30 September 2020
Equity Research
Americas | United States

CREDIT SUISSE

American Fnl Grp

AFG

High Quality Multi-Line Franchise On Sale: Initiating at Outperform; $95 Target Price

Property & Casualty Insurance | Initiation

Target price (12M, US$)
95.00
Outperform

- **Conclusion – Playing Some Offense While Others Retrench: We are initiating on AFG with an Outperform rating and $95 target price.** AFG has a top-quartile P&C risk/return profile as measured by its double-digit RoE vs. profit volatility, and we estimate it will be able to take advantage of the current hardening P&C pricing cycle more so than peers, given its healthy capital/earnings/reserve levels combined with leverage to pockets of the insurance marketplace where capacity is tighter/pricing is higher—namely, in the broader large-employer and excess & surplus sandboxes, as well as in the commercial auto/trucking line of business.
- **More "Plain-Vanilla" Life Portfolio:** With regard to the life insurance side of the business, while low interest rates and aggressive competitive sales dynamics are an EPS headwind, we have found that AFG's annuity portfolio is simpler and less reliant on deferred acquisition cost (DAC) profit assumptions should interest rates continue their downward trend (recall, DAC is industry jargon for sales commission expenses to brokers that are amortized based on estimated future profits). These facts make us more comfortable that neither outsized DAC charges nor new GAAP life insurance accounting rules will impair the life segment's balance sheet in the years to come. Furthermore, should shares continue to languish at <1.35x price/book value multiples, we would expect management to continue to favor buybacks over M&A. Longer term, the fact that management is a ~21% shareholder means that a potential break-up of the P&C/Life segments is an option that could more easily be used, especially given our view that the life portfolio is more transparent and less risky than peer comps.
- **Valuation, Catalysts and Risks:** AFG trades at only 8.0x our 2021 EPS of $8.31, equal to 39% of the S&P 500's multiple, a 35pt discount to AFG's historical average. We believe the current valuation does not fully reflect the potential for margin expansion in its specialty P&C segment and the lower-risk nature of its life business. Our sum-of-the-parts valuation ascribes a 13.2x multiple to its P&C business and a 6.0x multiple to its Annuity business, yielding a target price equal to $95, 11.4x our 2021 EPS, equal to 56% of the S&P 500 multiple, a ~18pt discount to AFG's historical average. Key risks include lower reserve releases should tort inflation accelerate in 2021, potential for continued COVID-19 losses, and shrinkage in the annuity business.

Price (29 Sep 20, US$)	66.15
52-week price range	114.53 - 46.98
Enterprise value (US$ m)	3,159

Research Analysts

Michael Zaremski
212 325 5061
michael.zaremski@credit-suisse.com

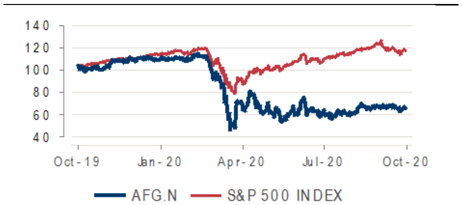
Charles Lederer, CPA
212 538 1822
charles.lederer@credit-suisse.com

Financial and valuation metrics

Year	12/19A	12/20E	12/21E	12/22E
EPS (Adj.) (US$)	8.65	6.75	8.31	7.86
Prev. EPS (Adj.) (US$)				
P/E (x)	7.65	9.80	7.96	8.42
BVPS (excl. AOCI) (US$)	69.42	71.92	77.97	83.31
BVPS (incl. AOCI) (US$)				
Price/BVPS (excl. AOCI) (x)	0.95	0.92	0.85	0.79
Price/BVPS (incl. AOCI) (x)	0.95	0.92	0.85	0.79
ROE (AVG) (%)	14.0	9.7	11.3	9.9
EOP diluted shares outstanding	88.11	Dividend (US$)		1.85
Dividend yield (%)	2.72			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 29-Sep-2020 the S&P 500 INDEX closed at 3335.47Daily Sep30, 2019 - Sep29, 2020, 09/30/19 = US$106.08643679999999

Quarterly EPS	Q1	Q2	Q3	Q4
2019A	2.03	2.13	2.26	2.22
2020E	1.88	1.05	1.68	2.15
2021E	2.13	2.18	1.58	2.42

CREDIT SUISSE

American Fnl Grp (AFG)

Price (29 Sep 2020): **US$66.15** Target Price: **95.00**

Analyst: **Michael Zaremski**

Rating: **Outperform**

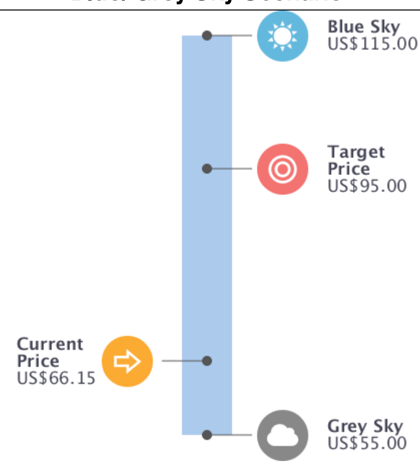
Per share	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Average shares outstanding (diluted)	91	90	89	89
EPS (CS adj.) (US$)	**8.65**	**6.75**	**8.31**	**7.86**
Prev. EPS (CS adj.) (US$)				
Book value per share (excl. AOCI) (US$)	69.42	71.92	77.97	83.31
Book value per share (incl. AOCI) (US$)				
Income Statement (US$M)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Net Earned Premium	5,185	4,899	5,112	5,427
Net investment income	2,303	2,124	2,204	2,170
Pre-tax profit	**821**	**591**	**897**	**850**
Income tax (expense)	**-**	**-**	**-**	**-**
Adjusted net income	**897**	**217**	**738**	**700**
Balance Sheet (US$M)	**12/19A**	**12/20E**	**12/21E**	**12/22E**
Shareholders' equity	-	-	-	-
Shareholders' equity (ex AOCI)	6,269	6,283	6,799	7,298
Profitability and Valuation	**12/19A**	**12/20E**	**12/21E**	**12/22E**
ROE (Avg.) (%)	14.0	9.7	11.3	9.9
Dividend yield (%)	7.5	2.8	3.1	3.4
Price / BVPS (incl. AOCI) (x)	0.95	0.92	0.85	0.79
Combined Ratio (%)	96.35	94.70	91.48	91.56

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

AFG is an insurance company that issues property & casualty and annuity policies, primarily in the United States via independent agents. Its property & casualty focus is primarily on specialty lines of business.

