

AMERICAN FINANCIAL GROUP INC

Form 10-Q

August 09, 2010

Table of Contents

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
June 30, 2010

Commission File
No. 1-13653

AMERICAN FINANCIAL GROUP, INC.

Incorporated under
the Laws of Ohio

IRS Employer I.D.
No. 31-1544320

One 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 (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company. Yes No

As of August 1, 2010, there were 108,395,325 shares of the Registrant's Common Stock outstanding, excluding 14.9 million shares owned by subsidiaries.

**AMERICAN FINANCIAL GROUP, INC.
TABLE OF CONTENTS**

	Page
<u>Part I - Financial Information</u>	
<u>Item 1 - Financial Statements:</u>	
<u>Consolidated Balance Sheet</u>	2
<u>Consolidated Statement of Earnings</u>	3
<u>Consolidated Statement of Changes in Equity</u>	4
<u>Consolidated Statement of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 3 - Quantitative and Qualitative Disclosure of Market Risk</u>	49
<u>Item 4 - Controls and Procedures</u>	49
<u>Part II - Other Information</u>	
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>Item 6 - Exhibits</u>	50
<u>Signatures</u>	51
<u>Exhibit 12</u>	
<u>Exhibit 31(a)</u>	
<u>Exhibit 31(b)</u>	
<u>Exhibit 31(c)</u>	
<u>Exhibit 32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

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)

	June 30, 2010	December 31, 2009
Assets:		
Cash and cash equivalents	\$ 1,011	\$ 1,120
Investments:		
Fixed maturities, available for sale at fair value (amortized cost \$17,230 and \$16,730)	17,950	16,823
Fixed maturities, trading at fair value	384	372
Equity securities, at fair value (cost \$259 and \$228)	438	411
Mortgage loans	489	376
Policy loans	269	276
Real estate and other investments	386	413
 Total cash and investments	 20,927	 19,791
 Recoverables from reinsurers	 3,071	 3,511
Prepaid reinsurance premiums	398	381
Agents' balances and premiums receivable	639	554
Deferred policy acquisition costs	1,323	1,570
Assets of managed investment entities	2,432	
Other receivables	309	542
Variable annuity assets (separate accounts)	526	549
Other assets	693	577
Goodwill	208	208
 Total assets	 \$ 30,526	 \$ 27,683
 Liabilities and Equity:		
Unpaid losses and loss adjustment expenses	\$ 6,070	\$ 6,412
Unearned premiums	1,555	1,568
Annuity benefits accumulated	11,897	11,335
Life, accident and health reserves	1,629	1,603
Payable to reinsurers	277	462
Liabilities of managed investment entities	2,209	
Long-term debt	851	828
Variable annuity liabilities (separate accounts)	526	549
Other liabilities	1,081	1,007
 Total liabilities	 26,095	 23,764

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Shareholders' Equity:			
Common Stock, no par value			
- 200,000,000 shares authorized			
- 108,647,517 and 113,386,343 shares outstanding	109		113
Capital surplus	1,190		1,231
Retained Earnings:			
Appropriated - managed investment entities	212		
Unappropriated	2,376		2,274
Accumulated other comprehensive income, net of tax	398		163
Total shareholders' equity	4,285		3,781
Noncontrolling interests	146		138
Total equity	4,431		3,919
Total liabilities and equity	\$ 30,526	\$	27,683

Table of Contents

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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenues:				
Property and casualty insurance premiums	\$ 572	\$ 612	\$ 1,151	\$ 1,187
Life, accident and health premiums	113	110	228	219
Investment income	294	299	589	599
Realized gains (losses) on securities (*)	11	15	15	(26)
Income (loss) of managed investment entities:				
Investment income	23		45	
Loss on change in fair value of assets/liabilities	(15)		(40)	
Other income	54	60	98	123
Total revenues	1,052	1,096	2,086	2,102
Costs and Expenses:				
Property and casualty insurance:				
Losses and loss adjustment expenses	302	278	606	550
Commissions and other underwriting expenses	207	226	411	425
Annuity benefits	118	103	226	211
Life, accident and health benefits	93	91	189	182
Annuity and supplemental insurance acquisition expenses	54	46	103	98
Interest charges on borrowed money	18	13	36	29
Expenses of managed investment entities	14		23	
Other operating and general expenses	88	133	187	233
Total costs and expenses	894	890	1,781	1,728
Operating earnings before income taxes	158	206	305	374
Provision for income taxes	58	74	117	132
Net earnings, including noncontrolling interests	100	132	188	242
Less: Net earnings (loss) attributable to noncontrolling interests	(8)	5	(26)	11
Net Earnings Attributable to Shareholders	\$ 108	\$ 127	\$ 214	\$ 231

