20.9**	20.6	20.3	20.3	20.3
Period-end shares outstanding	**20.6**	20.5	20.3	20.3	20.3

(a) The pro forma results for years 2002 and prior combine the separate income statements and balance sheets for Infinity's nonstandard auto subsidiaries ("NSA Group") and the personal insurance business assumed by Infinity as part of the initial public offering completed in February 2003. Pro forma adjustments have been made for the following items:
i. investment income on the $125.3 million portfolio transferred with the Assumed Agency Business at its market yield of 4.4%;
ii. interest expense on the $55 million note issued in December 2002;
iii. income tax effects on applicable items; and
iv. pro forma shares outstanding represent shares outstanding as of the date of the initial public offering.
(b) Shown gross of all reinsurance for both the NSA and Assumed Agency Business. The 2003 amount excludes $48 million of unearned premium transferred with the Assumed Agency Business on January 1, 2003.

Infinity Property and Casualty Corporation and Subsidiaries

Forward-Looking Statements

This report contains certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements in this report not dealing with historical results are forward-looking and are based on estimates, assumptions, and projections. Statements which include the words "believes," "expects," "may," "should," "intends," "plans," "anticipates," "estimates," or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to: expectations concerning market conditions, premiums, growth, earnings, investment activities, expected losses, rate changes and loss experience.

Actual results could differ materially from those expected by Infinity depending on certain risks and uncertainties including but not limited to: changes in economic conditions and financial markets (including interest rates), the adequacy or accuracy of Infinity's pricing methodologies, the actions of competitors, the time to receive approval for the rollout of new programs and requested rate changes, judicial and regulatory developments affecting the automobile insurance industry, the outcome of pending litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail, and winter conditions and changes in driving patterns and loss trends. Infinity undertakes no obligation to publicly update or revise any of the forward-looking statements.

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

OVERVIEW

References to Infinity, unless the context requires otherwise, include the combined operations of Atlanta Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company (collectively the "NSA Group") and the in-force personal insurance business assumed through a reinsurance contract (the "Assumed Agency Business") from American Financial Group Inc.'s ("AFG") principal property and casualty subsidiary, Great American Insurance Company ("GAI"). Unless indicated otherwise, the financial information herein is presented on a GAAP basis.

Infinity's profitability continued to improve in 2004. Diluted earnings per share increased 63% from $2.83 for the twelve months ended December 31, 2003 to $4.62 for the same period in 2004. Net earnings also increased substantially from $58.2 million for 2003 to $96.4 million in 2004. Return on equity for 2004 increased to 18.6%, up from 14.7% in 2003.

Increased earnings and returns were substantially a result of continued improvement in underwriting profitability. Gross of a reinsurance agreement with American Re-Insurance Company ("American Re") under which a portion of the NSA Group's auto physical damage business was ceded, GAAP Combined Ratios, which are the ratios of the sum of losses, loss adjustment expenses and underwriting expenses to net earned premiums, improved by 4.5 points from 2003 to 2004. Approximately 3.0 points of this was a result of $15 million of favorable loss reserve development from prior accident years, as compared with $14 million of unfavorable development in 2003. Underwriting margins for both 2003 and 2004 were substantially better than average over the last five to ten years. Since 2002, Infinity and other industry participants have enjoyed increases in insurance rates charged to policyholders, as well as lower claims frequencies (i.e. number of claims per insurance policy issued) and moderate claims severities (i.e. average cost per claim).

Investment income in 2004 increased $8.5 million over that in 2003, primarily as a result of lower interest credited to reinsurers on funds held balances. The American Re agreement was commuted on December 31, 2004 and was not renewed for 2005. In addition, average investment balances increased 11%, mostly from cash generated through operations and the proceeds from the July 2003 term loan (Refer to Note 4 to the Consolidated Financial Statements for more information). Offsetting this increase in average investment balances were lower yields on the portfolio, as overall market rates remained at historically low levels. Infinity continued to invest over 95% of its available funds in fixed income and cash equivalent securities. The average duration for the fixed income portfolio fell to 4.1 years as compared with 4.7 years at December 31, 2003.

Book value per share increased 18.8%, from $22.38 at December 31, 2003 to $26.60 at December 31, 2004 from the contribution of earnings in excess of shareholder dividends.

Revenues increased for the twelve months ended December 31, 2004 to $951.8 million, up 23.8% as compared with the same period in 2003. This was a result of lower utilization of reinsurance in 2004, an increase in investment income for reasons cited earlier, and an increase in capital gains from securities sales.

Premiums written gross of all reinsurance for 2004 actually fell 4.1% as compared with that in 2003. As of December 31, 2004, Infinity had 713,000 policies in force, a 0.3% increase over that at December 31, 2003. In 2001, Infinity instituted a program to shed under-performing business in several states where it either lacked critical mass to operate efficiently or where the regulatory and competitive environments impeded Infinity from achieving adequate returns. For these Non-Focus States, premiums written for the twelve months ended December 31, 2004 and policies in force at December 31, 2004 fell 47.7% and 31.6%, respectively, as compared with the same periods one year prior. Moreover, since 2002 Infinity has undertaken a program to roll out its three-tiered product structure to agents in its 17 Focus States. In addition, during this same period, Infinity appointed new agents or re-appointed agents (with whom it had existing agreements for the previous generation of products) to market the most recent generation of products. As a result of these efforts, in the Focus States, Infinity's premiums written for the twelve months ended December 31, 2004 and policies-in-force at December 31, 2004 increased 3.0% and 3.4%, respectively, as compared with the same periods in 2003.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements 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" impairment on investments, and accruals for litigation are the areas where the degree of judgment required to determine amounts recorded in the financial statements make the accounting policies critical.

Insurance Reserves

Insurance reserves, or "Unpaid Losses and LAE," are management's best estimate of the ultimate amounts that will be paid for all claims that have been reported up to the date of the current accounting period but that have not yet been paid, plus an estimate of claims that have occurred but have not yet been reported to the Company ("incurred but not reported," or "IBNR"), and the expenses to be paid to settle claims.

Liabilities for the costs of losses and LAE for both reported and unreported claims are estimated based on historical trends adjusted for changes in loss cost trends, underwriting standards, policy provisions, product mix and other factors. Estimating dollar amounts for unpaid losses and LAE is inherently judgmental and is influenced by factors, which are subject to significant variation. Changes in underlying estimates or assumptions and the resulting adjustments to reserves are reflected in the results of operations in the periods in which estimates change.

Management analyzes the adequacy of reserves using actuarial data and analytical reserve development techniques, including projections of ultimate paid losses, to determine the ultimate amounts of reserves. Historical medical, hospitalization, material repair and replacement costs, general economic trends and the legal environment are examples of major factors taken into account in developing these estimates.

In developing IBNR reserve amounts, quarterly estimates are made of ultimate frequency, or number of claims per earned car year, and severity, or claim cost per earned car year. Frequency can be affected by factors such as driving patterns, gas prices, changes in classes of insured drivers, and weather events. Factors affecting the severity trend include medical cost and product repair cost trends, and litigation expense patterns. Management believes that Infinity's relatively low average policy limit and concentration on the nonstandard auto driver classification help stabilize fluctuations in frequency and severity.

An increase in either frequency or severity of 1% for the 2004 accident year would decrease earnings per share by approximately $0.15.

Other-Than-Temporary Losses on Investments

Changes in the market values of investment securities are usually recorded as changes in unrealized gains or losses on investments, a component of shareholders' equity. Net earnings are not affected until the disposition of a given security or, if an unrealized loss is deemed to be other-than-temporary, an impairment charge is recorded as a realized capital loss and the cost basis of the security is reduced.

The determination of whether unrealized losses are "other-than-temporary" requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

- whether the unrealized loss is credit-driven or a result of changes in market interest rates,
- the extent to which market value is less than cost basis,
- historical operating, balance sheet and cash flow data contained in issuer SEC filings,
- issuer news releases,
- near-term prospects for improvement in the issuer and/or its industry,
- industry research and communications with industry specialists,
- third-party research and credit rating reports,
- internally generated financial models and forecasts,
- discussions with issuer management, and
- ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Management regularly evaluates for potential impairment each security position that (i) has a market value of less than 80% of its book value or (ii) exceeds $100,000, as well as each position held for which one or more impairment charges have been recorded in the past. The process of evaluation includes assessments of each item listed above. Since it is not possible to accurately predict if or when a specific security will become other-than-temporarily impaired, total impairment charges could be material to the results of operations in a future period. Management believes that it is not likely, however, that such impairment charges will have a significant effect on Infinity's liquidity.

Accruals for Litigation

Infinity continually evaluates potential liabilities and reserves for litigation using the criteria established by Statement of Financial Accounting Standard ("SFAS") No. 5, "Accounting for Contingencies." Under this guidance, reserves for loss may only be recorded if the likelihood of occurrence is probable and the amount is reasonably estimable. Management considers each legal action using this guidance and records reserves for losses as appropriate. Infinity believes the current assumptions and other considerations used to estimate potential liability for litigation are appropriate. Certain claims and legal actions have been brought against Infinity for which no loss has been accrued, under the rules described above. While it is not possible to know with certainty the ultimate outcome of these claims or lawsuits, management does not expect them to have a material effect on Infinity's financial condition or liquidity.

LIQUIDITY AND CAPITAL RESOURCES

Ratios

The National Association of Insurance Commissioners' ("NAIC") model law for risk-based capital ("RBC") provides formulas to determine 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, 2004, the capital ratios of all Infinity insurance subsidiaries substantially exceeded the RBC requirements.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(continued)

Sources of Funds

Infinity is organized as a holding company with all of its operations being conducted by its insurance subsidiaries. Accordingly, Infinity will have continuing cash needs for administrative expenses, the payment of principal and interest on borrowings, shareholder dividends, share repurchases and taxes.

Administrative expenses at the holding company have averaged approximately $6.4 million to $6.9 million annually since 2003.

At December 31, 2004 Infinity had $200 million principal of senior notes due 2014, bearing a fixed 5.5% interest rate (the "Senior Notes"). Interest payments due in 2005 are $11.0 million. (Refer to Note 4 of the Consolidated Financial Statements for more information on the Senior Notes).

Also in January 2005, Infinity announced its intent to repurchase up to $50 million of its common stock in the open market or through privately negotiated transactions over the next three years.

In 2004 Infinity paid a dividend of $.055 per common share per quarter. In February 2005, Infinity increased the quarterly dividend to $.06 per share. Based on the current number of shares outstanding, this equates to a common stock dividend of approximately $5.0 million per year.

Funds to meet these obligations will come primarily from dividends from the insurance subsidiaries, as well as cash and investments held at the holding company. In 2004, Infinity's insurance subsidiaries paid Infinity $28.5 million in ordinary dividends. In 2005, they may pay to Infinity up to $62.7 million in ordinary dividends without prior regulatory approval. As of December 31, 2004, Infinity had $88.6 million of cash and investments. Other sources of additional liquidity include an unused line of credit in the amount of $20 million, the potential use of various reinsurance vehicles, and capital funds that could be supplied by additional debt or equity offerings.

Infinity's insurance subsidiaries generate liquidity to satisfy their obligations, primarily by collecting and investing premiums in advance of paying claims. Infinity's insurance subsidiaries had positive cash flow from operations of approximately $61 million in 2004, $67 million in 2003, and $45 million in 2002. In addition, Infinity's insurance subsidiaries have available to pay its obligations an additional $1,260.1 million in fixed maturity securities and $25.0 million in equity securities, all carried at market value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis.

Management believes that cash and investment balances and cash flows generated from operations are adequate to meet the future liquidity needs for Infinity and its insurance subsidiaries.