Blue/Grey Sky Scenario



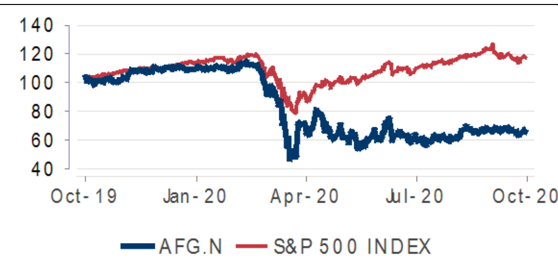
Our Blue Sky Scenario (US$) **115.00**

Our $115 blue sky scenario embeds continued rate acceleration in the P&C book, with COVID-19 charges tailing off sequentially in 2H'20, and a healthy 2021 crop season in addition to muted social inflation trends driving margin expansion for AFG. In the annuity book, our blue sky embeds strong persistency with some recovery in spreads as AFG's cost of funds reductions work its way through the book into 1H'21.

Our Grey Sky Scenario (US$) **55.00**

Our $55 grey sky scenario embeds rate deceleration in the P&C book, with COVID-19 charges continuing into 2021, a poor 2021 crop season, and an acceleration in social inflation trends driving topline declines and margin contraction for AFG. In the annuity book, our grey sky embeds weaker persistency, and volatility in its alternative investment book, driving continued lower levels of annuity income.

Share price performance

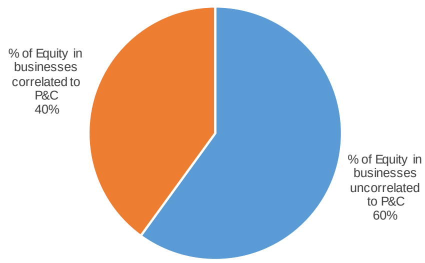


On 29-Sep-2020 the S&P 500 INDEX closed at 3335.47
Daily Sep30, 2019 - Sep29, 2020, 09/30/19 = US$106.08643679999999

Table of Contents

Key Charts

Figure 1: AFG's Business Is Less Correlated To General Property & Casualty Risks*



Source: Company data, Credit Suisse estimates.

*-Uncorrelated businesses include equine and crop insurance, and the annuity business.

Figure 2: Annual 2014-19 Return on Equity Results, Select Small-/Medium-Sized and Specialty P&C Insurers

Ticker	2014	2015	2016	2017	2018	2019	2020E	2021E	2014-19 Avg	2014-19 Std. Dev.
AFG	11%	12%	12%	**13%**	**16%**	**15%**	11%	**13%**	**13%**	2.0%
TRV	**15%**	**14%**	**13%**	9%	11%	11%	9%	10%	12%	2.3%
SIGI	12%	12%	11%	10%	10%	14%	9%	10%	12%	**1.3%**
WRB	**15%**	10%	12%	10%	10%	11%	6%	11%	11%	1.8%
THG	9%	11%	7%	8%	13%	13%	**12%**	11%	10%	2.3%
CINF	9%	12%	10%	8%	8%	8%	6%	7%	9%	1.4%
HIG	8%	9%	5%	6%	12%	14%	11%	11%	9%	3.1%

Source: Company data, Credit Suisse estimates.

Note CINF's RoE is partially suppressed due to its investment portfolio being skewed toward equities, from which only dividends (and not unrealized/realized gains) is included in its operating income.

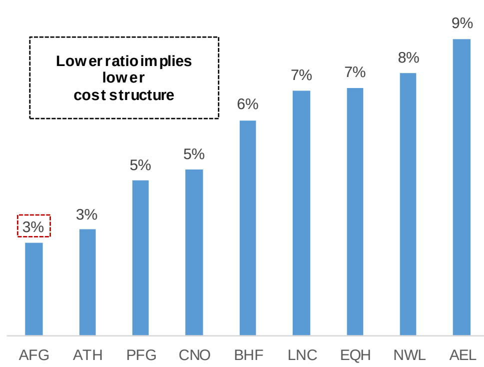
Figure 3: P&C Reserve Development*, Select Small-/Medium-Sized and Specialty P&C Insurers

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	Avg develop-ment 2012-19	Standard deviation 2012-19
AFG	-3%	-2%	-1%	-1%	-1%	**-3%**	**-4%**	-4%	-4%	**-3%**	-2.6%	1.4%
CINF	**-11%**	-3%	-2%	**-4%**	**-4%**	-2%	-3%	**-4%**	**-6%**	-2%	**-4.0%**	2.8%
HIG	0%	2%	2%	2%	4%	0%	-2%	-1%	-2%	0%	0.6%	2.0%
SIGI	6%	3%	-3%	-3%	-3%	-2%	-2%	-2%	-2%	-1%	-0.9%	3.0%
THG	0%	-2%	-2%	-2%	2%	-1%	0%	-1%	0%	0%	-0.6%	1.5%
TRV	-4%	**-4%**	**-4%**	**-4%**	-3%	-2%	-1%	2%	-1%	0%	-2.2%	2.0%
WRB	-2%	-2%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	-0.9%	**0.6%**

Source: Company data, Credit Suisse estimates.

