S&P Capital IQ

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American Financial Group, Inc. NYSE:AFG

FQ3 2014 Earnings Call Transcripts

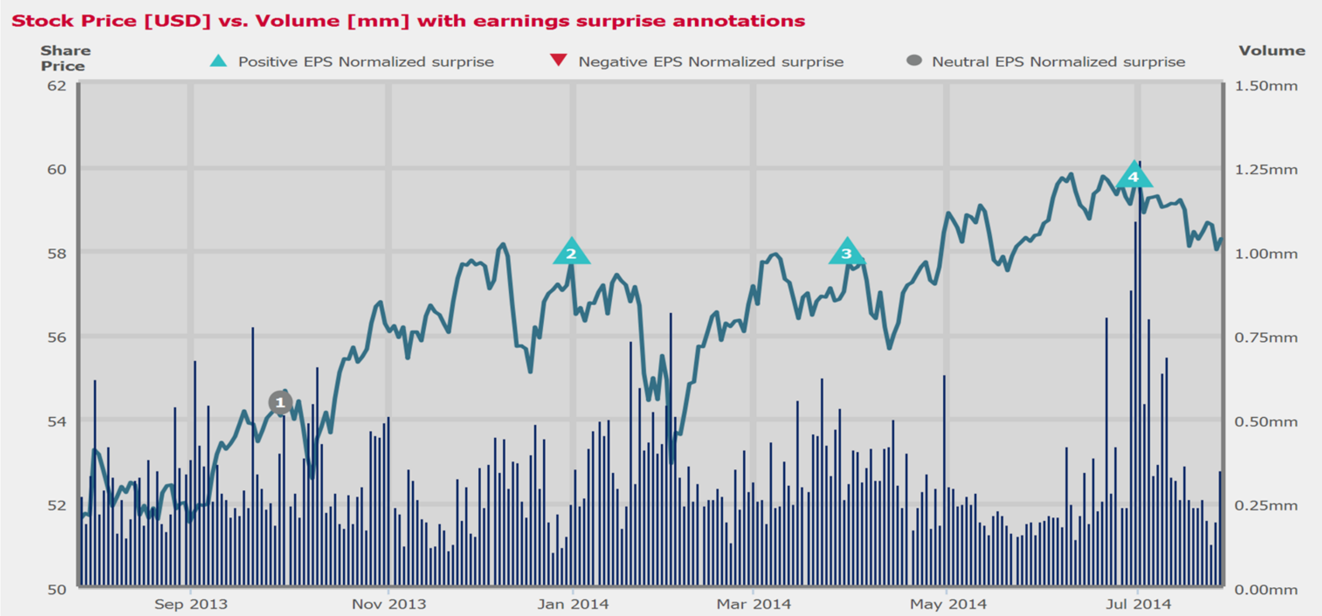
Wednesday, October 29, 2014 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.16	1.40	▲20.69	1.46	4.72	5.35
Revenue (mm)	1098.31	1132.00	▲3.07	1091.09	4024.40	4509.59

Currency: USD

Consensus as of Oct-29-2014 3:01 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	1.06	1.06	(1) 0.00 %
FQ4 2013	1.21	1.28	(2) ▲5.79 %
FQ1 2014	0.97	1.00	(3) ▲3.09 %
FQ2 2014	0.95	1.07	(4) ▲12.63 %

Call Participants

EXECUTIVES

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Craig Lindner
Former Co-President and Director

Diane P. Weidner
Assistant Vice President of Investors Relations

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

ANALYSTS

Christopher Martin

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Unknown Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the American Financial Group 2014 Third Quarter Results Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Diane Weidner. You may begin.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you. Good morning, and welcome to American Financial Group's Third Quarter 2014 Earnings Results Conference Call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Jeff Consolino, AFG's Chief Financial Officer.

If you are viewing the webcast from our website, you can follow along with the slide presentation if you'd like.

Certain statements made during this call are not historical facts and may be considered forward-looking statements, and are based on estimates, assumptions and projections, which management believes are reasonable, but by their nature, subject to risks and uncertainties.

The factors, which could cause actual results and/or financial condition to differ materially from those suggested by such forward-looking statements, include, but are not limited to, those discussed or identified from time to time in AFG's filings with the Securities and Exchange Commission, including the annual report on Form 10-K and quarterly reports on Form 10-Q.

