

AMERICAN FINANCIAL GROUP INC  
Form 10-Q  
May 04, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the

Quarterly

Period

Ended

March 31,

2018

Commission

File No.

1-13653

AMERICAN FINANCIAL GROUP, INC.

Incorporated under the Laws of Ohio IRS Employer I.D. No. 31-1544320

301 East Fourth Street, Cincinnati, Ohio 45202

(513) 579-2121

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 1, 2018, there were 88,935,221 shares of the Registrant's Common Stock outstanding, excluding 14.9 million shares owned by subsidiaries.

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## AMERICAN FINANCIAL GROUP, INC. 10-Q

## PART I

## ITEM I — FINANCIAL STATEMENTS

## AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

(Dollars in Millions)

	March 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$ 1,659	\$ 2,338
Investments:		
Fixed maturities, available for sale at fair value (amortized cost — \$38,383 and \$37,038)	39,125	38,379
Fixed maturities, trading at fair value	160	348
Equity securities, at fair value	1,786	1,662
Investments accounted for using the equity method	1,097	999
Mortgage loans	1,082	1,125
Policy loans	181	184
Equity index call options	591	701
Real estate and other investments	268	312
Total cash and investments	45,949	46,048
Recoverables from reinsurers	3,173	3,369
Prepaid reinsurance premiums	614	600
Agents' balances and premiums receivable	1,113	1,146
Deferred policy acquisition costs	1,417	1,216
Assets of managed investment entities	5,090	4,902
Other receivables	918	1,030
Variable annuity assets (separate accounts)	632	644
Other assets	1,551	1,504
Goodwill	199	199
Total assets	\$ 60,656	\$ 60,658
Liabilities and Equity:		
Unpaid losses and loss adjustment expenses	\$ 9,193	\$ 9,678
Unearned premiums	2,413	2,410
Annuity benefits accumulated	33,901	33,316
Life, accident and health reserves	656	658
Payable to reinsurers	661	743
Liabilities of managed investment entities	4,869	4,687
Long-term debt	1,301	1,301
Variable annuity liabilities (separate accounts)	632	644
Other liabilities	1,847	1,887
Total liabilities	55,473	55,324
Redeemable noncontrolling interests	—	3
Shareholders' equity:		
Common Stock, no par value		
— 200,000,000 shares authorized	89	88
— 88,881,213 and 88,275,460 shares outstanding		

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Capital surplus	1,205	1,181
Retained earnings	3,584	3,248
Accumulated other comprehensive income, net of tax	305	813
Total shareholders' equity	5,183	5,330
Noncontrolling interests	—	1
Total equity	5,183	5,331
Total liabilities and equity	\$ 60,656	\$ 60,658

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## AMERICAN FINANCIAL GROUP, INC. 10-Q

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

(In Millions, Except Per Share Data)

	Three months ended March 31,		
	2018	2017	
Revenues:			
Property and casualty insurance net earned premiums	\$1,107	\$1,022	
Life, accident and health net earned premiums	6	6	
Net investment income	495	435	
Realized gains (losses) on securities (*)	(93	) 3	
Income (loss) of managed investment entities:			
Investment income	58	51	
Gain (loss) on change in fair value of assets/liabilities	(3	) —	
Other income	49	59	
Total revenues	1,619	1,576	
Costs and Expenses:			
Property and casualty insurance:			
Losses and loss adjustment expenses	641	609	
Commissions and other underwriting expenses	381	339	
Annuity benefits	182	196	
Life, accident and health benefits	11	9	
Annuity and supplemental insurance acquisition expenses	82	53	
Interest charges on borrowed money	15	21	
Expenses of managed investment entities	48	41	
Other expenses	85	85	
Total costs and expenses	1,445	1,353	
Earnings before income taxes	174	223	
Provision for income taxes	33	68	
Net earnings, including noncontrolling interests	141	155	
Less: Net earnings (losses) attributable to noncontrolling interests	(4	) 2	
Net Earnings Attributable to Shareholders	\$145	\$153	
Earnings Attributable to Shareholders per Common Share:			
Basic	\$1.64	\$1.76	
Diluted	\$1.60	\$1.72	
Average number of Common Shares:			
Basic	88.6	87.2	
Diluted	90.4	89.3	
Cash dividends per Common Share	\$0.35	\$0.3125	
(*) Consists of the following:			
Realized gains (losses) before impairments	\$(92	) \$9	
Losses on securities with impairment	(1	) (6	)
Non-credit portion recognized in other comprehensive income (loss)	—	—	

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Impairment charges recognized in earnings	(1 )	(6 )
Total realized gains (losses) on securities	\$(93 )	\$3

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AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
 (In Millions)

	Three months ended March 31,	
	2018	2017
Net earnings, including noncontrolling interests	\$141	\$155
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on securities:		
Unrealized holding gains (losses) on securities arising during the period	(279 )	125
Reclassification adjustment for realized (gains) losses included in net earnings	2	—
Total net unrealized gains (losses) on securities	(277 )	125
Net unrealized losses on cash flow hedges	(11 )	(1 )
Foreign currency translation adjustments	1	—
Other comprehensive income (loss), net of tax	(287 )	124
Total comprehensive income (loss), net of tax	(146 )	279
Less: Comprehensive income (loss) attributable to noncontrolling interests	(4 )	2
Comprehensive income (loss) attributable to shareholders	\$(142)	\$277

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## AMERICAN FINANCIAL GROUP, INC. 10-Q

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
(Dollars in Millions)

	Common Shares	Shareholders' Equity				Total	Noncon- trolling Interests	Total Equity	Redeemable
		Common Stock and Capital Surplus	Retained Earnings	Other Comp. Income (Loss)					Noncon- trolling Interests
Balance at December 31, 2017	88,275,460	\$1,269	\$3,248	\$ 813	\$5,330	\$ 1	\$5,331	\$ 3	
Cumulative effect of accounting change	—	—	225	(221 )	4	—	4	—	
Net earnings (losses)	—	—	145	—	145	(1 )	144	(3 )	
Other comprehensive loss	—	—	—	(287 )	(287 )	—	(287 )	—	
Dividends on Common Stock	—	—	(31 )	—	(31 )	—	(31 )	—	
Shares issued:									
Exercise of stock options	374,314	14	—	—	14	—	14	—	
Restricted stock awards	200,625	—	—	—	—	—	—	—	
Other benefit plans	52,583	6	—	—	6	—	6	—	
Dividend reinvestment plan	2,779	—	—	—	—	—	—	—	
Stock-based compensation expense	—	5	—	—	5	—	5	—	
Shares exchanged — benefit plans	(23,882 )	—	(3 )	—	(3 )	—	(3 )	—	
Forfeitures of restricted stock	(666 )	—	—	—	—	—	—	—	
Other	—	—	—	—	—	—	—	—	
Balance at March 31, 2018	88,881,213	\$1,294							