*Negative = favorable/redundant and a source of income; positive = unfavorable/deficient and a source of losses

Figure 4: Ratio – DAC as % of Reserves, 2017-19 Average



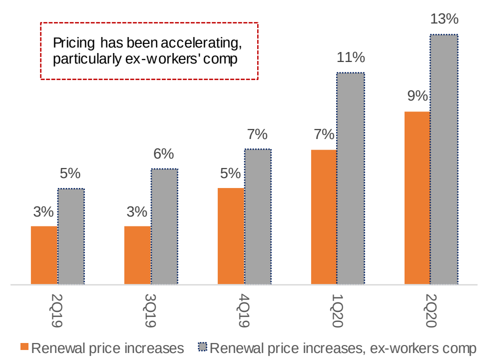
Source: Company data, Credit Suisse estimates

Executive Summary

- **Stock Call: Current Valuation Does Not Fully Reflect AFG's Leading RoE Profile:** AFG has a top-quartile P&C risk/return profile as measured by its double-digit RoE vs. profit volatility, and we estimate it will be able to take advantage of the current hardening P&C pricing cycle more so than peers, given its healthy capital/earnings/reserve levels combined with leverage to pockets of the insurance marketplace where capacity is tighter/pricing is higher— namely, in the broader large-employer and excess & surplus sandboxes, as well as in the commercial auto/trucking line of business. As we explain below, we also view its annuity book as lower risk/less volatile, with lower upfront commission costs.

- **P&C Business Poised for Margin Expansion:** While pricing tailwinds have been reported throughout the P&C industry in recent quarters, AFG's pricing acceleration looks to be faster than its peers, and its reserves appear relatively conservative in three of its four primary lines of business. Together, this should pave the way for margin expansion and a continuation of its strong reserve release trends.

Figure 5: AFG P&C Renewal Price Trends



Source: AlphaSense transcripts, Credit Suisse research

Figure 6: 2Q'20 Pricing/Rate Growth Divided by 2Q'19, AFG vs. Peers

	A	B	A/B
Ticker	2Q20 Y/Y Pricing Growth	2Q19 Y/Y Pricing Growth	Accel-eration Trend
AFG	9%	3%	3.0x
WRB	13%	5.5%	2.4x
CB	14%	6.8%	2.1x
TRV	7.4%	3.6%	2.1x
HIG	3.6%	2.1%	1.7x
THG	5.1%	3.7%	1.4x
SIGI	3.9%	3.1%	1.3x

Source: AlphaSense transcripts, Credit Suisse estimates

- **AFG's Annuity Business Appears to Have Lower Risk Profile:** AFG's annuity portfolio is simpler and less reliant on deferred acquisition cost (DAC) profit assumptions should interest rates continue their downwards trend. These facts make us more comfortable that neither outsized DAC charges nor new GAAP life insurance accounting rules will impair the life segment's balance sheet in the years to come. Furthermore, should shares continue to languish at current <1.35x price/book value multiples, we would expect management to continue to favor buybacks over M&A. Longer term, the fact that management is a ~21% shareholder means that a potential break-up of the P&C/Life segments is an option that could more easily be used, especially given our view that the life portfolio is more transparent and less risky than peer comps.

Figure 7: Statutory Commission and General Expense Ratios, AFG vs. Peers

	AEL	AFG	ATH	BHF	CNO	EQH	LNC	NWLI	PFG	Industry
Individual Annuity Mkt Share	2%	2%	3%	3%	1%	4%	7%	0%	2%	100%
Commission Ratio, 2019	10%	5%	34%	12%	12%	8%	11%	11%	10%	9%
Commission Ratio, 2015-19	12%	6%	39%	11%	12%	9%	13%	12%	10%	10%
Commission Ratio, 2010-19	11%	6%	39%	10%	12%	10%	11%	12%	12%	9%
General Expense Ratio, 2019	2%	2%	11%	17%	19%	8%	9%	12%	17%	10%
General Expense Ratio, 2015-19	2%	2%	22%	14%	19%	7%	11%	8%	19%	10%
General Expense Ratio, 2010-19	2%	2%	23%	12%	18%	7%	9%	6%	23%	10%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Figure 8: AFG DAC as % of Reserves and Equity

	AEL	AFG	ATH	BHF	CNO	EQH	LNC	NWL	PFG
DAC as % of Reserves, 2019	8%	2%	3%	6%	5%	6%	6%	7%	4%
DAC as % of Reserves, 2017-2019	9%	3%	3%	6%	5%	7%	7%	8%	5%
DAC as % of Reserves, 2015-19	10%	3%	3%	-	5%	8%	8%	8%	5%
DAC as % of Equity ex-AOCI, 2019	159%	26%	35%	38%	37%	41%	55%	35%	26%

Source: Company data, Credit Suisse estimates

- **Two other points worth noting:**
  - **#1) Management's Annual and Long-Term Incentive Compensation Programs Align Interests With Investors:** Our analysis of management's incentive compensation hurdles within the company's proxy points to a long history of shareholder friendly double-digit RoE hurdles in which maximum overall bonus levels have not been fully attained in recent years. As we illustrate in the figures below, AFG's discretionary compensation program incentivizes the achievement of targets in both the P&C and Life businesses, as well as on an overall basis, both in terms of core income and book value growth.

Figure 9: Co-CEO Annual Incentive Compensation Payouts vs. Stipulated Target and Maximum Bonus

	Implied Payout as % of Target	Actual Payout as % of Target	Actual Payout as % of Maximum Award
2019	104%	104%	76%
2018	103%	111%	81%
2017	103%	108%	108%

Based on Performance In Relation To The Following Metrics: *Specialty P&C Earnings*, *Annuity Earnings*, and *Core EPS*

Source: Company data, Credit Suisse estimates

Figure 10: Co-CEO Long-Term Incentive Compensation Performance and Payouts

3-Year Period Ending In	Metric	Min	Target	Max	Actual	Payout as % of Target
2019	Return on Equity	9.0%	10.5%	12.0%	12.6%	200% (max)
	Book Value per share Growth	Above 4th quartile of comps	Above 37.5% of comps	Above 100% of comps	Ranked 3rd out of 23 comps	156%
2018	Return on Equity	9.0%	10.5%	12.0%	13.5%	200% (max)
	Book Value per share Growth	Above 4th quartile of comps	Above 37.5% of comps	Above 100% of comps	Ranked 7th out of 23 comps	133%
2017	Return on Equity	9.0%	10.5%	12.0%	12.1%	200% (max)
	Book Value per share Growth	Above 4th quartile of comps	Above 37.5% of comps	Above 100% of comps	Ranked 10th out of 23 comps	96%

Source: Company data, Credit Suisse estimates

  - Management's candidness on the life insurance side of the business regarding competitive dynamics being heightened – which will negatively impact sales – is refreshing in the context of being willing to pull back on growth when returns aren't adequate.