We do not promise to update such forward-looking statements to reflect actual results or changes in assumptions or other factors that could affect these statements.

Core net operating earnings is a non-GAAP financial measure, which sets aside significant items that are generally not considered to be part of ongoing operations, such as net realized gains and losses, discontinued operations, and certain nonrecurring items.

AFG believes this non-GAAP measure is a useful tool for analysts and investors in analyzing ongoing operating trends and will be discussed for various periods during this call.

A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

If you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy, plus it may contain factual or transcription errors that could materially alter the intent or meaning of our statement.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Good morning. We released our 2014 third quarter results yesterday afternoon. I am assuming that our participants have reviewed our earnings release and the investor supplement posted on our website.

We're pleased to report core net operating earnings per share of $1.40 per share at 32% increase from the comparable prior year period. These results reflect solid Property and Casualty operating earnings and continued strong profitability in our Annuity segment, and set new AFG records for the third quarter, a 9-month core operating earnings per share.

Annualized core operating return on equity was 12.3% for the 2014 third quarter compared to 10% for the third quarter of 2013. Net earnings per diluted share were $1.28 and included $0.09 per share of realized gains and a charge of $0.21 per share related to the strengthening of our A&E reserves.

Annualized return on equity was 11.1%. Adjusted book value per share was $48.59 at September 30, 2014, up 6% from year end 2013.

Based on the results for the first 9 months of this year, we continue to expect AFG's 2014 core operating earnings per share to be in the range of $4.50 to $4.90.

Craig and I will discuss our guidance for each segment of our business a little later in the call.

During the third quarter we repurchased 1.4 million AFG common shares for $83 million, at an average price per share of $57.37.

We were pleased with the market's response to our September hybrid debt offering. Proceeds from the issuance of $150 million of 6.25% 40-year debentures provide equity credit to AFG and will be used for general corporate purposes, which may include the repurchase of common stock or the redemption of higher-yielding debt that becomes callable next September.

We also continue to grow our businesses. We've achieved year-over-year growth of 16% in average Annuity assets and reported an increase of 16% in net written premiums in our Specialty Property and Casualty Group.

Slides 4 and 5 of the webcast include an overview of results in our Specialty Property and Casualty operations.

On Slide 4, you'll see the gross and net written premiums were up 5% and 16%, respectively, in the 2014 third quarter compared to the same quarter a year earlier, due primarily to higher premiums in our Specialty Casualty Group, which includes results from Summit, our specialty Workers Comp's subsidiary acquired on April 1, 2014.

Strong growth in our Specialty Casualty Group was partially offset by premium declines in our Property and Transportation Group, resulting from the timing of premium recognition in our agricultural operations during the 2013 third quarter. By excluding Summit in our crop premiums, our Specialty Property and Casualty gross and net written premiums grew by 14% and 12%, respectively, during the third quarter of 2014. We are quite pleased with these results.

Specialty Property and Casualty insurance operations generated underwriting profit of $70 million for the third quarter in 2014 compared to $62 million in the third quarter of '13.

The third quarter 2014 combined ratio of 93.8% was virtually unchanged from the 2013 third quarter as was accident year underwriting profitability.

Third quarter 2014 Property and Casualty net investment income was about 17% higher than the comparable 2013.

[Audio Gap]

Net investment income was about 17% higher than the comparable

[Audio Gap]

Operator

[Technical Difficulty]

You may begin.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Sorry, about that. Third quarter 2014 Property and Casualty net investment income was approximately 17% higher than the comparable '13 period, reflecting the investment of cash received in the connection with the Summit acquisition.

There are 2/3 of our Property and Casualty businesses reported pricing increases during the third quarter, resulting in overall renewal rate increase of about 2%. This is the 12th consecutive quarter that we've reported overall price strengthening. Pricing continues to keep pace with loss cost trends in many of our businesses. Loss cost trends appear to be relatively benign across almost all of our Property and Casualty businesses.

On Slide 5 you'll see a few highlights from each of our Specialty Property and Casualty business groups.

Property and Transportation Group reported an underwriting profit of $11 million in the 2014 third quarter compared to underwriting profit of $16 million in the comparable prior year period.

I am pleased with the improved underwriting results in our Property and inland marine operations and in Great American's transportation business. Higher underwriting profits in these businesses -- they were offset by lower profitability in our agricultural operations.