Earnings Attributable to Shareholders per Common Share:

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Basic	\$.98	\$ 1.10	\$ 1.92	\$ 2.00
Diluted	\$.97	\$ 1.09	\$ 1.90	\$ 1.98
Average number of Common Shares:				
Basic	110.2	115.8	111.1	115.7
Diluted	111.8	116.5	112.5	116.5
Cash dividends per Common Share	\$.1375	\$.13	\$.275	\$.26

(*) Consists of the following:

CONSOLIDATED STATEMENT OF EARNINGS

Realized gains before impairments	\$ 27	\$ 66	\$ 52	\$ 101
Losses on securities with impairment	(20)	(70)	(34)	(254)
Non-credit portion recognized in other comprehensive income (loss)	4	19	(3)	127
Impairment charges recognized in earnings	(16)	(51)	(37)	(127)
Total realized gains (losses) on securities	\$ 11	\$ 15	\$ 15	\$ (26)

Table of Contents

AMERICAN FINANCIAL GROUP, INC. 10-Q
AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
(Dollars in Millions)

	Common		Shareholders		Equity		Noncon- trolling Interests	Total Equity
	Common Shares	Stock and Capital Surplus	Retained Earnings Appro.	Unappro.	Accum. Other Comp Inc. (Loss)	Total		
Balance at December 31, 2009	113,386,343	\$ 1,344	\$	\$ 2,274	\$ 163	\$ 3,781	\$ 138	\$ 3,919
Cumulative effect of accounting change			245	4	(4)	245		245
Net earnings				214		214	(26)	188
Other comprehensive income (loss), net of tax:								
Change in unrealized gain (loss) on securities					240	240	2	242
Change in foreign currency translation					(1)	(1)		(1)
Total comprehensive income						453	(24)	429
Allocation of losses of managed investment entities			(33)			(33)	33	
Dividends on Common Stock				(31)		(31)		(31)
Shares issued:								
Exercise of stock options	523,671	11				11		11
Other benefit plans	371,186	5				5		5
Dividend reinvestment plan	8,672							
Stock-based compensation expense		6				6		6
Shares acquired and retired	(5,642,355)	(66)		(85)		(151)		(151)
Other		(1)				(1)	(1)	(2)
Balance at June 30, 2010	108,647,517	\$ 1,299	\$ 212	\$ 2,376	\$ 398	\$ 4,285	\$ 146	\$ 4,431

Balance at December 31, 2008	115,599,169	\$ 1,351	\$	\$ 1,842	\$ (703)	\$ 2,490	\$ 112	\$ 2,602
Cumulative effect of accounting change				17	(17)			
Net earnings				231		231	11	242
Other comprehensive income (loss), net of tax:								
Change in unrealized gain (loss) on securities					356	356	2	358
Change in foreign currency translation					10	10	2	12
Total comprehensive income						597	15	612
Dividends on Common Stock				(30)		(30)		(30)
Shares issued:								
Exercise of stock options	54,350	1				1		1
Other benefit plans	169,076	2				2		2
Dividend reinvestment plan	12,065							
Stock-based compensation expense		6				6		6
Other		1				1	(1)	
Balance at June 30, 2009	115,834,660	\$ 1,361	\$	\$ 2,060	\$ (354)	\$ 3,067	\$ 126	\$ 3,193

Table of Contents

AMERICAN FINANCIAL GROUP, INC. 10-Q
AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(In Millions)

	Six months ended June 30,	
	2010	2009
Operating Activities:		
Net earnings, including noncontrolling interests	\$ 188	\$ 242
Adjustments:		
Depreciation and amortization	97	115
Annuity benefits	226	211
Realized (gains) losses on investing activities	(15)	30
Net purchases of trading securities	(9)	(38)
Deferred annuity and life policy acquisition costs	(97)	(82)
Change in:		
Reinsurance and other receivables	571	734
Other assets	10	40
Insurance claims and reserves	(329)	(491)
Payable to reinsurers	(185)	(230)
Other liabilities	(28)	(48)
Other operating activities, net	32	9
Net cash provided by operating activities	461	492
Investing Activities:		
Purchases of:		
Fixed maturities	(2,353)	(1,733)
Equity securities	(24)	(5)
Mortgage loans	(137)	(9)
Real estate, property and equipment	(54)	(21)
Proceeds from:		
Maturities and redemptions of fixed maturities	970	901
Repayments of mortgage loans	27	2
Sales of fixed maturities	932	778
Sales of equity securities	8	26
Sales of real estate, property and equipment	1	1
Change in securities lending collateral		49
Managed investment entities:		