Contractual Obligations

Infinity and its insurance subsidiaries' contractual obligations as of December 31, 2004 are (in thousands):

Due in:	Long-Term Debt	Operating Leases	Loss and LAE Reserves	Total
2005	$ 11,000	$ 18,412	$362,742	$ 392,154
2006–2007	22,000	33,896	223,266	279,162
2008–2009	22,000	25,325	51,253	98,578
2010 and after	293,500	28,174	22,011	343,685
Total	$348,500	$105,807	$659,272	$1,113,579

The payout pattern for reserves for losses and LAE is based upon historical payment patterns and do not represent actual contractual obligations. The timing and amounts ultimately paid can and will vary from these estimates, as discussed in the Critical Accounting Policies section.

The contractual obligations under the long-term debt category above include payments of interest.

INVESTMENTS

General

Infinity's investment portfolio at December 31, 2004 contained $1,304.1 million in fixed maturity securities and $25.0 million in equity securities, all carried at market value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis. At December 31, 2004, Infinity had pretax net unrealized gains of $43.2 million on fixed maturities and $3.5 million on equity securities.

Approximately 94% of the fixed maturities that Infinity held were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies at December 31, 2004. The average rating for the fixed income portfolio at December 31, 2004 was AA-. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated or non-investment grade. Management believes that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Investments in mortgage-backed securities ("MBSs") represented approximately one-fifth of Infinity's fixed maturities at December 31, 2004. MBSs are subject to significant prepayment risk due to the fact that, in periods of declining interest rates, mortgages may be repaid more rapidly than scheduled as borrowers refinance higher rate mortgages to take advantage of lower rates. When these prepayments occur faster than planned, market rates are usually lower for new investments than those that were prepaid. Prepayments on MBSs were approximately $34 million and $45 million for the twelve months ended December 31, 2004 and December 31, 2003, respectively. Approximately 96% of Infinity's MBSs are rated "AAA" and all but one are investment grade.

Individual portfolio securities are sold creating gains or losses as market opportunities exist. Since all of these securities are carried at market value on the balance sheet, there is virtually no effect on liquidity or financial conditions upon the sale and ultimate realization of unrealized gains and losses. The average duration of Infinity's fixed maturity portfolio was 4.1 years at December 31, 2004.

	Twelve Months Ended December 31,			
	2004		2003	
(in millions)	Amortized Cost	Market Value	Amortized Cost	Market Value
Cash and Cash Equivalents	**$ 112.1**	**$ 112.1**	$ 125.0	$ 125.0
Fixed Maturities:				
U.S. Government and agencies	**96.0**	**97.1**	99.8	101.7
State and municipal	**232.6**	**237.1**	218.8	224.6
Foreign government	**—**	**—**	2.3	2.3
Public utilities	**80.5**	**85.2**	114.8	120.7
Mortgage-backed securities	**263.7**	**267.3**	209.6	213.1
Corporate and other	**583.9**	**613.3**	535.8	570.2
Redeemable preferred stocks	**4.1**	**4.0**	11.4	13.0
Total Fixed Maturities	**$ 1,260.8**	**$ 1,304.1**	$1,192.4	$1,245.8
Equity Securities	**21.5**	**25.0**	19.2	21.4
Total	**$ 1,394.4**	**$ 1,441.1**	$1,336.7	$1,392.2

The following table presents the yields of Infinity's investment portfolios as reflected in the financial statements.

	Twelve Months Ended December 31,		
	2004	2003	2002
Yield on Fixed Income Securities:			
Excluding realized gains and losses	**5.1%**	5.5%	6.4%
Including realized gains and losses	**5.3%**	5.6%	6.3%
Yield on Equity Securities:			
Excluding realized gains and losses	**4.7%**	4.8%	3.4%
Including realized gains and losses	**21.3%**	3.5%	(12.6%)
Yield on All Investments:			
Excluding realized gains and losses	**5.1%**	5.5%	6.3%
Including realized gains and losses	**5.5%**	5.5%	5.7%

Fixed Maturity Investments

The following table shows Infinity's bonds and redeemable preferred stocks, by NAIC designation and comparable Standard & Poor's Corporation rating as of December 31, 2004.

NAIC Rating	Comparable S&P Rating	Amortized Cost	Market Value Amount	%
1	AAA, AA, A	$ 990.8	$1,017.4	78.0%
2	BBB	202.4	214.0	16.4%
	Total investment grade	1,193.2	1,231.5	94.4%
3	BB	43.1	45.3	3.5%
4	B	19.5	21.3	1.6%
5	CCC, CC, C	2.5	3.0	0.2%
6	D	2.7	3.1	0.2%
	Total non-investment grade	67.7	72.6	5.6%
	Total	$1,260.8	$1,304.1	100.0%

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(continued)

The table below sets forth the scheduled maturities of fixed maturity securities at December 31, 2004 based on their market values (in millions). Securities that do not have a single maturity date are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

Maturity	Securities With Unrealized Gains	Securities With Unrealized Losses	Securities With No Unrealized Gains or Losses	All Fixed Maturities
One year or less	$ 48.9	$ —	$1.8	$ 50.7
After one year through five years	358.6	105.9	—	464.5
After five years through ten years	345.6	54.2	6.2	406.0
After ten years	104.1	11.5	—	115.6
Mortgage-backed securities	177.5	89.8	—	267.3
Total	$1,034.7	$261.3	$8.0	$1,304.1

Exposure to Market Risk

Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. Infinity's exposures to market risk relate primarily to its investment portfolio which is exposed to interest rate risk, credit risk and, to a lesser extent, equity price risk.

The fair value of Infinity's fixed maturity portfolio is directly impacted by changes in market interest rates; generally, the market value of fixed-income investments moves inversely with movements in market interest rates. Infinity's fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily short-term and intermediate-term maturities. This practice allows flexibility in reacting to fluctuations of interest rates. In addition, the risk of loss in market value is partially mitigated by higher market rates available for new funds available for investment. The portfolios of Infinity's insurance companies are managed with an attempt to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations.

Credit risk is managed by diversifying the portfolio to avoid concentrations in any single industry group and by maintaining a minimum average credit quality rating on the portfolio.

The following table provides information about Infinity's fixed maturity investments at December 31, 2004 and 2003, which are sensitive to interest rate risk. The table shows expected principal cash flows (in millions) by expected maturity date for each of the five subsequent years and collectively for all years thereafter. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. MBSs and sinking fund issues are included based on maturity year adjusted for expected payment patterns. Actual cash flows may differ from those expected.

	Principal Cash Flows for Twelve Months Ended December 31,		
	2004		2003
2005	**$ 86.5**	2004	$ 66.9
2006	**112.5**	2005	93.8
2007	**139.5**	2006	120.4
2008	**159.2**	2007	123.3
2009	**203.0**	2008	157.1
thereafter	**535.5**	thereafter	608.3
Total	**$1,236.2**	Total	$1,169.8
Fair Value	**$1,304.1**	Fair Value	$1,245.8

Equity Price Risk

Equity price risk is the potential economic loss from adverse changes in equity security prices. Although Infinity's investment in equity securities is only 1.5% of total investments, it is concentrated in a relatively limited number of positions; approximately half of the total is in five investments; two of these five are electric utilities. While this approach allows management to more closely monitor the companies and industries in which they operate, it does increase risk exposure to adverse price declines in a major position.

RESULTS OF OPERATIONS

Underwriting

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

Underwriting expenses include expenses that vary directly with premium volume (commissions and premium taxes) as well as expenses that are relatively fixed (administrative expenses). Accordingly, underwriting expenses tend to move in the same direction as premiums but at a slower rate. As a result, the underwriting expense ratio tends to decrease when premiums grow and increase when premiums decline.

Since early 2000, Infinity's insurance subsidiaries have been increasing their premium rates with a goal of achieving underwriting profits, even if it entails foregoing volume. As with all property and casualty companies, the beneficial impact of these price increases is reflected in Infinity's financial results over time. Infinity implements price increases on its in-force policies as they are renewed, which generally takes between six and twelve months for the entire book of business. Infinity recognizes increased premiums on particular policies as the premiums are earned, generally over the course of the six to twelve months after the policy is effective.

Net earned premiums and combined ratios for the NSA Group and the Assumed Agency Business were (in millions):

	Twelve Months Ended December 31,		
	2004	2003	2002
Net Earned Premiums (GAAP)			
NSA Group			
Gross written premiums	**$882.5**	$ 868.3	$ 914.6
Ceded reinsurance	**(46.0)**	(187.5)	(301.6)
Net written premiums	**836.5**	680.8	613.0
Change in unearned premiums	**(57.3)**	(75.2)	32.9
Net earned premiums	**$779.2**	$ 605.6	$ 645.9
Assumed Agency Business[(a),(b)]			
Net written premiums gross of the Inter-Ocean agreement	**$ 74.2**	$ 159.1	$ 152.8
Ceded premiums under Quota Share Agreements[(c)]	**7.1**	(22.3)	(78.5)
Net written premiums net of Quota Share Agreements	**81.3**	136.8	74.3
Change in unearned premiums	**11.8**	(43.7)	32.9
Net earned premiums	**$ 93.2**	$ 93.1	$ 107.2
Combined Ratios (GAAP)			
NSA Group			
Loss and LAE ratio	**69.1%**	79.5%	81.8%
Underwriting expense ratio	**18.7%**	10.3%	12.2%
Combined ratio	**87.8%**	89.8%	94.0%
Assumed Agency Business			
Loss and LAE ratio	**69.5%**	81.4%	84.9%
Underwriting expense ratio	**31.1%**	28.0%	24.4%
Combined ratio	**100.6%**	109.4%	109.3%
Weighted Average of NSA Group and Assumed Agency:			
Loss and LAE ratio	**69.1%**	79.8%	82.2%
Underwriting expense ratio	**20.0%**	12.7%	13.9%
Combined ratio	**89.1%**	92.5%	96.1%
Combined ratio gross of Quota Share Agreements[(c)]	**89.8%**	94.3%	97.3%

(a) Excludes $48.0 million in unearned premiums transferred to Infinity with the Assumed Agency Business on January 1, 2003.

(b) The 2003 Inter-Ocean agreement was commuted in 2004, resulting in a return of unearned premium on the Assumed Agency Business.

(c) In 2003 and 2002, the NSA Group and Assumed Agency Business had an agreement with Inter-Ocean ("Inter-Ocean"), structured similarly to the agreement with American Re, whereby a portion of their auto physical damage business was ceded. Infinity commuted both the Inter-Ocean and American Re agreements (collectively the "Quota Share Agreements") effective December 31, 2004 and did not renew either agreement for 2005.

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2004 compared to 2003

The NSA Group's net earned premiums increased $173.6 million, or 28.7%, as Infinity reduced the amount of earned premiums ceded under the American Re agreement. Excluding the effect of this agreement, earned premiums were essentially unchanged at $832.5 million. The loss and LAE ratio improved 10.4 points from 2003 to 2004. Excluding the effect of the Quota Share Agreements, the loss and LAE ratio decreased by 5.1 points from 72.1% to 67.0% for the twelve months ended December 31, 2003 to the same period in 2004, respectively. Approximately 3.6 points of this improvement resulted from $11 million of favorable loss reserve development in 2004, primarily on Infinity's California book of business, as compared with $19 million of unfavorable development for the same period in 2003, primarily on its New York business. The underwriting expense ratio increased from 10.3% for the twelve months ended December 31, 2003, as compared with 18.7% for the same period in 2004. Excluding the effects of the American Re agreement, the expense ratio for the twelve months ended December 31, 2004 of 21.4% still showed a slight 0.9 point increase over the 20.5% ratio for the same period in 2003, primarily as a result of increased commissions paid to agents and brokers.