- **Valuation:** Our $95 Target Price for AFG is based on a sum of the parts of its P&C and Annuity businesses. For AFG's P&C business, we use a 13.2x FY+1 P/E multiple, equal to ~65% of the S&P 500's FY+1 P/E, which compares to the current 61% average relative multiple for HIG, SIGI, THG, TRV, and WRB (and 56% ex-HIG and WRB). For the Annuity business, we use a 6.0x FY+1 P/E multiple, which is a premium to annuity-heavy peers AEL and ATH's multiples of ~4.3x, which we view is appropriate given AFG's simpler, lower risk product offering. We assign 50% of AFG's corporate earnings (i.e., the difference between consolidated core earnings and segment core earnings) to each segment.

- **Risks** to our view on AFG include higher tort/social inflation leading to reserve additions; higher catastrophe losses; net investment income pressure; losses related to COVID-19; a slowdown in commercial pricing; broker/agent disintermediation; and family dynamics given AFG's significant family ownership.

Property & Casualty Insurance

Upcoming catalysts: We expect AFG's P&C business to outperform, supported by an acceleration in pricing that is outpacing its public company peers.

While pricing tailwinds have been reported throughout the P&C industry in recent quarters, AFG's pricing acceleration has been faster than peers, likely owing in part to both the specialty nature of its products and its overweight position in commercial auto. Figure 11 presents 2Q'20 reported y/y pricing increases vs. 2Q'19 increases. While pricing is not fully comparable across carriers, AFG has nevertheless reported the most significant acceleration, which speaks well to margin expansion opportunities. Figure 12 illustrates that its current overall pricing trends are stronger than its standard commercial peers.

Figure 11: LTM Pricing Acceleration, AFG vs. Peers

	A	B	A/B
Ticker	2Q20 Y/Y Pricing Growth	2Q19 Y/Y Pricing Growth	Acceleration Trend
AFG	9%	3%	3.0x
WRB	13%	5.5%	2.4x
CB	14%	6.8%	2.1x
TRV	7.4%	3.6%	2.1x
HIG	3.6%	2.1%	1.7x
THG	5.1%	3.7%	1.4x
SIGI	3.9%	3.1%	1.3x

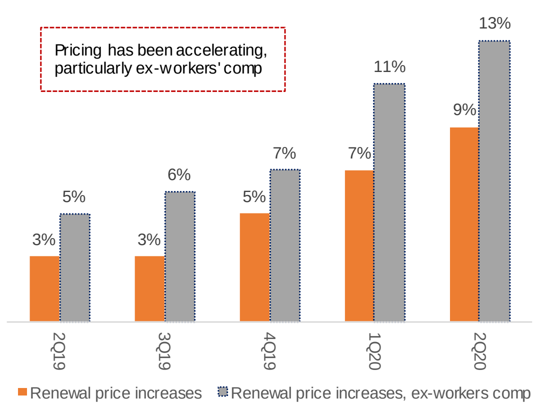
Source: Company transcripts, company data, Credit Suisse estimates

Figure 12: AFG vs. Peers, 2Q'20 Rate Increases

	Rate	Rate-ex comp
WRB	Undisclosed	13%
AFG	9%	13%
TRV	7.4%	"Double digits"
THG	5.1%	Undisclosed
CINF	"low end of mid single digit range"	Undisclosed
SIGI	3.9%	Undisclosed
HIG	3.6%	8%

Source: Company data/transcripts.
Note, TRV metrics shown are only for its Domestic Business excluding National Accounts. HIG and SIGI metrics shown are only for their Standard Commercial Lines businesses.

Figure 13: AFG Renewal Price Increase Trends, 2Q'19-2Q'20

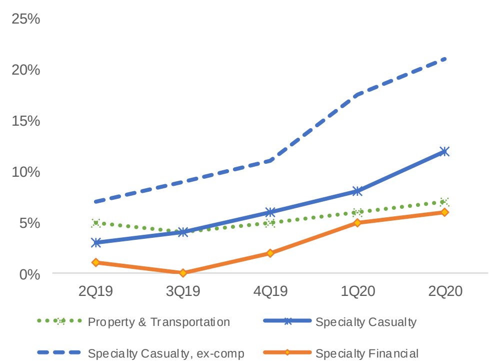


Source: Company earnings conference call transcripts, Credit Suisse research

Figure 13 details the acceleration in AFG's pricing trend over the last ~15 months on a consolidated P&C and P&C ex-workers' comp basis. As shown in Figure 14, rate increases have been most pronounced in the Specialty Casualty segment, which include lines of business that have seen accelerated pricing including excess and surplus, directors & officers (D&O), and general liability.

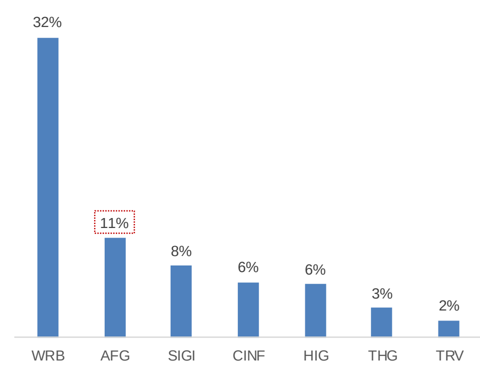
Figure 15 shows that AFG has a higher mix of E&S premiums than most of its peers. Recall, specialty insurer ***WR Berkley*** (WRB, Outperform) characterized the E&S environment as "turbocharged" in May (see our note, *WRB: CEO Meeting – Bullish on 'Turbocharged' E&S Opportunity & COVID-19 Loss Protection*), though we note WRB is significantly more levered to E&S.

Figure 14: Rate Increases (y/y) by Segment, 2Q19-2Q20



Source: Company earnings conference call transcripts, Credit Suisse research

Figure 15: 2019 Direct E&S Premiums as % of Total Direct Premiums



Source: S&P Global Market Intelligence, Credit Suisse estimates.