The midpoint of AFG's earnings per share guidance that you'll see assumes breakeven results in our crop insurance business. The commodity price declines and hail damage from spring storms, we feel will likely offset strong yield forecasts that are out there right now.

Decreases in gross and net written premiums in this group were due primarily to lower 2014 commodity prices impacting our crop operations, coupled with higher than average crop premiums reported in the third quarter of last year. These decreases were partially offset by growth in our transportation businesses, primarily the result of rate increases.

Excluding our crop insurance business, gross written premiums in this group increased by 6%, and net written premiums increased by 4% compared to the 2013 third quarter.

I am pleased to see continued rate momentum in this group.

Overall renewal rates increased 5% on average for the quarter with our National Interstate subsidiary achieving a 9% rate increase.

The Specialty Casualty Group reported strong underwriting profit of $32 million in the third quarter of 2014 compared to $19 million in the third quarter of '13. I'm particularly pleased that our Workers' Compensation businesses overall have continued to generate solid underwriting profitability, and results from Summit continue to exceed our expectations. Most businesses in this group produced strong accident year underwriting profit margins through the first 9 months of '14.

We did do a little bit of fine tuning of reserves in our mid-continent subsidiary involving incremental adjustments across multiple accident years. Even with this reserve strengthening, accident year results in this line of business have been excellent.

Growth has been strong in this group, the result of acquisitions and underlying organic growth. But all businesses in this group reported growth year-over-year. The acquisition of Summit and the successful renewal of a recently acquired block of public-sector business along with the growth in our Workers' Comp, compensation, E&S, and nonprofit social services businesses were the primary drivers of higher premiums.

Excluding premiums from Summit and our public-sector business, gross and net written premiums grew each group 17%. Pricing in this group was up about 1% on average for the quarter. After about 4 years of rate increases in our -- on our Workers' Compensation in excess and surplus lines businesses, we're experiencing some rate deceleration as a result of the excellent underwriting profit margins that we have in these businesses.

Specialty Financial Group continued to deliver stellar results reporting underwriting profit of $21 million and a combined operating ratio of 81.6% in the third quarter. Nearly all the business -- businesses in this group achieved excellent underwriting margins.

Gross and net written premiums were both 2% lower in the 2014 third quarter when compared to the same 2013 period. Growth in gross written premiums was tempered by the October 13 sale of a service contract business, which exceeded all of its premiums under reinsurance contracts. Pricing in this group was down approximately 2% for the third quarter, primarily the result of small rate declines in our lender-placed mortgage property business.

Please turn to Slide 6 for an overview of the 2004 -- '14 outlook for the Specialty Property and Casualty operations. We have mirrored our estimate for expected growth in net written premiums to be in the range of 18% to 21% from the range of 17% to 21% previously estimated. Excluding Summit, growth in net written premiums is expected to be in the range of 6% to 9%, a change from the 5% to 9% estimated previously.

We now estimate a combined ratio between 93% and 95%, narrowed slightly from the range of 92% to 95% estimated previously. Through the first 9 months of '14, we've reported a combined ratio of 94.4%.

Now looking at our Specialty Property and Casualty groups, we now expect net written premiums in our Property and Transportation Group to be in the range of down 1% to up 1% when compared to '13 levels. It's a more narrow range than our previous estimate of minus 2% to positive 2%.

Excluding the impact of our crop insurance business, we expect growth in net written premiums to be in the range of 3% to 5%, a slight decrease from growth of 3% to 6% estimated previously. Based on the results through the first 9 months of 2014, the combined ratio in this group is now estimated to be in the range of 98% to 100%, narrowed a bit from the 96% to 100% estimated previously.

The midpoints of our revised combined op ratio guidance for the overall Property and Casualty Group and Property and Transportation Group assume breakeven results for crop.

Net written premiums in our Specialty Casualty Group are expected to grow in the range of 50% to 53%, narrowed slightly from the range of 49% to 53% estimated previously. Excluding Summit, we now expect growth in this group to be between 19% and 22%, an increase from the previous estimated growth of 16% to 20%. Our estimate for the combined ratio in this group is in the range of 91% to 93%, a slight increase from the range of 89% to 93% estimated previously.