Net earned premiums for the Assumed Agency Business were essentially unchanged for 2004 as compared with that in 2003. Excluding the effect of the Quota Share Agreements, however, earned premiums fell from $132.2 million in 2003 to $93.2 million in 2004, or a reduction of 29.5%. Gross written premiums fell from $111.1 million (excluding the $48 million transfer of unearned premiums related to the transfer of the book of business from AFG at January 1, 2003) to $74.2 million in 2004, or a decrease of 33.2%. The decrease of premiums is a result of a deliberate effort by Infinity to reduce the writings in Non-Focus States. For 2004, gross written premiums in these states for the Assumed Agency book fell 52.0% as compared with the premiums written in all of 2003. Of the business in the Focus States, the business in Connecticut represented 60% of the total for the year 2003. Written premiums on this business declined 16.7% to $42.0 million in 2004 as compared with that in 2003, as a result of delays Infinity experienced in getting new programs approved by that state's department of insurance. The loss and LAE ratio for the Assumed Agency Business fell 11.9 points to 69.5% in 2004 as compared with 81.4% in 2003. Excluding the effect of the Quota Share Agreements, the loss and LAE ratio was 69.5% in 2004, about 4.9 points lower than 2003's 74.4%. The decrease was a result of the decline in business in unprofitable Non-Focus states as well as continued improvement in claims frequencies as experienced by the overall Infinity business as well as the personal auto insurance industry during 2004. (The Assumed Agency Business had $4 million of favorable reserve development in both 2004 and 2003). The expense ratio for the Assumed Agency book of business increased to 31.1% from 28.0% in 2004 and 2003, respectively. Excluding the effect of the Quota Share Agreements, the expense ratios for 2003 and 2004 were 29.6% and 33.4%, an increase of 3.8 points, stemming primarily from the reduction of premiums over which to spread fixed costs associated with the book.

2003 compared to 2002

The NSA Group's net earned premiums fell $40.3 million, or 6.2%, in the twelve-month period ended December 31, 2003 compared to the twelve-month period ended December 31, 2002 primarily as a result of actions taken to discontinue writing inadequately priced business in certain focus states. Earned premiums, excluding the effect of the Inter-Ocean reinsurance agreement, declined 12% to $833 million, due primarily to a reduction in business volume partially offset by rate increases. The loss and LAE ratio improved by 2.3 points for the twelve-month period ended December 31, 2003 from the same period in 2002. Excluding the effects of the Inter-Ocean reinsurance agreement, the loss and LAE ratio improved 1.7 points. The expense ratio improved by 1.9 points in 2003 compared to 2002 primarily as a result of savings from consolidation efforts taken. Excluding the effect of the Inter-Ocean agreement, the expense ratio improved 1.6 points from 22.1% in the twelve-month period ended December 31, 2002 to 20.5% in the same period in 2003.

The Assumed Agency Business's net earned premiums decreased $14.1 million, or 13.2%, for the twelve-month period ended December 31, 2003 compared to the twelve-month period ended December 31, 2002 primarily as a result of a reduction in business volume. Earned premiums excluding the effect of the Inter-Ocean reinsurance agreement declined $29.9 million, or a reduction of 18.4%, due primarily to a reduction in business volume partially offset by rate increases. The loss and LAE ratios for the Assumed Agency Business improved from 84.9% during the twelve-month period ended December 31, 2002 to 81.4% as a result of increases in rates, lower frequency of claims per auto insured and moderate increases in the average cost per claim as well as a reduction in business in the Non-Focus States. Excluding the effects of the Inter-Ocean reinsurance agreement, the loss and LAE ratio improved from 77.8% to 74.4%. The expense ratio increased 3.6 points from 24.4% for the twelve-month period ended December 31, 2002 to 28.0% for the same period in 2003. Excluding the effects of the Inter-Ocean reinsurance agreement, the expense ratio increased by 1.3 points from 28.3% for the twelve months of

2002 to 29.6% for 2003. This increase was attributable to a charge of $4.0 million from an increase in the rate of amortization of deferred acquisition costs following a periodic review of the deferability of specific acquisition costs. Excluding this charge, the expense ratio fell 1.7 points for the twelve-month period ended December 31, 2003 from the same period in 2002.

Investment Income

Investment income is composed primarily of gross investment revenue, investment management fees and expenses and interest expense incurred on the Quota Share Agreements, as shown in the following table (in millions):

	Twelve Months Ended December 31,		
	2004	2003	2002
Gross investment income	**$69.6**	$65.9	$71.5
Investment expenses	**2.4**	2.5	2.6
Interest expense on Quota Share Agreements	**1.5**	6.2	7.6
Net investment income	**$65.7**	$57.2	$61.3

2004 compared to 2003

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income increased $8.5 million for the twelve-month period ended December 31, 2004 from the corresponding 2003 period. This increase was due to (i) the decrease in interest expense associated with the Quota Share Agreements of $4.7 million for the twelve-month period ended December 31, 2004 versus the corresponding 2003 period, due to the lower utilization of the Quota Share Agreements in 2004 as compared to 2003 and (ii) higher gross investment income from a 11.4% increase in average invested assets, partially offset by a decrease in Infinity's weighted average gross investment yield from 5.5% to 5.1% for the twelve-month periods ended December 31, 2003 and 2004, respectively.

2003 compared to 2002

Net investment income decreased $4.1 million for the twelve-month period ended December 31, 2003 versus the comparable 2002 period due to lower yields available for newly invested funds, and to a lesser extent due to a reallocation to tax advantaged securities, partially offset by an increase in average invested assets of 10.4%. Average invested assets increased as a result of the transfer at January 1, 2003 of $125.3 million of securities and cash in conjunction with Infinity's assumption of insurance liabilities of the Assumed Agency Business, as well as proceeds received in July 2003 from the term loan.

Realized Gains (Losses) on Investments

Infinity recorded impairments for unrealized losses deemed other-than-temporary and realized gains on sales and disposals as follows (before tax, in thousands):

	Twelve Months Ended December 31,		
	2004		
	Impairments on Securities	Net Realized Gains (Losses) on Sales	Total Realized Gains (Losses)
Fixed maturities	**$ (758)**	**$ 3,649**	**$ 2,891**
Equities	**(372)**	**3,534**	**3,162**
Gain on sale of subsidiaries	**0**	**830**	**830**
	$ (1,130)	**$ 8,013**	**$ 6,883**
	2003		
	Impairments on Securities	Net Realized Gains (Losses) on Sales	Total Realized Gains (Losses)
Fixed maturities	$(3,877)	$ 5,124	$ 1,247
Equities	(566)	278	(288)
	$(4,443)	$ 5,402	$ 959
	2002		
	Impairments on Securities	Net Realized Gains (Losses) on Sales	Total Realized Gains (Losses)
Fixed maturities	$(6,315)	$ 4,856	$(1,459)
Equities	(3,095)	(2,153)	(5,248)
	$(9,410)	$ 2,703	$(6,707)

Other Income

Other income decreased $5.3 million for the twelve-month period ended December 31, 2004 from the corresponding 2003 period, primarily due to a nonrecurring gain of $6.7 million on the commutation of service and indemnity agreements with AFG in 2003. Other income increased $8.1 million for the twelve-month period ended December 31, 2003 from the corresponding 2002 period, primarily due to the aforementioned $6.7 million gain and increased finance and service charge income.

Interest Expense

Interest expense was accrued at a fixed rate of 8.5% on the $55 million note due to AFG until its repayment in mid-July, 2003 using a portion of the proceeds of the $200 million term loan. The term loan accrued interest at a variable rate, which averaged 3.7% from July 16, 2003, the date of issue, through February 18, 2004, at which time it was refinanced with the Senior Notes. The Senior

Management's Discussion and Analysis of Financial Condition and Results of Operations
(continued)

Notes carry a coupon rate of 5.50%, effective yield of 5.55%, require no amortization payment and mature in 2014. The risk of variability in future interest expense was partially hedged by the interest rate swap.

	Twelve Months Ended December 31,	
	2004	2003
$55 million note due to AFG	**$ —**	$2,545
$200 million term loan	**947**	3,422
Interest rate swap	**166**	565
Senior Notes	**9,613**	—
Total	**$10,726**	$6,532

Other Operating and General Expenses

Corporate general and administrative expenses include costs associated with the new public company beginning in February 2003. Other expenses increased $1.8 million for the twelve-month period ended December 31, 2003 to 2004 due to increased bad debt expense on uncollectible premiums, and increased litigation expenses during 2004, partially offset by a loss recorded in 2003 on an office sublease. Other expenses fell $4.4 million for the twelve-month period ended December 31, 2003 from the same period in 2002 due primarily to a $5.3 million litigation settlement in 2002.

Income Taxes

Infinity's effective tax rate was 25.5% in 2004, 33.4% in 2003, and 35.3% in 2002. The effective tax rate for 2003 fell from that in 2002 as a result of increases in tax-exempt interest on Infinity's municipal fixed income portfolio. The effective tax rate for 2004 fell from that in 2003 as a result of increases in tax-exempt interest from a larger municipal fixed income portfolio, the release of $2.0 million of tax reserves, and a $7.4 million reduction in the valuation allowance for deferred tax assets. See Note 6 to Infinity's Consolidated Financial Statements for a detailed analysis of the effective tax rate.

Controls and Procedures

Infinity's chief executive officer and chief financial officer, with assistance from management, have evaluated the effectiveness of Infinity's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, they concluded that the controls and procedures are effective. There have been no significant changes in Infinity's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2004 based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management's assessment of the effectiveness of Infinity's internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in the following report in which they expressed an unqualified opinion.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of Infinity Property and Casualty Corporation

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Infinity Property and Casualty Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Infinity Property and Casualty Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Infinity Property and Casualty Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Infinity Property and Casualty Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Infinity Property and Casualty Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004, and our report dated March 9, 2005 expressed an unqualified opinion thereon.

Ernst + Young LLP

ERNST & YOUNG LLP

Birmingham, Alabama
March 9, 2005

Report Of Independent Registered Public Accounting Firm

Board of Directors
Infinity Property and Casualty Corporation

We have audited the accompanying consolidated balance sheets of Infinity Property and Casualty Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infinity Property and Casualty Corporation and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Infinity Property and Casualty Corporation and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2005 expressed an unqualified opinion thereon.