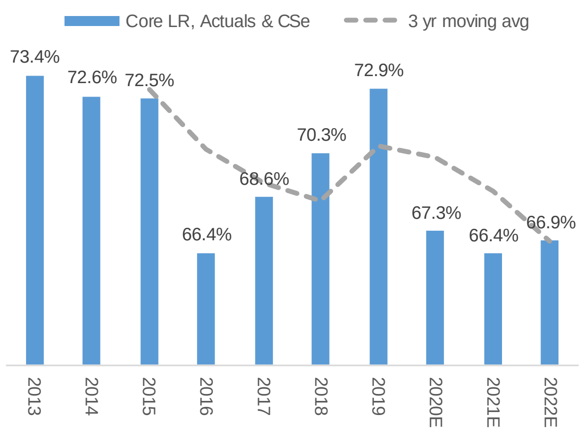
Property & Transportation Outlook: Rate increases pushed by AFG's National Interstate commercial auto business have helped drive >2pts of core margin expansion in 1H'20, further helped by the impact of COVID-19 on lower miles driven trends.

We expect AFG's leverage to passenger transportation businesses may provide more of a loss ratio benefit as long as COVID-19 conditions are reducing travel. By the same token, it has hindered top-line growth in 1H'20 and it also may lead to a sharper resurgence of losses in the event of an effective vaccine.

Given AFG has also noted substantial rate strengthening in its aviation and Singapore branch businesses, we believe this segment should be able to achieve margin expansion ex-COVID charges, miles driven trends, and crop insurance.

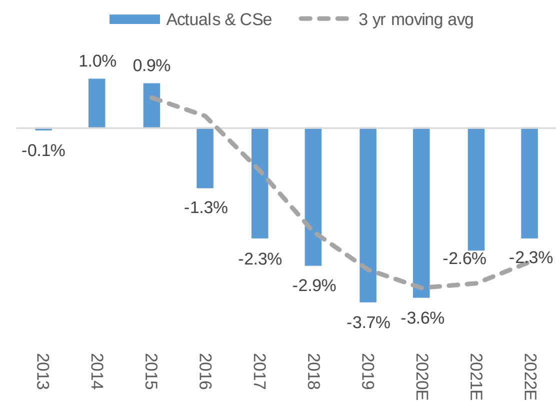
In terms of reserve development, the Property & Transportation business has consistently generated favorable development, and we view its lower relative exposure to traditional commercial auto liability has helped. Several companies in our coverage universe, including WRB, ***Cincinnati Financial*** (CINF, Underperform), and ***The Hartford*** (HIG, Neutral) have stated on quarterly conference calls that they recognized loss cost challenges in commercial auto insurance before their peers. AFG has made similar claims, but also has had superior reserve releases in recent years, as shown in Figure 18 below. We believe this may be due to differences in the nature of its commercial auto business, which has a significant proportion of alternative risk transfer business (see p.36-37 in the Appendix for more details on AFG's commercial auto business).

Figure 16: 2015-2022E Property & Transportation Core Loss Ratios (LR)



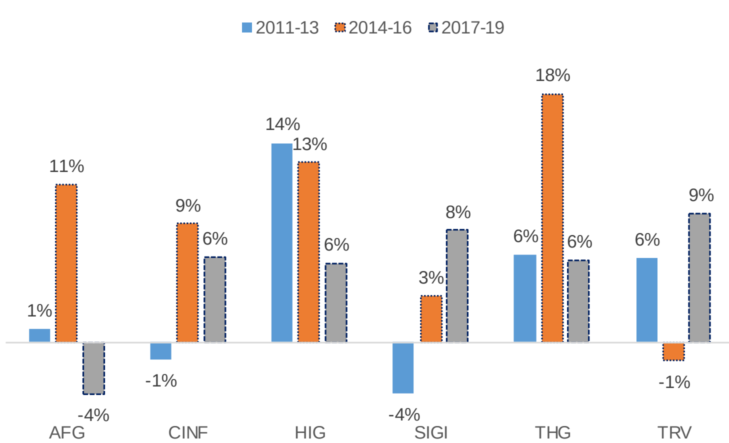
Source: Company data, Credit Suisse estimates

Figure 17: 2015-2022E Property & Transportation Reserve Development



Source: Company data, Credit Suisse estimates

Figure 18: AFG Commercial Auto Reserve Development vs. Peers



Source: S&P Global Market Intelligence, Credit Suisse estimates

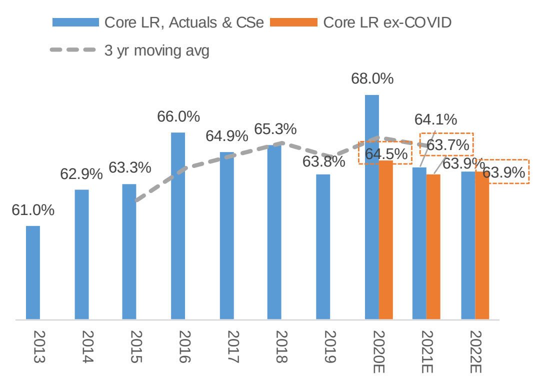
Margin Expansion Runway for Specialty Casualty If Social Inflation Doesn't Get Out Of Hand: AFG's strongest rate trends in its Specialty Casualty segment have been in its non-workers' compensation lines. Negative workers' comp pricing has served as a partial offset, though P&C management teams have indicated during 2020 that they believe workers' comp pricing will begin improving soon.

AFG has experienced material margin degradation in Specialty Casualty in 2020 due to COVID losses in its workers' comp and executive liability books of business. Even excluding COVID-19 losses, AFG has experienced core loss degradation due to its exit of Neon, which carried a lower core loss ratio (note this is offset by Neon's higher expense ratio). AFG also raised its loss picks for its E&S and Public Sector businesses in 4Q19.

Still, the workers' comp line continues to throw off reserve releases, driving 9pts of reserve releases for the Specialty Casualty segment in 2Q20. We expect that the uplift in pricing ex-comp (see Figure 14) and the exit of Neon should drive favorable comps in 2021.