And we now expect net written premiums in our Specialty Financial Group to be flat to up 3% when compared to our 2013 results. It's a slight decrease from the growth of 0% to 4% we estimated previously. Our estimate for the combined ratio in this range, in this group, is in the range of 86% to 88%, an improvement from the range of 87% to 91% estimated previously.

And now, we are targeting overall average renewal rate increases for this year for the Specialty Property and Casualty Group to be in the range of 2% to 3%, slightly lower than the 3% to 4% previously estimated.

We are expecting Property and Casualty net investment income to grow by 13% this year as a result of the cash received in connection with the Summit acquisition. This is a slight decrease from the 14% growth previously estimated.

Now I'll turn the discussion over to Craig to review the results in our Annuity segment and discuss AFG's investment performance.

Craig Lindner
Former Co-President and Director

Thank you, Carl. The Annuity segment reported core pretax operating earnings of $86 million in the 2014 third quarter compared to $78 million in the comparable 2013 period. A 10% increase is shown on Slide 7.

Interest rate in stock market fluctuations have an impact on the accounting for fixed-indexed annuities, and these accounting adjustments are recognized through AFG's core earnings.

On this slide, you'll see that the fair value accounting related to fixed-indexed annuities had a minor impact on our third quarter results in 2014 and no material impact on 2013 third quarter results.

Annuity premiums were $809 million in the third quarter of 2014, a decrease of 31% from the comparable prior year period. Our disciplined approach to product pricing and a declining interest rate environment, along with increased levels of competition resulted in lower premiums across all single premium product lines during the 2014 third quarter.

In contrast, a rising interest rate environment in 2013 resulted in nearly $1.2 billion in annuity premiums in the 2013 third quarter, which was a record for us.

Turning to Slide 8 you'll see that AFG's 2014 earnings continue to benefit from growth in annuity assets. AFG's quarterly average annuity investments have grown by 16% year-over-year. The impact of the growth at Annuity assets was offset by the runoff of higher yielding investments as shown by the 12-basis-point decline in net interest spread.

Our net spread earned during the 2014 third quarter was 148 basis points, only 2 basis points lower than the comparable prior year period.

Additional information about the components of these spreads for AFG's fixed annuity operations can be found in AFG's Quarterly Investor Supplement posted on our website.

Please turn to Slide 9 for an overview of the 2014 outlook for the Annuity segment. We continue to expect average fixed annuity investments and average fixed annuity reserves to grow by 15% to 18% in 2014. The decrease in interest rates in October is likely to put downward pressure on core annuity earnings in the fourth quarter due to the fair value accounting for fixed-indexed annuities. As a result, we expect that full year 2014 core pretax annuity operating earnings will be in the range of $315 million to $325 million compared to the $328 million reported for the full year of 2013.

We estimate that our net spread earned, which is the basis for GAAP recorded earnings, will be 20 to 25 basis points lower than the 160 basis points achieved for the full year of 2013. This estimated decrease includes the negative impact of fair value accounting in 2014, including the October decrease and interest rates. Excluding the impact of fair value accounting, we estimate that our net spread earned in 2014 will approximate the net spread earned in 2013.

We remain committed to our disciplined product pricing strategy, which means that our focus is on growing our business when we can achieve desired long-term returns.

The competitive environment and decreasing interest rate environment in 2014 has slowed the pace of our annuity sales, especially when compared to the record level of sales we achieved in the second half of 2013. As a result, based on information currently available, we now expect that premiums for the full year of 2014 will be approximately $3.6 billion, which would be the second highest level of annuity sales in AFG's history. These estimates do not reflect any positive or negative impact from our fourth quarter unlocking review of the company's major actuarial assumptions in its fixed annuity business. Significant changes in interest rates and/or the stock market from today's level could lead to additional positive or negative impacts on the Annuity segment's results.

In addition, in the fourth quarter we will complete loss recognition testing of the major actuarial assumptions for our runoff long-term care business.

Although AFG had loss recognition margin of $64 million in its long-term care operations as of 12/31/2013, further continuation of the recent low interest rate environment, including the drop in interest rates during October of 2014, will reduce that margin.

In addition, with the assistance of an external actuarial consulting firm, we are analyzing other assumptions that could have an impact on the loss recognition margin, including projected long-term care claims and persistency.

In the event that the updated loss recognition testing assumptions result in a cumulative adverse impact in excess of $64 million, AFG would record a loss recognition charge equal to that amount.

Please turn to Slide 10 for a few highlights regarding our $35 billion investment portfolio.