/S/ ERNST & YOUNG LLP

Birmingham, Alabama
March 9, 2005

Consolidated Statements Of Earnings

(In thousands, except per share data)	Twelve Months Ended December 31, **2004**	2003	2002
Revenue			
Earned premiums	**$872,324**	$698,714	$645,857
Net investment income	**65,676**	57,175	61,260
Realized gains (losses) on investments	**6,883**	959	(6,707)
Other income	**6,880**	12,136	4,043
Total revenue	**951,763**	768,984	704,453
Costs and Expenses			
Losses and loss adjustment expenses	**603,313**	557,308	527,786
Commissions and other underwriting expenses	**174,297**	88,519	78,970
Interest expense	**10,726**	6,532	—
Corporate general and administrative expenses	**6,432**	6,901	—
Loss on retirement of long-term debt	**3,436**	—	—
Other expenses	**24,098**	22,320	26,764
Total expenses	**822,302**	681,580	633,520
Earnings before income taxes	**129,461**	87,404	70,933
Provision for income taxes	**33,063**	29,168	25,063
Net Earnings	**$ 96,398**	$ 58,236	$ 45,870
Earnings per common share			
Basic	**$ 4.69**	$ 2.86	N/A
Diluted	**$ 4.62**	$ 2.83	N/A
Average number of common shares			
Basic	**20,560**	20,348	N/A
Diluted	**20,859**	20,594	N/A
Cash dividends per common share	**$ 0.220**	$ 0.0165	N/A

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(In thousands, except number of shares authorized and outstanding in line description)	December 31, 2004	2003
Assets:		
Investments:		
Fixed maturities—at market (amortized cost—$1,260,836 and $1,192,418)	**$1,304,080**	$1,245,753
Equity securities—at market (cost $21,529 and $19,184)	**24,993**	21,375
Total investments	**1,329,073**	1,267,128
Cash and cash equivalents	**112,052**	125,042
Accrued investment income	**16,732**	16,772
Agents' balances and premiums receivable, net of allowances for doubtful accounts of $11,524 and $7,902	**264,978**	254,026
Prepaid reinsurance premiums	**12,858**	42,089
Recoverables from reinsurers	**20,202**	31,481
Deferred policy acquisition costs	**68,454**	50,858
Current and deferred income taxes	**12,656**	8,890
Prepaid expenses, deferred charges and other assets	**32,658**	31,178
Goodwill	**75,275**	75,275
Total assets	**$1,944,938**	$1,902,739
Liabilities and Shareholders' Equity		
Unpaid losses and loss adjustment expenses	**$ 659,272**	$ 713,543
Unearned premiums	**387,917**	371,716
Payable to reinsurers	**3,953**	36,055
Long-term debt (fair value $198,010 at December 31, 2004)	**199,305**	195,500
Commissions payable	**25,257**	23,073
Accounts payable, accrued expenses and other liabilities	**121,813**	107,482
Total liabilities	**1,397,517**	1,447,369
Shareholders' Equity		
Common stock, no par value—50,000,000 shares authorized 20,670,878 and 20,483,958 shares issued and outstanding	**20,671**	20,484
Additional paid-in capital	**329,994**	324,787
Retained earnings	**166,710**	74,856
Unearned compensation (restricted stock)	**(314)**	(1,000)
Unrealized gain, net	**30,360**	36,243
Total shareholders' equity	**547,421**	455,370
Total liabilities and shareholders' equity	**$1,944,938**	$1,902,739

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)	Common Stock	Paid-in Capital	Retained Earnings	Unrealized Gain (Loss)	Unearned Compensation	Total
Balance at December 31, 2001	$ —	$ 585,699	$ (25,870)	$ 2,928	$ —	$ 562,757
Net earnings	—	—	45,870	—	—	45,870
Change in unrealized gain—investments	—	—	—	21,131	—	21,131
Comprehensive income						67,001
Return of capital	—	(189,476)	—	—	—	(189,476)
Issuance of shares to AFG	1	—	—	—	—	1
Issuance of note payable to AFG	—	(55,000)	—	—	—	(55,000)
Other	—	1,520	—	—	—	1,520
Balance at December 31, 2002	$ 1	$ 342,743	$ 20,000	$24,059	$ —	$ 386,803
Net earnings	$ —	$ —	$ 58,236	$ —	$ —	$ 58,236
Change in unrealized gain—investments	—	—	—	11,969	—	11,969
Change in unrealized gain—derivative	—	—	—	215	—	215
Comprehensive income						70,420
IPO (Adjusted for Split)	20,346	(20,346)	—	—	—	—
Dividends paid to common stockholders	—	—	(3,380)	—	—	(3,380)
Issuance of restricted stock awards	134	2,016	—	—	(2,150)	—
Amortization of unearned compensation	—	—	—	—	1,150	1,150
Exercise of stock options	3	37	—	—	—	40
Capital contribution	—	2,476	—	—	—	2,476
Other	—	(2,139)	—	—	—	(2,139)
Balance at December 31, 2003	$20,484	$ 324,787	$ 74,856	$36,243	$(1,000)	$ 455,370
Net earnings	$ —	$ —	$ 96,398	$ —	$ —	$ 96,398
Change in unrealized gain—investments	—	—	—	(5,668)	—	(5,668)
Change in unrealized gain—derivative	—	—	—	(215)	—	(215)
Comprehensive income						90,515
Dividends paid to common stockholders	—	—	(4,544)	—	—	(4,544)
Issuance of common stock	171	4,685	—	—	—	4,856
Amortization of unearned compensation	—	253	—	—	686	939
Employee stock purchase	2	63	—	—	—	65
Exercise of stock options	14	206	—	—	—	220
Balance at December 31, 2004	**$ 20,671**	**$ 329,994**	**$ 166,710**	**$ 30,360**	**$ (314)**	**$ 547,421**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	Twelve Months Ended December 31,		
(In thousands)	**2004**	2003	2002
Operating Activities			
Net earnings	**$ 96,398**	$ 58,236	$ 45,870
Adjustments:			
Depreciation and amortization	**17,005**	17,621	13,741
Realized (gains) losses on investments	**(6,883)**	(959)	6,707
Change in accrued investment income	**40**	(1,648)	2,719
Change in agents' balances and premiums receivable	**(10,952)**	(7,006)	31,480
Change in reinsurance receivable	**40,510**	92,461	8,247
Change in deferred policy acquisition costs	**(17,596)**	(17,812)	18,054
Change in other assets	**(10,717)**	(3,771)	4,601
Change in balances with affiliates	**—**	7,844	1,645
Change in insurance claims and reserves	**(38,070)**	(37,241)	(77,489)
Change in payable to reinsurers	**(32,102)**	(38,904)	(16,004)
Change in other liabilities	**16,515**	(559)	4,296
Other, net	**418**	1,176	1,617
Net cash provided by operating activities	**54,566**	69,438	45,484
Investing Activities			
Purchases of and additional investments in:			
Fixed maturity investments	**(278,038)**	(419,844)	(325,783)
Equity securities	**(7,770)**	(11,711)	(109)
Property and equipment	**(4,618)**	(2,096)	(4,015)
Maturities and redemptions of fixed maturity investments	**105,819**	166,672	105,471
Sales of:			
Fixed maturity investments	**94,429**	89,836	295,130
Stock in subsidiary	**10,380**	—	—
Equity securities	**8,587**	11,057	18,891
Property and equipment	**1,443**	177	324
Net cash (used in) provided by investing activities	**(69,768)**	(165,909)	89,909
Financing Activities			
Issuance of long-term debt	**—**	196,300	—
Repayment of long-term debt	**—**	(4,500)	—
Repayment of note payable to AFG	**—**	(55,000)	—
Repayment of term loan	**(195,500)**	—	—
Proceeds from senior notes	**199,256**	—	—
Debt issuance costs	**(2,141)**	—	—
Proceeds from overallotment option	**4,856**	—	—
Issuance of common stock	**285**	40	—
Dividends paid to shareholders	**(4,544)**	(3,380)	—
Return of capital	**—**	—	(108,041)
Net cash provided by (used in) financing activities	**2,212**	133,460	(108,041)
Net (Decrease) Increase in Cash and Short-Term Investments	**(12,990)**	36,989	27,352
Cash and short-term investments at beginning of period	**125,042**	88,053	60,701
Cash and short-term investments at end of period	**$ 112,052**	$ 125,042	$ 88,053

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

Infinity Property and Casualty Corporation ("Infinity") was formed in September 2002 as an indirect wholly-owned subsidiary of American Financial Group, Inc. ("AFG") to acquire and conduct, as a separate public company, AFG's personal insurance business written through independent agents. At December 31, 2002, AFG transferred to Infinity all of the issued and outstanding capital stock of the following personal auto insurance subsidiaries: Atlanta Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company (collectively the "NSA Group").

Through a reinsurance transaction effective January 1, 2003, Infinity assumed the personal lines business written through agents (the "Assumed Agency Business") by AFG's principal property and casualty subsidiary, Great American Insurance Company ("GAI") GAI, in turn, transferred to Infinity assets (primarily investment securities) with a market value of $125.3 million and permits Infinity to continue to write standard and preferred insurance on policies issued by the same GAI companies which had previously issued such policies. This arrangement will continue until Infinity makes the proper rate and form filings to allow its insurance subsidiaries to write these policies or non-renews the business, which is expected by the end of 2006.

The business assumed from GAI in 2003 is not included in the consolidated statements of Infinity for 2002. The Assumed Agency Business reported the following selected financial data as of December 31, 2002 (in millions):

	2002
Earnings Statement Data:	
Earned Premiums	$107.2
Underwriting Loss	(10.0)
Balance Sheet Data:	
Assets (excluding investments) to be transferred	$ 53.5
Investments to be transferred	125.3
Unpaid losses and loss adjustment expenses	125.6
Liabilities to be transferred	178.8

At December 31, 2002, AFG beneficially owned all of Infinity's Common Stock. In February of 2003, AFG sold 12.5 million shares (61%) of Infinity in an initial public offering. In December of 2003, AFG disposed of its remaining investment (7.9 million shares) in Infinity in the December 2003 public offering.

The accompanying Consolidated Financial Statements include the accounts of Infinity and its subsidiaries as of and for the twelve-month period ended December 31, 2004 and December 31, 2003. Infinity's prior period financial statements represent the combined statements of the NSA Group. Earnings per share data for 2002 is not applicable because the Consolidated Statement of Earnings represents the combined statements of wholly-owned subsidiaries.

The accompanying income statements include corporate general and administrative expenses for the twelve-month periods ended December 31, 2004, 2003, and 2002. Infinity was a wholly-owned subsidiary of AFG for the periods prior to 2003 and corporate holding company expenses were not allocated to Infinity for these periods. All appropriate expenses are included in other expenses for the twelve-month period ended December 31, 2002. Infinity considered the guidance in Staff Accounting Bulletin 55, "Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity" (Topic 1.B) in preparing these Consolidated Financial Statements.

The accompanying income statements include expenses incurred directly by Infinity as well as charges for fees allocated by other AFG subsidiaries to Infinity for various services. For 2002, charges billed by GAI for corporate staff services, including human resources, risk management, legal, and financial reporting were based on the percentage of capital that each of the AFG property and casualty insurance subsidiaries needs to run its business, which approximates estimated usage. Investment management fees for 2002 have been based on the proportion each subsidiary's portfolio (at market value) bears to the total portfolios being managed. Management believes that these charges billed by AFG were reasonable and the accompanying Consolidated Financial Statements are representative of the costs of Infinity doing business on a stand-alone basis. All significant inter-company balances and transactions have been eliminated. The results of operations of companies since their formation or acquisition are included in the Consolidated Financial Statements.

The acquisition of the NSA Group has been accounted for at AFG's historical carrying amounts as transfers of net assets between entities under common control in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141.

These financial statements reflect certain adjustments necessary for a fair presentation of Infinity's results of operations and financial position. Such adjustments consist of normal, recurring accruals recorded to accurately match expenses with their related revenue streams and the elimination of all significant inter-company transactions and balances. In addition, certain reclassification adjustments have been made to historical results to achieve consistency in presentation.

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Notes to Consolidated Financial Statements
(continued)

NOTE 2—ACCOUNTING POLICIES

Investments

All fixed maturity securities are considered "available for sale" and reported at fair value with unrealized gains or losses reported as a separate component of shareholders' equity. Fair values of investments are based on prices quoted in the most active market for each security. If quoted prices are not available, fair value is estimated based on the fair value of comparable securities, discounted cash flow models or similar methods. 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 difference between interest rates on 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 credit worthiness 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 and the cost basis of that investment is reduced.

Securities having a carrying value of about $42 million at December 31, 2004 were on deposit as required by regulatory authorities.