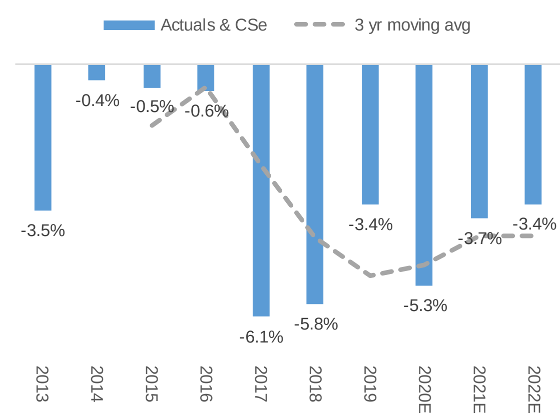
However, we do acknowledge the risk of COVID-19 losses persisting in workers' comp. The key risk factor, in our view, is whether cases spike due to office and school openings later this year, given shifts to remote work-from-home settings – which we theorize are less accident prone than onsite settings – should drive continued accident frequency declines.

Figure 19: 2015-2022E Specialty Casualty Core Loss Ratios (LR), Excluding COVID-19 Losses



Source: Company data, Credit Suisse estimates
Note, prior to 2020, Specialty Casualty segment included the results of Neon, which carried a lower core loss ratio. This factor has driven the y/y deterioration in core LR ex-COVID in 2020 vs. 2019.

Figure 20: 2015-2022E Specialty Casualty Reserve Development



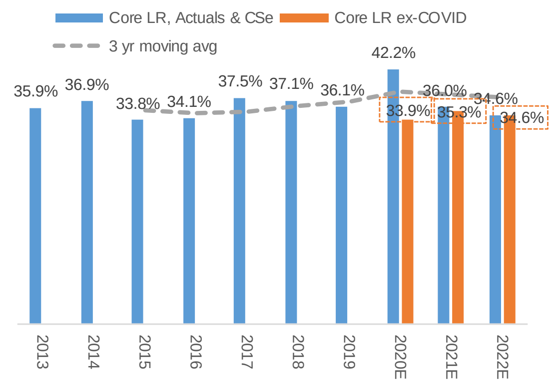
Source: Company data, Credit Suisse estimates

Specialty Financial: While the Specialty Financial segment contributes a smaller proportion of premiums than the other two P&C segments, it generally provides a disproportionate amount of P&C underwriting profit, as it consists of lower frequency lines of business.

2Q'20 was an exception to that trend, however, with this segment generating no underwriting income in the quarter due to $30 million in trade credit losses related to COVID-19. These losses are the product of uncollectible accounts at insured US exporters. Factors such as the length and depths of the recessions are likely to dictate the extent of losses. While we expect further losses, we forecast the magnitude of losses are likely to decelerate sequentially over the next four quarters.

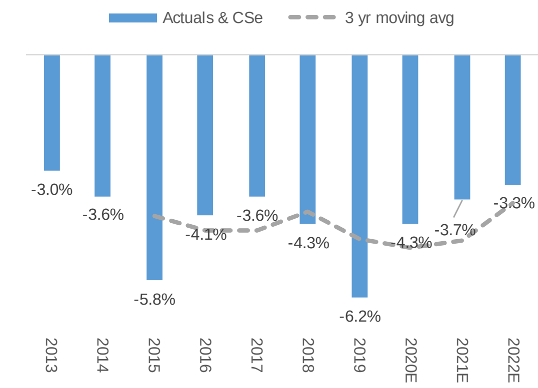
As Figure 21 and Figure 22 show, we are forecasting margin declines in 2021 due to the recessionary environment. However, given the acceleration in pricing (from ~1% in 2019 to mid-single digit range in 2020), we see potential for upside, and we note the Specialty Financial segment has historically been the least volatile of AFG's three P&C segments (see Figure 23) in terms of core loss ratios.

Figure 21: 2015-2021E Specialty Financial Core Loss Ratios (LR), Excluding COVID-19 Losses



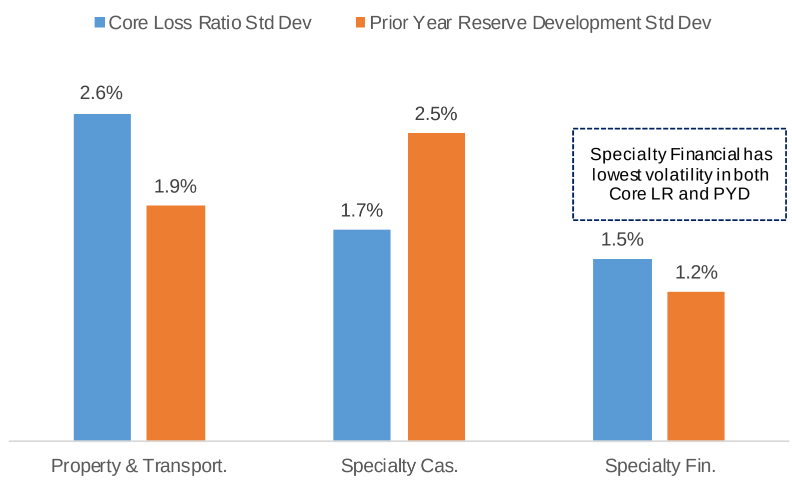
Source: Company data, Credit Suisse estimates

Figure 22: 2015-2021E Specialty Financial Reserve Development



Source: Company data, Credit Suisse estimates

Figure 23: Standard Deviation of Core Loss and Prior Year Development Ratios, 2013-19



Source: Company data, Credit Suisse estimates

Also, We View Management's Historical P&C Guidance as Conservative: In addition to the above analysis, we note AFG's management team provides more detailed guidance than most, if not all of its peers. The below analysis in Figure 24 shows it has consistently met or exceeded its initial guidance. Each quarter, AFG's management team guides to full year net written premium growth and the combined ratio for each P&C segment, and net investment income growth for the P&C segment overall. Note it has stopped guiding to 2020 net investment income due to the volatility in alternative investments.