AFG recorded third quarter 2014 net realized gains on securities of $8 million after tax and after deferred acquisition costs compared to $35 million in the comparable prior year period. Unrealized gains on fixed maturities were $602 million after-tax, after DAC, at September 30, 2014, an increase of $161 million from year end. Unrealized gains on equities were $124 million after-tax at September 30, 2014, an increase of $2 million from year end.

As you'll see on Slide 11, our portfolio continues to be high-quality with 86% of our fixed maturity portfolio, rated investment grade, and 97% with an NAIC designation of 1 or 2, its highest 2 categories. We've provided additional detailed information on the various segments of our investment portfolio in the Quarterly Investor Supplement on our website.

I will now turn the discussion over to Jeff, who will wrap up our comments with an overview of our consolidated third quarter 2014 results.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Thank you, Craig. Good morning, everyone. I'm starting on Slide 12. Core net operating earnings per share in this quarter were $1.40. This is up 32% from 1 year ago. The $1.40 is based on core pretax operating earnings in the quarter of $187 million, as you can see on the slide. Compare that to the $148 million reported in the year-ago quarter, this is an increase of $39 million year-over-year. When you do the math on the components in the $39 million, our P&C segment gave us $17 million of this increase.

The Annuity segment gave us $8 million. The positive reversal and the Run-off Long-Term Care and Life Segment yielded a $5 million swing in core pretax operating earnings as the segment flipped from a loss 1 year ago to a modest profit. Add in a decrease of $9 million and other expenses and that totals to the $39 million lift to core pretax operating earnings in the quarter.

As to what drove that pickup, P&C core pretax operating earnings rose by $17 million, not only due to the $8 million in increased underwriting profits but also an additional $11 million as segment net investment income as the average P&C invested assets grew by $1.5 billion year-over-year, thanks to the Summit acquisition and operating cash flow.

As you can see on Page 4 of the Investor Supplement, that the movement in other expenses for the P&C segment was adverse by about $2 million in the quarter. This is primarily the amortization of Summit's acquisition intangibles, which run at about $7 million per year. Put these items together and that's your $17 million improvement in the P&C segment core pretax.

I also noted that the other expense, $9 million improvement to $13 million. This is largely the result of a third party fee income paid this quarter to our American Money Management subsidiary. This $13 million was $22 million 1 year ago and $21 million last quarter. I will look for other expense to be at that higher level going forward.

Let's move on to Slide 13. Our $1.40 of diluted core EPS translates to $1.28 of diluted earnings per common share. This is due to realized investment gains of $8 million equal to $0.09 per share, offset by a special A&E charge of $19 million after tax or $0.21 per share.

The bottom of Slide 13 provides additional details about the special A&E charge.

There were no new or emerging broad industry trends identified in this year's internal review. Our 3-year adjusted survival ratio continues to exceed that of the P&C industry, which you can see in our earnings press release.

Moving to Slide 14. You'll see that AFG's adjusted book value per share was $48.59 at September 30, 2014, its highest level ever. Our excess capital started approximately $920 million at September 30, 2014. This is $180 million higher than last quarter's figure of $740 million. The increase is thanks to our issuance of $150 million of 40-year 6.25% hybrid in September.

We earned net income of $116 million in the quarter and returned $103 million to our shareholders through dividends and share repurchases. We expect to continue to return excess capital through the remainder of 2014.

The volatile stock market during the third quarter provided an opportunity to pick up the pace of our share repurchases. As a result, we repurchased $83 million of AFG common stock during the third quarter after buying 1.4 million shares during the third quarter. As of October 28, there are approximately 3.2 million shares remaining under our share repurchase authorization.

On Slide 15, you'll find a recap of the 2014 guidance for AFG's core net operating earnings, as well as guidance reviewed earlier in the call for key financial measures in the Specialty Property and Casualty Group and for the Annuity segment.

AFG has expected 2014 results, exclude non-core items, such as realized investment gains and losses, as well as other significant items that may not be indicative of ongoing operations. To the extent that AFG core diluted EPS are anywhere in the range of $4.50 to $4.90. That would be a record for us, beating the $4.26 recorded in 2009. That sounds to me like a good place to end.
Now we'd like to open the lines for any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Amit Kumar of Macquarie.