Goodwill

Goodwill carried on Infinity's balance sheet represents the excess of AFG's carrying value over tangible assets in the NSA Group and the Assumed Agency Business at the date of transfer to Infinity in contemplation of Infinity's initial public offering in early 2003. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," Infinity performs impairment test procedures on an annual basis. These procedures require Infinity to calculate the fair value of goodwill, compare the result to its carrying value and record the amount of any shortfall as an impairment charge. Infinity performed this test as of October 1, 2004 using a variety of methods, including estimates of future discounted cash flows and comparisons of the market value of Infinity to its major competitors as well as the overall market. The October 1, 2004 test results indicated that there was no impairment at that date. Infinity intends to perform this test annually each October 1.

Reinsurance

Infinity's insurance subsidiaries cede reinsurance to other companies. To the extent that any reinsuring companies are unable to meet obligations under agreements covering reinsurance ceded, Infinity's insurance subsidiaries would remain liable. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. Infinity's insurance subsidiaries report as assets (a) the estimated reinsurance recoverable on unpaid losses, including an estimate for losses incurred but not reported, and (b) amounts paid to reinsurers applicable to the unexpired terms of policies in force. Payable to reinsurers represents ceded premiums retained by Infinity's insurance subsidiaries to fund ceded losses as they become due. Infinity's insurance subsidiaries also assume reinsurance, primarily from other AFG subsidiaries. Income on reinsurance assumed is recognized based on reports received from ceding companies.

Deferred Policy Acquisition Costs ("DPAC")

Policy acquisition costs (principally commissions, premium taxes and other marketing and underwriting expenses) related to the production of new business are deferred and charged against income ratably over the terms of the related policies. The method followed in computing DPAC limits the amount of such costs to their estimated realizable value without any consideration for anticipated investment income.

Unpaid Losses and Loss Adjustment Expenses ("LAE")

The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon (a) the accumulation of case estimates for losses reported prior to the close of the accounting period on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expenses for investigating and adjusting claims and (e) the current state of the law and coverage litigation. These liabilities are subject to the impact of changes in claim amounts and frequency and other factors. Unpaid losses and LAE have not been reduced for reinsurance recoverable. Changes in estimates of the liabilities for losses and LAE are reflected in the Consolidated Statement of Earnings in the period in which determined. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and LAE are adequate.

Premiums and Receivables

Insurance premiums written are earned over the terms of the policies on a pro rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. On reinsurance assumed from other insurance companies or written through various underwriting organizations, unearned premiums are based on reports received from such companies and organizations. Infinity provides insurance and related services to individuals and small commercial accounts throughout the United States and offers a variety of payment plans. Infinity establishes an allowance for doubtful accounts based on prior experience, the relationship between receivables and unearned premium, on a policy basis, and an aging process of past due balances. Premiums due from insureds are charged off if not collected within 90 days of the policies' effective or cancellation dates.

Income Taxes

Infinity files a consolidated federal income tax return which includes all 80%-owned U.S. subsidiaries. Infinity and its 80%-owned subsidiaries are parties to a tax allocation agreement effective for periods following February 12, 2003, which designates how tax payments are shared by members of the tax group. In general, each subsidiary agrees to pay Infinity taxes computed on a separate company taxable income basis. Infinity agrees to pay each subsidiary for the tax benefit, if any, of net losses used by other members of the consolidated group. Taxes paid by Infinity in the years 2004 and 2003 were $33.6 million and $25.3 million, respectively. Prior to February 13, 2003, Infinity and its subsidiaries were part of the American Financial Corporation ("AFC," an AFG subsidiary) tax group and were parties to tax allocation agreements with AFC. In general, AFC companies computed taxes on a separate return basis and made payments to (or received benefits from) AFC based on taxable income. Taxes allocated to Infinity while included in the AFC tax group for the year 2002 were $25.1 million. The tax allocation agreements with AFC have not impacted the recognition of income tax expense and income tax payable in Infinity's financial statements.

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis and are measured using enacted tax rates. Deferred tax assets are recognized if it is more likely than not that a benefit will be realized. Current and deferred tax assets and liabilities are aggregated on the balance sheet.

Benefit Plans

Infinity provides retirement benefits to qualified employees of participating companies and health care and life insurance benefits to eligible retirees. Infinity also provides post-employment benefits to former or inactive employees (primarily those on disability) who were not deemed retired under other company plans. The projected future cost of providing these benefits is expensed over the period the employees earn such benefits.

Statements of Cash Flows

For cash flow purposes, "investing activities" are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. "Financing activities" include obtaining resources from owners and providing them with a return on their investments. All other activities are considered "operating." Investments having original maturities of three months or less when purchased are considered to be cash equivalents for purposes of the financial statements.

Stock-Based Compensation

Infinity accounts for stock options and other stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The fair value of shares issued under Infinity's Restricted Stock Plan is recorded as unearned compensation and expensed over the vesting periods of the awards. Under Infinity's Stock Option Plan, options are granted to officers, directors and key employees 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. Refer to Note 8 for more information on stock-based compensation.

New Accounting Standards

On December 16, 2004, the FASB issued SFAS 123 (revised), "Share-Based Payment" ("SFAS 123(r)"). This new standard requires the recognition of compensation cost for share-based payments to employees, including stock option grants. SFAS 123(r) is effective for interim periods beginning after June 15, 2005; the Company plans to adopt the new standard at that time. In accordance with this new standard, pro forma amounts disclosed for periods up to this date will continue to be shown with comparative historical financial statements. No retroactive cumulative-effect adjustment will be recorded. Implementation of SFAS 123(r) in July 2005 is not expected to materially affect Infinity's results of operations or financial position.

On May 19, 2004, the FASB released FASB Statement of Position 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003" (the "Act"). This guidance requires sponsors of certain postretirement health care plans to determine whether the prescription benefits under the plan are actuarially equivalent to Medicare Part D benefits. If so, the plan qualifies for a federal subsidy under the Act and it must determine whether the subsidy is expected to lower the plan's cost of benefits. The plan assessment status is presented in Note 9 to the Consolidated Financial Statements. In January 2005, the Center for Medicare and Medicaid Services issued final regulations for the actuarial equivalence test. Infinity is currently evaluating its postretirement health care plan under the final rules and does not expect their application to materially affect its results of operations or financial position.

Proposed Accounting Standard

At December 31, 2004, the FASB was deliberating proposed FASB Staff Position EITF 03-1-a, "Implementation Guidance for the Application of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments.'" This guidance provides, among other things, that securities impaired by minor interest rate increases and/or changes in sector spreads can in some circumstances be considered temporary. If finalized in its current form, Infinity does not expect its application to materially affect its results of operations or financial position.

Notes to Consolidated Financial Statements

(continued)

NOTE 3—INVESTMENTS

Fixed maturities and equity securities consisted of the following (in millions):

	December 31, 2004			
			Gross Unrealized	
	Amortized Cost	Market Value	Gains	Losses
Fixed maturities:				
United States Government and government agencies and authorities	**$ 96.0**	**$ 97.1**	**$ 1.7**	**$(0.5)**
States, municipalities and political subdivisions	**232.6**	**237.1**	**4.9**	**(0.4)**
Public utilities	**80.5**	**85.2**	**4.8**	**(0.1)**
Mortgage-backed securities	**263.7**	**267.3**	**4.2**	**(0.6)**
All other corporate	**583.9**	**613.3**	**30.2**	**(0.8)**
Redeemable preferred stocks	**4.1**	**4.0**	**0.1**	**(0.2)**
	$ 1,260.8	**$ 1,304.1**	**$ 45.7**	**$(2.5)**
Equity securities	**$ 21.5**	**$ 25.0**	**$ 3.6**	**$(0.1)**

	December 31, 2003			
			Gross Unrealized	
	Amortized Cost	Market Value	Gains	Losses
Fixed maturities:				
United States Government and government agencies and authorities	$ 99.8	$ 101.7	$ 2.4	$(0.5)
States, municipalities and political subdivisions	218.8	224.6	6.2	(0.4)
Foreign government	2.3	2.3	0.1	—
Public utilities	114.8	120.7	6.2	(0.3)
Mortgage-backed securities	209.6	213.1	4.5	(1.0)
All other corporate	535.8	570.2	35.1	(0.6)
Redeemable preferred stocks	11.4	13.0	1.6	—
	$1,192.4	$1,245.8	$56.1	$(2.7)
Equity securities	$ 19.2	$ 21.4	$ 2.2	$(0.1)

The changes in unrealized gains or losses on marketable securities, which is included in the Consolidated Statements of Changes in Shareholders' Equity, was $(5.7) million, $12.0 million and $21.1 million for the twelve months ended December 31, 2004, 2003 and 2002 as detailed below:

	Pretax			
	Fixed Maturities	Equity Securities	Tax Effects	Net
Year ended December 31, 2004				
Unrealized holding gains (losses) on securities arising during the period	**$ (7.3)**	**$ 4.5**	**$ 1.0**	**$ (1.8)**
Realized (gains) included in net income	**(2.9)**	**(3.2)[(a)]**	**2.2**	**(3.9)**
Change in unrealized gain (loss) on marketable securities, net[(b)]	**$(10.2)**	**$ 1.3**	**$ 3.2**	**$ (5.7)**
Year ended December 31, 2003				
Unrealized holding gains (losses) on securities arising during the period	$16.0	$ 3.4	$ (6.8)	$12.6
Realized (gains) losses included in net income	(1.2)	0.3	0.3	(0.6)
Change in unrealized gain on marketable securities, net	$14.8	$ 3.7	$ (6.5)	$12.0
Year ended December 31, 2002				
Unrealized holding gains (losses) on securities arising during the period	$34.0	$(8.2)	$ (9.1)	$16.7
Realized losses included in net income	1.5	5.2	(2.3)	4.4
Change in unrealized gain (loss) on marketable securities, net	$35.5	$(3.0)	$(11.4)	$21.1

(a) Excludes realized (gains) on sales of subsidiaries of ($0.8) million.
(b) Excludes pretax change in unrealized gain on derivative of $0.3 million.

Infinity has recorded pretax other-than-temporary impairment charges on securities as follows (in thousands):

	Twelve Months Ended December 31,		
	2004	2003	2002
Beginning balance	**$11,784**	$13,962	$12,925
Impairments recorded:			
Fixed maturities	**758**	3,877	6,315
Equity securities	**372**	566	3,095
Sales, maturities, and paydowns	**(979)**	(6,621)	(8,373)
Ending balance	**$11,935**	$11,784	$13,962

Gross gains and losses on fixed maturity investment transactions included in the Consolidated Statements of Cash Flows consisted of the following (in millions):

	Twelve Months Ended December 31,		
	2004	2003	2002
Gross gains	**$ 4.1**	$ 5.8	$13.0
Gross losses	**(0.5)**	(0.7)	(9.0)
Net Realized Gains (losses) on sales of fixed maturities[a]	**$ 3.6**	$ 5.1	$ 4.0

(a) Excludes gains on sales of equities, other-than-temporary impairment charges, and other non-cash gains and losses.