With respect to its annuity book, it has not achieved its guidance at the same frequency, detailed further on p. 20-21

Figure 24: AFG Annual Guidance Evolution vs Actual Results, 2015-2020

Met Initial Guide	Missed Initial Guide	Exceeded Initial Guide

At...	P&T NWP %	SC NWP %	SF NWP %	P&T CR	SC CR	SF CR	P&C NII	EPS
4Q19	6-10%	-14 to -10%	4-8%	92-96%	90-94%	86-90%	0-4% y/y	$8.75-9.25
1Q20	-5 to 1%	-23 to -17%	-8 to -2%	92-96%	90-94%	87-91%	-	$6.45-7.25 ex-MTM
2Q20	-2 to 4%	-20 to -14%	-8 to -2%	92-94%	91-95%	91-95%	-	$6.60-7.40 ex-MTM

2019 Guidance At...	P&T NWP %	SC NWP %	SF NWP %	P&T CR	SC CR	SF CR	P&C NII y/y	EPS
4Q18	3-7%	-2 to +2%	3-7%	92-96%	91-95%	89-92%	0-4%	$8.35-8.85
1Q19	3-7%	-2 to +2%	3-7%	92-96%	91-95%	87-91%	0-4%	$8.35-8.85
2Q19	4-8%	2-6%	-4% to flat	93-97%	90-94%	87-91%	2-6%	$8.40-8.80
3Q19	5-8%	4-7%	0-3%	93-96%	92-95%	86-89%	4-7%	$8.50-8.70
Actual	**7%**	**8%**	**2%**	**96%**	**93%**	**85%**	**8%**	**$8.62**

2018 Guidance At...	P&T NWP %	SC NWP %	SF NWP %	P&T CR	SC CR	SF CR	P&C NII y/y	EPS
4Q17	2-6%	3-7%	2-6%	92-96%	92-96%	85-89%	4-6%	$7.90-8.40
1Q18	0-4%	3-7%	2-6%	92-96%	92-96%	85-89%	4-7%	$7.90-8.40
2Q18	0-4%	6-10%	3-7%	91-95%	92-96%	86-90%	10-13%	$8.10-8.60
3Q18	-1-2%	9-12%	3-6%	94-96%	93-95%	89-91%	15-18%	$8.35-8.65
Actual	**-1%**	**10%**	**1%**	**96%**	**94%**	**89%**	**21%**	**$8.40**

2017 Guidance At...	P&T NWP %	SC NWP %	SF NWP %	P&T CR	SC CR	SF CR	P&C NII y/y	EPS
4Q16	0-3%	5-9%	0-4%	91-95%	94-96%	84-88%	4%	$6.20-6.70
1Q17	2-6%	5-9%	2-6%	91-95%	94-96%	84-88%	2%	$6.20-6.70
2Q17	2-6%	7-11%	0-4%	91-95%	94-96%	84-88%	4-6%	$6.40-6.90
3Q17	3-6%	10-13%	2-5%	92-94%	96-98%	88-90%	4-6%	$5.90-6.20
Actual	**12%**	**12%**	**4%**	**91%**	**95%**	**89%**	**3%**	**$6.55**

2016 Guidance At...	P&T NWP %	SC NWP %	SF NWP %	P&T CR	SC CR	SF CR	P&C NII y/y	EPS
4Q15	4-8%	1-5%	3-7%	93-97%	92-94%	84-88%	4%	$5.35-5.75
1Q16	4-8%	1-5%	3-7%	93-97%	92-94%	84-88%	4%	$5.35-5.75
2Q16	1-5%	0-4%	5-9%	93-96%	93-95%	86-86%	6%	$5.35-5.75
3Q16	0-3%	-3 to 0%	5-8%	90-92%	95-97%	84-86%	9%	$5.55-5.75
Actual	**-4%**	**-1%**	**6%**	**90%**	**96%**	**85%**	**10%**	**$6.03**

2015 Guidance At...	P&T NWP %	SC NWP %	SF NWP %	P&T CR	SC CR	SF CR	P&C NII y/y	EPS
4Q14	0-4%	8-12%	1-5%	94-98%	90-94%	86-90%	5%	$5.10-5.50
1Q15	0-4%	8-12%	1-5%	94-98%	90-94%	86-90%	5%	$5.10-5.50
2Q15	-1 to 2%	8-12%	3-7%	96-99%	91-94%	81-84%	8%	$5.25-5.55
3Q15	3-6%	9-12%	7-10%	96-99%	91-94%	80-83%	10%	$5.30-5.60
Actual	**4%**	**10%**	**11%**	**97%**	**93%**	**83%**	**9%**	**$5.44**

AFG's only P&C margin miss was in 2017 (see red circle) when it incurred ~22pts of catastrophe losses in its lender-placed mortgage book.

Source: Company data, Credit Suisse estimates.

NWP % = net written premium growth. CR = combined ratio. NII y/y = Net investment income y/y growth. EPS figures shown are for the consolidated company.

P&C Reserves

AFG's reserve releases have compared favorably to its peers in recent years. One can see from Figure 25 that AFG was the only insurer of its peers in 2019 to generate a net release of reserves from each of its last nine accident years.

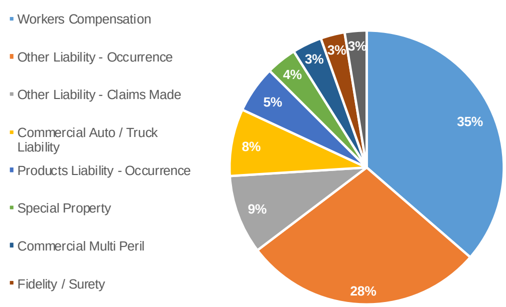
Figure 25: 2019 Reserve Releases as % of Net Earned Premiums by Accident Year