Christopher Martin

This is actually Chris Martin on today. So 2 quick questions on the crop book. So you say that sort of that the midpoint of your guidance assumes a breakeven on the crop business. Given the way corn and soybeans have rallied so far in October, how are you sort of thinking about your book going to the fourth quarter?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

This is Carl. As of, I think, October 27, and when you look at the average, the discovery period in October, the corn is -- September [ph] '14 corn's futures is down about 25% and the soybean contract is down 16%, which is still significant. The rally has helped some, but it's kind of coming a little too late to really move that 30-day average, which is kind of the -- that's what the discovery prices for settling claims or determining claims. And I think the big thing in our case is we understand that the yields, the prospective yields, seem to be pretty strong. But until we get through and settle all the claims, those are pretty big price declines. And I think the other difference with us is we had quite a bit of hail damage from the spring storms versus the previous year. Did you get all that?

Christopher Martin

Yes, got it. That's very helpful. So you're also saying that it could break even, is what you're saying?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, that's at the breakeven. It should be at the midpoint of our guidance range and also midpoint of Specialty Property and Transportation and overall Property and Casualty combined ratio ranges. [indiscernible]

Christopher Martin

Got it. And that's very helpful. And this is sort of a follow-up on that. Can you remind us on where your reinsurance protection kicks in on the crop book?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Well, our stop loss cover kicks in, I think, at around 100% [indiscernible]

Operator

Our next question comes from Ryan Byrnes of Janney Capital.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Just had a question about that $64 million recognition margin for the long-term care block. I'm imagining that is not included in book value. But can you just confirm that is not? And...

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

That is not included in book value. No.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. And then...

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Margin that exists is we're doing the actuarial review and putting new assumptions in place potentially related to future reinvestment rates. That's the margin that exists before we would have any kind of a loss recognition charge.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Great. And then what kind of rate increases are you guys getting in that block? I'm just trying to figure out what kind of persistency you're getting for -- on renewals? And what kind of rate increases you guys are trying to push through with state regulators right now?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, it varies state-by-state. Some states are a lot more willing to give rate increase -- significant rate increases than others. I don't -- off top of my head I can't tell you what the average has been recently. On average, they're significant, but not enough to make up for decline in interest rates and so forth versus what was priced into the products.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. Great. And then my last one, again, is just sticking with the Annuity side of the house. If interest rates stay in this mid-2 range, should we think of that as a headwind for growth into next year as well, both on sales and in earnings perspective?

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

I mean, if they would truly stay at these rate levels and not move, I think that would be a headwind. I mean, there are things we do. We're going to be disciplined in the pricing. There are other things that we can do in that kind of environment to help with the profitability. Obviously, we've -- we need to adjust some of the credit rates if rates don't move up in the future. So there are certain things we can do to try to maintain spreads. But we certainly would rather see a rising interest rate environment. A gradually rising interest rate environment would be ideal for us.

Operator

[Operator Instructions] Our next question comes from the line of Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. You did have some adverse reserve development in the Casualty book, and I'm wondering if you could talk more about that. What gave rise to that? And what specific lines of business? And then secondly, I think, Jeff, or someone mentioned, you have callable debt next year. Can you talk about what the date is when you can call it? And what the interest rate is on that debt?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Jay, this is Jeff. The callable debt becomes callable in September of 2015. And it's at a comparable interest rate to the hybrid that we issued. So what we said and these proceeds for the hybrid was that we would use the proceeds for the hybrid to redeem that debt, unless we use it for other corporate purposes in the interim. So at the very least, we're viewing that as taking out a debt security and improving our capital structure with no additional cost because of the equity feature of the hybrid. And to the extent that we surprise ourselves and find a way to deploy the capital at a higher return and then we use the capital for that purpose.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it.

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

As for the adverse development, I don't think there is really much to add in this Specialty Casualty segment beyond what Carl said. This was a liability book of business in our Specialty Casualty segment. We chose to tweak our actuarial assumptions, which resulted in some reserve addition. But as Carl said, the accident year results for that business is still very favorable, so it's still running well. We just took a slightly more conservative stance in the quarter as it relates to reserves.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes. That subsidiary has outstanding results.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I didn't hear that last bit. Sorry.

Carl H. Lindner
Co-Chief Executive Officer, Co-President and Director

Yes, the -- that mid-continent subsidiary has had outstanding underwriting profitability across the last 5 to 7 years, and it's just a little less outstanding. Think of it that way.