The following chart summarizes Infinity's security positions with unrealized losses which were less than twelve months old and greater than twelve months old as of December 31, 2004 (dollars in millions):

	Less than twelve months			
	Number of Securities	Amortized Cost	Market Value	Unrealized Loss
Fixed maturities	70	$246.3	$244.1	$2.1
Equity securities	1	1.1	1.1	0.0
Total	71	$247.4	$245.2	$2.1

	Greater than twelve months			
	Number of Securities	Amortized Cost	Market Value	Unrealized Loss
Fixed maturities	7	$ 17.6	$ 17.2	$0.4
Equity securities	2	6.8	6.7	0.1
Total	9	$ 24.4	$ 23.9	$0.5

	December 31, 2004	December 31, 2003
Number of positions held with unrealized:		
Gains	**451**	451
Losses	**80**	63
Number of positions held that individually exceed unrealized:		
Gains of $500,000	**10**	11
Losses of $500,000	**—**	—
Percentage of positions held with unrealized:		
Gains that were investment grade	**89%**	88%
Losses that were investment grade	**97%**	85%

Infinity's investment portfolio included $2.6 million and $2.8 million of gross unrealized losses at December 31, 2004 and December 31, 2003, respectively. There was no single industry segment concentration that accounted for more than $1 million of these losses.

Net Investment Income

The following table shows (in millions) investment income earned and investment expenses (including interest charges on payables to reinsurers) incurred by Infinity's insurance companies.

	Twelve Months Ended December 31,		
	2004	2003	2002
Investment income:			
Fixed maturities	**$68.7**	$64.7	$70.3
Equity securities	**0.9**	1.0	1.1
Other	**—**	0.2	0.2
	69.6	65.9	71.6
Investment expenses[a]	**(3.9)**	(8.7)	(10.3)
Net investment income	**$65.7**	$57.2	$61.3

(a) Investment expenses include interest credited in connection with physical damage quota share agreements of $1.5 million, $6.3 million and $7.7 million for the twelve-month periods ended December 31, 2004, 2003 and 2002, respectively.

Infinity's fixed maturity portfolio includes securities with fair values totaling $1.4 million that have not produced investment income for at least twelve months as of December 31, 2004.

Notes to Consolidated Financial Statements

(continued)

NOTE 4—LONG-TERM DEBT

Infinity repaid the $55 million note due to AFG in July 2003 with proceeds from a $200 million seven-year amortizing term loan. The loan proceeds of $196.3 million (net of issued costs of $3.7 million) were also used to supplement the capital of Infinity's insurance subsidiaries, to reduce Infinity's reliance on reinsurance and for general corporate purposes. The term loan (prepaid in full in February 2004) accrued interest at a variable rate and at Infinity's choice of LIBOR plus 2.5% or Prime plus 1.5%. To hedge against future adverse movements in short-term interest rates, Infinity entered into an interest rate swap for $100 million of the principal, in which the variable rate payments due for the first three years of the term were exchanged for a fixed rate of 4.89%. The covenants of the loan had required Infinity to maintain certain minimum interest and fixed charge coverage ratios, as well as minimum levels of capital and surplus; the requirements of all loan covenants were met as of December 31, 2003. The first two loan principal repayment amounts of $2.25 million each were made on September 30 and December 31, 2003. In compliance with the loan agreement, Infinity made an additional principal payment of $2.5 million, one-half of the over-allotment proceeds received by Infinity from the December 2003 public offering, in January 2004. The remainder was to be repaid in quarterly installments.

In February 2004, Infinity issued $200 million principal of Senior Notes due 2014. The notes bear interest at a fixed 5.5% coupon rate which is payable semiannually. The proceeds of the Senior Notes were used to retire the term loan referenced above. Unamortized debt issuance costs relating to the issuance of the variable rate term loan were written off upon the retirement of this loan, resulting in a pretax charge of $3.4 million in the first quarter of 2004. Infinity capitalized $2.1 million of debt issuance costs related to the Senior Notes. In addition, the interest rate swap, which Infinity held in conjunction with the term loan, was settled and resulted in a pretax charge of $0.3 million in the first quarter of 2004.

Interest paid by Infinity on long-term debt was $6.5 million for both of the twelve-month periods ended December 31, 2004 and 2003.

NOTE 5—EQUITY IN AFFILIATES

At December 31, 2000, Infinity owned 2 million shares (3%) of Chiquita common stock. AFG and its subsidiaries, then an affiliate of Infinity, owned an additional 22 million shares (33%) of Chiquita common stock at that date. Chiquita reported net losses attributable to common shares of $112 million in 2000.

In January 2001, Chiquita announced a restructuring initiative that included discontinuing all interest and principal payments on its public debt. Due to the expected restructuring, Infinity recorded a fourth quarter 2000 pretax charge of $14.2 million to write down its investment in Chiquita to quoted market value at December 31, 2000. In 2001, Infinity suspended accounting for the investment under the equity method and reclassified the investment to "Equity securities." In the third quarter of 2001, Infinity wrote down its investment in Chiquita by an additional $669,000. In March 2002, the court approved Chiquita's plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code. Under the plan, over $700 million in principal and accrued interest related to Chiquita's public debt was converted into common equity. As a result, Infinity received approximately 14,400 "new" shares in the reorganized company plus warrants expiring in 2009 to purchase an additional 240,000 shares at $19.23 per share. All of the common shares were sold in 2002 and the warrants were sold in September of 2003.

NOTE 6—INCOME TAXES

The following is a reconciliation of income taxes at the statutory rate of 35% and income taxes as shown in the Consolidated Statement of Earnings (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Earnings before income taxes	**$129,461**	$87,404	$70,933
Income taxes at statutory rate	**$ 45,311**	$30,591	$24,827
Effect of:			
Dividends received deduction	**(217)**	(368)	(450)
Tax-exempt interest	**(1,814)**	(1,061)	0
Adjustment to valuation allowance	**(7,447)**	0	0
Other	**(2,770)**	6	686
Provision for income taxes as shown on the Consolidated Statement of Operations	**$ 33,063**	$29,168	$25,063
GAAP Effective Tax Rate	**25.5%**	33.4%	35.3%

The total income tax provision (credit) consists of (in thousands):

Current	**$ 36,149**	$31,124	$34,070
Deferred	**(3,086)**	(1,956)	(9,007)
	$ 33,063	$29,168	$25,063

The Infinity consolidated tax group generated capital losses in 2003 in addition to the capital loss carryforward from AFG. The tax benefit of the capital loss carryforwards at December 31, 2004 is (in millions):

	Expiring	Amount
Capital loss carryforward	2007	$18.3
Capital loss carryforward	2008	8.1

As shown in the following chart, at December 31, 2004 the deferred taxes relating to the capital loss carryforwards have been fully offset by the valuation allowance. Therefore, in the future, the tax benefit from the utilization of any of these capital loss carryforwards will be reflected in current tax expense and will impact the effective tax rate calculation for that period.

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities recognized for financial purposes and the amounts recognized for tax purposes. The significant components of deferred tax assets and liabilities included in the Consolidated Balance Sheets were as follows (in millions):

	Twelve Months Ended December 31,	
	2004	2003
Deferred tax assets:		
Discount on loss reserves	**$ 17.4**	$ 19.9
Unearned premium reserve	**26.3**	22.7
Net operating loss carryforward	**0.0**	1.2
Net capital loss carryforward	**26.4**	27.2
Alternative minimum tax credit	**0.0**	2.5
Other, net	**13.5**	9.8
	83.6	83.3
Valuation allowance for deferred tax assets	**(26.4)**	(33.8)
	57.2	49.5
Deferred tax liabilities:		
Deferred policy acquisition costs	**(24.0)**	(17.8)
Depreciation and amortization	**(1.4)**	(3.0)
Investment securities	**(12.5)**	(15.4)
	(37.9)	(36.2)
Net deferred tax assets	**$ 19.3**	$ 13.3

The gross deferred tax asset has been reduced by a valuation allowance based on an analysis of the likelihood of realization. Factors considered in assessing the need for a valuation allowance include: (i) opportunities to generate taxable income from sales of appreciated assets to allow for the utilization of net capital loss carryovers, and (ii) the likelihood of generating larger amounts of taxable income in the future to allow for the utilization of deductible temporary differences. The likelihood of realizing deferred tax assets will be reviewed periodically; any adjustments required to the valuation allowance will be made in the period in which the developments on which they are based become known.

Changes in Deferred Tax Assets and Valuation Allowance

Operating loss carryforwards decreased by $1.2 million from 2003 to 2004 as a result of utilizing the operating loss carryforward in the 2003 consolidated federal income tax return filed for the Infinity companies. The operating loss carryforward was generated while the Infinity companies were included in the AFC tax group. Capital loss carryforwards decreased by $0.8 million from 2003 to 2004 due to a $3.9 million increase in the losses recognized by the Infinity companies at the IPO date for which AFC was not able to fully utilize in their consolidated federal income tax return. There was an offsetting decrease of $4.7 million due to the utilization of capital loss carryforwards in 2004. The alternative minimum tax ("AMT") credit decreased by $2.5 million from 2003 to 2004 as a result of fully utilizing the AMT credit in the 2003 consolidated federal income tax return for the Infinity companies.

The valuation allowance decreased by $7.4 million from 2003 to 2004 primarily as a result of utilization of the operating loss carryforward in the 2003 consolidated federal income tax return and the utilization of a portion of the capital loss carryforwards in 2004. There was also a reduction to the tax reserve, generated while the Infinity companies were included in the AFC tax group, of $2.0 million from 2003 to 2004.

NOTE 7—COMPUTATIONS OF EARNINGS PER SHARE

The following table illustrates the reconciliation of the denominators in Infinity's computations of basic and diluted earnings per common share (in thousands, except per share figures):

	Twelve Months Ended December 31,		
	2004	2003	2002
Net earnings	**$96,398**	$58,236	$45,870
Basic average shares outstanding	**20,560**	20,348	N/A
Basic EPS	**$ 4.69**	$ 2.86	N/A
Basic average shares outstanding	**20,560**	20,348	N/A
Restricted stock not vested	**96**	117	N/A
Dilutive effect of assumed option exercises	**203**	130	N/A
Average diluted shares outstanding	**20,859**	20,594	N/A
Diluted EPS	**$ 4.62**	$ 2.83	N/A

NOTE 8—EQUITY COMPENSATION PLANS

Infinity established the Employee Stock Purchase Plan ("ESPP") in 2004. Under this plan, all eligible full-time employees may purchase shares of Infinity common stock at a 15% discount to the current market price. Employees may participate up to 25% of their base salary with a maximum annual participation amount of $25,000. If a participant sells any shares purchased under the plan within one year, that employee is precluded from participating in the plan for one year from the date of sale. The source of shares issued to participants is treasury shares and/or authorized but previously unissued shares. Infinity's ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended, ("the Code") and so Infinity does not recognize the 15% market discount as expense in its financial statements. Participants' shares are issued and outstanding for earnings per share calculations.

Infinity established the 2002 Stock Option Plan to enable it to attract and motivate its employees and to encourage the identification of their interests with those of Infinity's shareholders.The plan provides for the grant of incentive stock options that are qualified under the Code and for the grant of nonqualified stock options.

The maximum number of shares of Infinity's common stock for which options may be granted under the plan is 2,000,000 (subject to antidilution provisions). Infinity's Compensation Committee administers the plan. Each member of the Committee is an "outside director," as such term is defined under Section 162(m) of the Code, and a "non-employee director" as defined in Rule 16b-3(b) promulgated under the Securities Exchange Act of 1934.

Subject to specific limitations contained in the plan, Infinity's Board of Directors has the ability to amend, suspend or terminate the plan at any time without shareholder approval. Unless earlier terminated, the plan may continue in effect until December 16, 2012.

Options generally expire ten years after the date of grant, though the Committee can provide for a shorter term for a particular grant. Generally, subject to the discretion of the Compensation Committee, 20% of the shares underlying an option will become exercisable upon the first anniversary of the date of grant, and 20% become exercisable on each subsequent anniversary. Options issued to non-employee directors are immediately exercisable. Exercise prices for options granted under the plan may not be less than the fair market value on the date of grant. The Compensation Committee has broad discretion in determining the terms of the grant of awards under the plan, subject to the restrictions outlined above. Upon a change of control, as defined in the plan, all outstanding options will immediately vest in full and become exercisable.

Payment for shares purchased upon exercise of an option must be made in cash. The Committee, however, may permit payment by delivery of shares of common stock already owned by the optionee having a fair market value equal to the cash option price of the shares, by assigning the proceeds of a sale or loan with respect to some or all of the shares being acquired (subject to applicable law), by a combination of the foregoing or by any other method.

Persons who receive options incur no federal income tax liability at the time of grant. Persons exercising nonqualified options recognize taxable income, and Infinity has a tax deduction at the time of exercise to the extent of the difference between market price on the day of exercise and the exercise price. Persons exercising incentive stock options do not recognize taxable income until they sell the underlying common stock. Sales within two years of the date of grant or one year of the date of exercise result in taxable income to the holder and a deduction for Infinity, both measured by the difference between the market price at the time of sale and the exercise price. Sales after such period are treated as capital transactions to the holder, and Infinity receives no deduction. The foregoing is only a summary of the federal income tax rules applicable to options granted under the plan and is not intended to be complete. In addition, this summary does not discuss the effect of the income or other tax laws of any state or foreign country in which a participant may reside.

The following chart describes activity for Infinity's Stock Option Plan for the twelve-month period ended December 31, 2004 and 2003:

	2004	
Options Outstanding	Number of Options	Weighted Average Exercise Price
As of January 1, 2004	419,180	$16.11
Granted	214,000	$33.56
Exercised	(13,700)	$16.00
Forfeited	(16,000)	$24.79
As of December 31, 2004	**603,480**	**$ 22.07**

	Number of Options		
Exercise Price	Outstanding	Exercisable	Remaining Contractual Life
$16.00	392,480	82,496	8.1 years
$25.56	5,000	5,000	8.7 years
$33.58	203,500	10,000	9.1 years
$31.94	2,500	2,500	9.4 years
	603,480	99,996	

Options Outstanding	2003 Number of Options	2003 Weighted Average Exercise Price
As of January 1, 2003	—	—
Granted	425,180	$16.11
Exercised	(2,500)	$16.00
Forfeited	(3,500)	$16.00
As of December 31, 2003	419,180	$16.11

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Remaining Contractual Life
$16.00	414,180	5,000	9.2 years
$25.56	5,000	5,000	9.7 years
	419,180	10,000	

Infinity's Restricted Stock Plan was also established in 2002. There were 500,000 shares of Infinity common stock reserved for issuance under the Restricted Stock Plan.

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," Infinity accounts for stock options and other stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The fair value of shares issued under Infinity's Restricted Stock Plan is recorded as unearned compensation and expensed over the vesting periods of the awards. Under Infinity's Stock Option Plan, options are granted to officers, directors and key employees 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 earnings (in thousands) and earnings per share had compensation cost related to stock options been determined and recognized based on "fair values" at grant dates consistent with the method prescribed by SFAS No. 123. For SFAS No. 123 purposes, the "fair values" were calculated using the Black-Scholes option-pricing model. There is no single reliable method to determine the actual value of options at grant date. Accordingly, the actual value of the option grants may be higher or lower than the SFAS No. 123 "fair value."

	Twelve Months Ended December 31, 2004	Twelve Months Ended December 31, 2003
Net earnings, as reported	**$96,398**	$58,236
Pro forma stock option expense	**(1,143)**	(477)
Adjusted net earnings	**$95,255**	$57,759
Earnings per share (as reported):		
Basic	**$ 4.69**	$ 2.86
Diluted	**$ 4.62**	$ 2.83
Earnings per share (adjusted):		
Basic	**$ 4.63**	$ 2.84
Diluted	**$ 4.57**	$ 2.81

The following table illustrates the assumptions used to obtain the pro forma stock option expense figures. All data presented is inception-to-date as of the dates indicated.

	As of December 31, 2004	As of December 31, 2003
Assumptions:		
Options outstanding	**603,480**	419,180
Weighted average:		
Fair value per option granted	**$13.87**	$5.98
Dividend yield	**1.2%**	1.4%
Expected volatility	**33.0%**	33.0%
Risk-free interest rate	**4.1%**	4.0%
Expected option life	**7.5 years**	7.5 years

Notes to Consolidated Financial Statements

(continued)

NOTE 9—BENEFIT PLANS

Infinity provides retirement benefits for all eligible employees by matching contributions made on a discretionary basis to participants' accounts in the Infinity 401(k) Retirement Plan. Eligible employees may contribute up to a maximum of the lesser of $13,000 per year or 25% of the participant's salary. Infinity retains the right to make discretionary supplemental contributions to the accounts of plan participants. The matching percentage made by Infinity is 100% of participants' contributions up to a ceiling of 3% of participants' earnings. The plan expense was $6.3 million and $5.7 million for the twelve-month periods ended December 31, 2004 and 2003, respectively. Infinity employees participated in the AFG 401(k) plan in 2002.

Additionally, Infinity's Supplemental Retirement Plan is a nonqualified deferred compensation plan that allows certain highly compensated employees to receive the full discretionary employer contribution that is precluded by the provisions of the 401(k) Retirement Plan or by law due to limits on compensation.

Infinity maintains for certain highly-compensated employees, a qualified deferred compensation plan, which permits the participants to defer a portion of their salaries and bonuses. The deferred amounts accrue interest at Infinity's approximate long-term borrowing rate. The deferred amounts are a general obligation liability of Infinity and amounted to $1.5 million and $0.9 million at December 31, 2004 and 2003, respectively. Interest credited by Infinity was approximately $74,000 and $49,000 for these same time periods.

Infinity also provides postretirement medical and life insurance benefits to retirees. The benefit obligation was allocated to Infinity from the former AFG plan in late 2002 in anticipation of the initial public offering. Data related to this plan is shown in the following tables (in thousands). This data does not reflect the impact of the subsidy provided by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act"). The Company has not been able to conclude that the benefits provided under this plan are actuarially equivalent to Medicare Part D benefits under the Act. Infinity does not expect this legislation to have a material effect on its net benefit obligation or plan costs.

	2004	2003
Net benefit obligation at beginning of year	**$3,819**	$3,620
Service cost	**233**	251
Interest cost	**238**	255
Participant contributions	**80**	57
Plan amendments	**—**	(444)
Actuarial loss	**168**	304
Gross benefits paid	**(271)**	(224)
Net benefit obligation at end of year	**$4,267**	$3,819

Weighted average assumptions used to determine benefit obligations	**2004**	2003
Discount rate	**6.00%**	6.00%
Health care cost trend on covered charges	**10.4% decreasing to 5% in 2008**	10% decreasing to 5% in 2009

A one-percentage point change in the assumed healthcare cost trend rate would have the following effect on the postretirement benefit obligation:

	2004	2003
1% increase	**$ 284**	$ 54
1% decrease	**(276)**	(48)

Plan assets	**2004**	2003
Fair value of plan assets at beginning of year	**$ —**	$ —
Actual return on plan assets	**—**	—
Employer contributions	**191**	167
Participant contributions	**80**	57
Gross benefits paid	**(271)**	(224)
Fair value of plan assets at end of year	**$ —**	$ —

Expected future benefit payments	**2004**	2003
2004	**$ N/A**	$ 191
2005	**266**	233
2006	**298**	277
2007	**316**	312
2008	**327**	348
2009	**329**	N/A
2010–2014	**1,580**	2,160

Funded status:	**2004**	2003
Fair value of plan assets	**$ —**	$ —
Benefit obligations	**4,267**	3,819
Funded status at end of year	**(4,267)**	(3,819)
Contributions made after the measurement date	**48**	47
Unrecognized actuarial net (gain) loss	**472**	304
Unrecognized prior service cost	**(377)**	(444)
Net amount recognized at end of year	**$(4,124)**	$(3,912)

NOTE 10—QUARTERLY OPERATING RESULTS (UNAUDITED)

While insurance premiums are recognized on a relatively level basis, claim losses related to adverse weather (snow, hail, hurricanes, tornadoes, etc.) may be seasonal. Quarterly results necessarily rely heavily on estimates and are not necessarily indicative of results for longer periods of time.

The following are quarterly results of consolidated operations of Infinity for the two years ended December 31, 2004 (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
2004					
Revenues	**$ 230.2**	**$ 238.4**	**$ 240.5**	**$ 242.7**	**$ 951.8**
Net earnings	**16.9**	**24.8**	**23.0**	**31.7**	**96.4**
Earnings per share:					
Basic	**$ 0.82**	**$ 1.21**	**$ 1.12**	**$ 1.54**	**$ 4.69**
Diluted	**0.81**	**1.19**	**1.10**	**1.52**	**4.62**
2003					
Revenues	$181.0	$180.3	$190.0	$217.7	$769.0
Net earnings	11.5	12.3	15.0	19.4	58.2
Earnings per share:					
Basic	$ 0.57	$ 0.60	$ 0.73	$ 0.96	$ 2.86
Diluted	0.57	0.60	0.72	0.94	2.83

Realized gains (losses) on securities amounted to (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
2004	$ 1.6	$ 1.4	$ 2.8	$ 1.1	$ 6.9
2003	0.3	0.2	0.8	(0.3)	1.0

NOTE 11—INSURANCE RESERVES

The following table provides an analysis of changes in the liability for losses and loss adjustment expenses, net of reinsurance (and grossed up), over the past two years on a GAAP basis (in millions):

	Twelve Months Ended December 31,		
	2004	2003	2002
Gross unpaid losses and LAE	**$ 714**	$ 607	$ 648
Less: reinsurance recoverables	**(30)**	(33)	(37)
Balance at beginning of period	**684**	574	611
Addition of Assumed Agency Business	**—**	126	—
		700	
Provision for losses and LAE occurring in the current year	**618**	543	527
Net increase (decrease) in provision for claims of prior years[(a)]	**(15)**	14	1
Total losses and LAE incurred	**603**	557	528
Payments for losses and LAE of:			
Current year	**(322)**	(233)	(252)
Prior years	**(323)**	(340)	(313)
Total payments	**(645)**	(573)	(565)
Balance at end of period	**642**	684	574
Add back reinsurance recoverables	**17**	30	33
Gross unpaid losses and LAE included in the Balance Sheet	**$ 659**	$ 714	$ 607

(a) Includes the assumption of the Agency Business

During calendar year 2002, the NSA Group settled, for $5.1 million, a state class action lawsuit involving the issue of whether there is an inherent diminished value in a damaged automobile that should be accounted for when calculating claim payments. The settlement increased the reserve deficiency for the 2001 calendar year-end reserves by $5.1 million. During calendar year 2003, $14 million of adverse loss and LAE reserve development occurred primarily due to business from New York, partially offset by other reserve releases. During calendar year 2004, Infinity enjoyed $15 million of favorable reserve development, primarily from continued favorable development in accident year 2003 on claim frequency on the California book of business, offset partially by continued unfavorable development in accident years 2000–2002, primarily from LAE on the declining New York book of business.