Operator

Our next question comes from the line of Paul Soran [ph] with Mesirow Financial [ph].

Unknown Analyst

I just wanted to ask about the guidance for the full year. It implies, I think, if the math is right, around $1.03 to $1.43 for the fourth quarter versus, I think, The Street estimates around $1.54, and you did $1.40 this quarter. So I know you lowered annuities -- annuity earnings guidance, so that accounts for a little bit of it and you have the new sub debt, which is worth a couple of pennies. But is there anything else that kind of helps bridge that difference that you could touch on?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Sure, this is Jeff Consolino. The major difference that you would have seen relative to fourth quarter's fray up you haven't touched on, is crop. We tend to recognize the bulk of our crop profitability late in the year and in the fourth quarter. Now we're saying that our expectation based on currently available information is that will be breakeven. So that's the major difference in the numbers. You talked about $1.03 to $1.43.

Unknown Analyst

Okay. Have you said where that crop book is -- has been booked year-to-date or for this quarter?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Yes. We haven't booked any profit year-to-date. We generally -- we're probably pretty conservative in how we look at that business. Generally, we book most of that profit generally when you look in years past in the fourth quarter. Because the reality is, until you see what claims you get and what the fall discovery prices are for corn and soybeans, you don't have a very complete picture. You can guess and that. So we're generally more conservative. So usually we'll report something in the third quarter, a little bit, if we think it's a great year and -- but most of the time it's really left to where we really get a good field, even early on into the following year if you probably get the best field where you're at. So it's year-end earnings that we can reflect most accurately in our crop hail profitability.

Unknown Analyst

Okay. So I was just trying to understand if there -- if you -- if it comes in at breakeven as you're guiding to, there wouldn't be a catch up charge to reverse profits from earlier in the year, which sounds like there's not. So that's fine. One question on the long-term care actuarial review. Do you have any sense of activities you can provide around interest rates or other assumptions? In particular, do you know what kind of an average lapse rate assumption you have built into reserves right now?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

If you go to our 10-K, you'll see assumptions that were used if the -- when we did the last study at the end of 2012. There's a sensitivity table also on the impact of changes in assumptions related to morbidity, lapses, interest rates, rate increases, and so forth. So I think you get the information you need there. I will make one point to you though. As we are looking at putting new assumptions in place related to reinvestment rates, the table that you see in the 10-K assumes that when interest rates decline, which they have, if we look at where interest rates are today versus where they were at the end of the year, say 2013, on the 10-year treasury rates have decline by about 70 basis points. The sensitivity table that you see related to interest rates assumes that those rates stay down forever, basically. So in other words, the ultimate reinvestment rate would be 70 basis points lower than what was put in place when this calculation was done. We think it's probably more appropriate to have a reversion to the mean at some point down the road, which would make these numbers a bit smaller than what's reflected in the table. The other thing that I'd mentioned to you is even the rates have declined this year, we've been able to outperform the assumed reinvestment rates so far year-to-date. So, anyway, long way of saying, is it relates to impact of change in interest rates. We're going to be taking a hard look at that between now and year end. And the numbers could be different than what you might calculate if you just look at the table in the 10-K.

Unknown Analyst

Okay. I will take a look at that. I appreciate that. Any comments on lapse rates on the book?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

Yes, let me see if I can put my hands on that. I know there is something -- some disclosure in the 10-K, I believe, related to that. Let me see if I can put my hands on that. I do not have that here. I can tell you that, that was one of the adjustments in the -- when we did the review back at the end of 2012, was to assume far lower lapse rates than what had been assumed before that. I believe that is disclosed in the 10-K, though.

Unknown Analyst

Okay, and -- sorry for taking up too much time. If I could sneak one in -- one more question. Was there anything that prompted this -- prompted you to revisit the reserves this year, this quarter?

Joseph E. Consolino
CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd

That's something we do every couple -- we do a -- an internal review throughout the year, but typically we do an external review every couple of years.

Operator

[Operator Instructions] And I'm showing no further questions at this time. I'd like to hand the call over to Diane Weidner for any closing remarks.

Diane P. Weidner
Assistant Vice President of Investors Relations

Thank you for joining us this morning for a discussion about AFG's third quarter results. This concludes our call for today. Thank you.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Have a great day, everyone.