NOTE 12—REINSURANCE

During 2002, Infinity's insurance subsidiaries participated in a reinsurance agreement with Inter-Ocean under which Infinity agreed to cede 90% of its automobile physical damage business written through December 2002. This agreement was renewed for 2003 on terms substantially equivalent to those in effect in 2002, except that Infinity could elect on a quarterly basis to reduce the amount ceded from 90% to 20% of the policies effective in the last two quarters of 2003. In 2004, Infinity entered into a reinsurance agreement with American Re on substantially similar terms as through the Inter-Ocean agreement except that (i) the

Notes to Consolidated Financial Statements

(continued)

Assumed Agency Business was not included and (ii) minimum cession under the agreement was 10% as compared to 20% in the Inter-Ocean agreement. Under these agreements, Infinity retained all of the ceded premiums to fund ceded losses as they became due from the reinsurers. Interest was credited to the reinsurers for funds held on their behalf. Premiums ceded under these agreements were $14 million, $170 million and $296 million for the twelve-month periods ended December 31, 2004, 2003 and 2002, respectively. In addition, premiums ceded for the Assumed Agency Business were $22 million and $79 million for the twelve-month periods ended December 31, 2003 and 2002, respectively. Interest credited, which is reported as a reduction of net investment income, was $1.5 million, $6.2 million and $7.6 million for the twelve-month periods ended December 31, 2004, 2003 and 2002, respectively. Infinity commuted the 2001 agreement in 2003 and the 2003 and 2004 agreements on December 31, 2004 and did not renew any agreement for 2005.

In addition, Infinity's insurance subsidiaries assume a limited amount of other business, primarily from affiliates of AFG. The following table shows (in millions): (i) written and earned premiums included in income for reinsurance assumed, (ii) amounts deducted from written and earned premiums in connection with reinsurance ceded and (iii) reinsurance recoveries deducted from losses and loss adjustment expenses.

	Twelve Months Ended December 31,		
	2004	2003	2002
Direct premiums written	**$861**	$ 846	$ 873
Reinsurance assumed	**103**	159	42
Reinsurance ceded	**(46)**	(187)	(302)
Net written premiums	**$918**	$ 818	$ 613
Direct premiums earned	**$831**	$ 833	$ 906
Reinsurance assumed	**115**	123	46
Reinsurance ceded	**(74)**	(257)	(306)
Net earned premiums	**$872**	$ 699	$ 646
Reinsurance recovered	**$ 38**	$ 132	$ 174

NOTE 13—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). Net earnings (loss) and policyholders' surplus on a statutory basis were as follows (in millions):

Net Earnings (Loss)			Policyholders' Surplus	
2004	2003	2002	**2004**	2003
$87.2	$(23.5)	$65.6	**$507.2**	$446.1

For the twelve-month period ended December 31, 2004 and December 31, 2002, statutory results differed from net earnings on a GAAP basis primarily due to the amortization of deferred acquisition costs.

For the twelve-month period ended December 31, 2003, statutory results differed from net earnings on a GAAP basis due to (i) a realized loss from the write-off of an investment in Penn Central U.K. Limited and its insurance subsidiary of $55 million for statutory purposes and (ii) amortization of deferred acquisition costs. For GAAP purposes, the $55 million loss from the insurance subsidiary has been recorded in the NSA Group's financial statements prior to 2003 using the equity method of accounting.

NOTE 14—ADDITIONAL INFORMATION

Allowances for Uncollectible Accounts

Agents' balances and premiums receivable included in the balance sheet are shown net of allowances for uncollectible accounts. The provision for such losses is included in other operating and general expenses. A progression of the aggregate allowance follows (in millions):

	2004	2003	2002
Beginning balance	**$ 7.9**	$ 8.9	$ 10.1
Provision for losses	**14.6**	10.5	14.1
Uncollectible amounts written off	**(11.0)**	(11.5)	(15.3)
Ending balance	**$ 11.5**	$ 7.9	$ 8.9

Restrictions on Transfer of Funds and Assets of Subsidiaries

Payments of dividends, loans and advances by Infinity's insurance subsidiaries are subject to various state laws, federal regulations and debt covenants which limit the amount of dividends, loans and advances that can be paid. Under applicable restrictions, the maximum amount of dividends payable in 2005 from Infinity's insurance subsidiaries without seeking regulatory clearance is approximately $63 million. Additional amounts of dividends, loans and advances require regulatory approval.

Rent Expense

Total rental expense for various leases of office space and equipment was $22.3 million, $20.7 million, and $15.2 million for the twelve month periods ended December 31, 2004, 2003, and 2002, respectively.

Future minimum rentals, primarily related to office space, required under operating leases having initial or remaining lease terms in excess of one year at December 31, 2004 were as follows: 2005–$17.6 million; 2006–$17.4 million; 2007–$16.5 million; 2008–$15.1 million; 2009–$10.2 million and $28.2 million thereafter.

Future sublease revenue was $1.3 million for 2005, 2006 and 2007, $1.2 million for 2008, $1.1 million for 2009 and $0.7 million thereafter.

Contingencies

Infinity is subject to litigation resulting principally from normal insurance activities. Management believes that the outcome of such matters will not have a material effect upon Infinity's consolidated financial position.

Related Party Transactions

In December 2003, AFG sold its remaining holdings of Infinity common stock through a secondary public offering. As of that date, Infinity no longer was an affiliate with AFG.

Various business had transacted between Infinity and AFG and its subsidiaries while AFG was affiliated with the Company, including insurance, computer processing and programming, payroll processing, office rental and sales of assets. Aggregate charges for these items were insignificant in relation to revenues.

Infinity's investment portfolio is managed by a subsidiary of AFG. Net investment income includes investment management charges of $2.0 million in 2003 and $1.8 million in 2002.

Infinity has purchased and sold securities at fair value in transactions with AFG subsidiaries; it has also transferred securities to its former parent in the form of capital distributions and received securities from its former parent as capital contributions. Such purchases, sales and transfers and related realized gains (losses) were as follows (in millions):

	Acquisitions	Dispositions	Realized Losses
2003	$114.7[a]	$ 4.7	$(0.6)
2002	—	102.7	(7.9)

(a) Consists entirely of securities transferred from AFG to Infinity to support the net reserves of the Assumed Agency Business.

Report of Independent Registered Public Accounting Firm

Board of Directors
Infinity Property and Casualty Corporation

We have audited the accompanying statement of assets (excluding investments) and liabilities to be transferred of the Personal Lines Agency Business of Great American Insurance Company as of December 31, 2002 and 2001, and the related statements of underwriting gains and losses and underwriting cash flows for each of the three years in the period ended December 31, 2002. These statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statements. We believe that our audits provide a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the Form 10-K of Infinity Property and Casualty Corporation, and as described in Note 1, are not intended to be a complete presentation of the Company's assets, liabilities, revenues, expenses and cash flows.

In our opinion, the accompanying statements of assets (excluding investments) and liabilities to be transferred, underwriting gains and losses and underwriting cash flows present fairly, in all material respects, the assets (excluding investments) and liabilities to be transferred of the Personal Lines Agency Business of Great American Insurance Company at December 31, 2002 and 2001, and its underwriting results and underwriting cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

ERNST & YOUNG LLP

Cincinnati, Ohio
March 18, 2003

Personal Lines Agency Business Of Great American Insurance Company Financial Statements (In thousands)

Statement of Assets (excluding Investments) and Liabilities to be Transferred

	Year Ended December 31, 2002	2001
Assets (excluding Investments) to be Transferred:		
Agents' balances	$ 37,015	$ 44,632
Deferred policy acquisition costs	11,152	24,538
Goodwill	4,954	4,954
Other assets	414	4,684
	$ 53,535	$ 78,808
Liabilities to be Transferred:		
Unpaid losses and loss adjustment expenses	$125,623	$115,885
Unearned premiums	47,978	80,941
Other liabilities	5,199	3,680
	$178,800	$200,506

Statement of Underwriting Gains and Losses

	Twelve Months Ended December 31, 2002	2001
Earned premiums	$107,224	$ 149,925
Losses and Expenses:		
Losses and loss adjustment expenses	91,064	121,811
Commissions and other underwriting expenses	26,189	42,819
Underwriting loss	$ (10,029)	$ (14,705)

Statement of Underwriting Cash Flows

	Twelve Months Ended December 31, 2002	2001
Premiums collected	$ 81,878	$ 154,113
Losses and loss adjustment expenses paid	(81,326)	(111,806)
Commissions and other underwriting expenses paid	(10,346)	(46,092)
Cash used by underwriting	$ (9,794)	$ (3,785)

Personal Lines Agency Business Of Great American Insurance Company Notes to Financial Statements

Background and Basis of Presentation

Great American Insurance Company ("GAI") is an indirect wholly-owned subsidiary of American Financial Group, Inc. Through a reinsurance agreement effective January 1, 2003, GAI transferred its personal lines business written through independent agents (the "Assumed Agency Business") to Infinity Property and Casualty Corporation ("Infinity"). Under the reinsurance agreement, GAI also transferred to Infinity assets (primarily investment securities) with a market value of approximately $125.3 million.

The accompanying statements have been prepared from the historical accounting records of GAI and present the assets (excluding investments) and liabilities to be transferred, the related underwriting gains and losses and underwriting cash flows attributable to the Assumed Agency Business. The Assumed Agency Business represents a portion of AFG's Personal Lines segment of operations and is not a separate legal entity. Accordingly, this business does not have a separate investment portfolio or equity structure. For these reasons, the financial records necessary for complete financial statements including investments, investment results, and tax provisions do not exist.

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Accounting Policies

Deferred Policy Acquisition Costs ("DPAC")

Policy acquisition costs (principally commissions, premium taxes and other marketing and underwriting expenses) related to the production of new business are deferred and charged against income ratably over the terms of the related policies. The method followed in computing DPAC limits the amount of such costs to their estimated realizable value without any consideration for anticipated investment income.

Unpaid Losses and Loss Adjustment Expenses

The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon (a) the accumulation of case estimates for losses reported prior to the close of the accounting period on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expenses for investigating and adjusting claims and (e) the current state of the

Personal Lines Agency Business Of Great American Insurance Company
Notes to Financial Statements *(continued)*

law and coverage litigation. These liabilities are subject to the impact of changes in claim amounts and frequency and other factors. Changes in estimates of the liabilities for losses and loss adjustment expenses are reflected in the Statement of Underwriting Gains and Losses in the period in which determined. In spite of the variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate.

Premium Recognition

Premiums are earned over the terms of the policies on a pro rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force.

Reinsurance

Effective January 1, 2002, GAI entered into a reinsurance agreement with Inter-Ocean Reinsurance (Ireland) Limited, under which GAI agreed to cede 90% of its automobile physical damage business written through December 2002. This agreement was renewed for 2003 on terms substantially equivalent to those in effect in 2002. Premiums ceded under this agreement were $78.5 million in 2002.

Quarterly Operating Results (Unaudited)

While insurance premiums are recognized on a relatively level basis, claim losses related to adverse weather (snow, hail, hurricanes, tornadoes, etc.) may be seasonal. Quarterly results necessarily rely heavily on estimates and are not necessarily indicative of results for longer periods of time.

The following are quarterly results of operations of the Assumed Agency Business for the two years ended December 31, 2002 (in millions).

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
2002					
Earned premiums	$39.5	$41.4	$ 3.8	$22.5	$107.2
Underwriting loss	(2.7)	(1.5)	(4.2)	(1.6)	(10.0)
2001					
Earned premiums	$35.2	$37.4	$39.0	$38.3	$149.9
Underwriting loss	(1.2)	(1.4)	(4.7)	(7.4)	(14.7)

Insurance Reserves

The following table provides an analysis of changes in the liability for losses and loss adjustment expenses over the past two years on a GAAP basis (in millions):

	Twelve Months Ended December 31,	
	2002	2001
Balance at beginning of period	$116	$106
Provision for losses and LAE occurring in the current year	84	118
Net increase in provision for claims of prior years	7	4
Total losses and LAE incurred	91	122
Payments for losses and LAE of:		
Current year	(31)	(62)
Prior years	(50)	(50)
Total payments	(81)	(112)
Balance at end of period	$126	$116