	AY 2018	AY17	AY16	AY15	AY14	AY13	AY12	AY11	AY10	AY09&Prior
SIGI	1.8%	0.0%	-1.1%	-0.7%	-0.2%	-0.1%	-0.2%	0.0%	-0.1%	-0.8%
TRV	0.9%	-0.3%	0.0%	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.1%	0.5%
CB	0.8%	-0.7%	-0.1%	-0.8%	-1.4%	-0.7%	-0.2%	-0.4%	-0.2%	-0.2%
HIG	0.5%	-0.8%	0.1%	0.4%	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	1.3%
THG	-0.5%	0.3%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.1%	0.1%
WRB	-0.9%	0.0%	0.7%	0.7%	0.2%	0.0%	-0.1%	0.3%	0.0%	-0.2%
AFG	-1.2%	-0.4%	-0.4%	-0.3%	-0.6%	-0.4%	-0.5%	-0.3%	-0.2%	-0.5%
CINF	-1.4%	-0.9%	-0.2%	-0.6%	-0.4%	-0.4%	-0.1%	0.0%	-0.1%	-0.3%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Workers' comp, other liability, and commercial auto – AFG's three largest product lines – comprise ~80% of its total statutory reserves, as shown in Figure 26. Below we review the statutory loss triangles for those three lines of business.

Figure 26: AFG Statutory Reserves Mix



Source: S&P Global Market Intelligence, Credit Suisse estimates

Conclusion: Figure 27 depicts AFG's reserves as conservative in three of its four primary lines. However, we believe the reserves in its Other Liability – Occurrence line of business (the company's second largest line of business) look aggressive in accident years 2018 and 2019. Figure 29 shows that the developed loss ratios in accident years 2018-19 are well below 2015-17 levels, signaling the potential for future adverse development charges.

Figure 27: Summarized Reserves Analysis: Indicated Loss-Trend Inflation Levels for AFG and Its Primary Competitors.

Note OL-O=Other Liability Occurrence, OL-CM = Other Liability Claims Made, WC = Workers Comp, C-Auto = Commercial Auto

	AFG				Travelers				The Hartford				Cincinnati Financial			
	OL-O	**OL-CM**	**WC**	**C-Auto**	**OL-O**	**OL-CM**	**WC**	**C-Auto**	**OL-O**	**OL-CM**	**WC**	**C-Auto**	**OL-O**	**OL-CM**	**WC**	**C-Auto**
% of total Sch. P reserves	**28%**	**9%**	**35%**	**8%**	**16%**	**5%**	**42%**	**8%**	**14%**	**4%**	**46%**	**4%**	**24%**	**4%**	**18%**	**12%**
	Indicated Loss-Trend Inflation Level				**Indicated Loss-Trend Inflation Level**				**Indicated Loss-Trend Inflation Level**				**Indicated Loss-Trend Inflation Level**			
2010	-18%	-17%	-4%		-30%	6%	1%		10%	1%	17%		-54%	-10%	-21%	
2011	1%	-21%	1%		-18%	-12%	5%		20%	1%	13%		-33%	1%	-18%	
2012	7%	6%	-3%		-9%	11%	6%		18%	-17%	6%		-19%	-43%	-16%	
2013	25%	1%	-5%	15%	0%	17%	-1%		31%	-20%	-2%		-23%	-19%	-19%	
2014	18%	-14%	-12%	4%	3%	-14%	-5%		10%	-8%	-7%		-18%	-33%	-24%	
2015	31%	-30%	-15%	6%	5%	-27%	-14%	16%	14%	10%	-11%	25%	-14%	-34%	-32%	12%
2016	21%	-11%	-12%	0%	7%	-2%	-14%	19%	8%	1%	-4%	11%	-3%	-7%	-22%	22%
2017	18%	-3%	-8%	7%	4%	-3%	-9%	18%	0%	15%	-4%	13%	-6%	-10%	-15%	8%
2018	8%	13%	-3%	7%	6%	5%	-5%	10%	2%	1%	-3%	7%	0%	2%	-9%	8%
2019	1%	-5%	-5%	6%	4%	3%	-1%	8%	8%	-3%	-1%	1%	4%	5%	13%	5%
2015-2017 3-yr Average Indicated Loss-Trend Inflation Level	23%	-14%	-12%	5%	5%	-11%	-12%	18%	8%	8%	-6%	16%	-8%	-17%	-23%	14%
	versus				**versus**				**versus**				**versus**			
'18 and '19 Average Indicated Loss-Trend Inflation Level	5%	4%	-4%	7%	5%	4%	-3%	9%	5%	-1%	-2%	4%	2%	4%	2%	7%
Difference (the more positive the number, the more implies conservatism)	**-18%**	**18%**	**8%**	**2%**	**0%**	**15%**	**9%**	**-9%**	**-3%**	**-9%**	**4%**	**-12%**	**10%**	**21%**	**25%**	**-7%**
Avg trend of 3 lines		**3%**				**4%**				**-5%**				**12%**		

Source: S&P Global Market Intelligence, Credit Suisse estimates

The pages that follow show specific loss triangles for the workers' comp, other liability, and commercial auto lines of business.

- In workers' comp, recent accident year loss picks have moved higher as industry pricing has continued to decline, and favorable reserve development from recent accident years is lower than previous years, indicating increased conservatism.
- As noted above, the other liability line is more of a mixed bag, with other liability – occurrence showing bearish signs and the other liability – claims made line looking stronger.
- In commercial auto, the 2019 accident year had a lower initial loss pick relative to prior years, but its 2018 and 2017 accident years were higher than the preceding years, and neither year has yet to post meaningful net development.

Figure 28: Workers' Comp Incurred Loss Triangle - Our Conclusion Is That This Line Is Booked Conservatively.

Incurred Loss Ratios by Accident Year (%) - Incurred Losses (Sch P, Part 2) / Net Premiums Earned (Sch P, Part 1)

Accident Year	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	% of Initial Incurred (%)			
2010	76.36	76.70	79.04	76.04	78.53	78.85	78.33	77.74	76.91	75.66	0.61			
2011	72.89	74.43	72.96	75.06	74.93	74.32	73.79	72.23	71.29	-	4.42			
2012	71.66	71.31	70.28	69.89	68.64	67.25	65.30	63.86	-	-	(8.16)			
2013	65.34	63.84	62.29	62.12	61.00	59.03	57.60	-	-	-	(13.62)			
2014	61.68	59.59	58.48	57.51	55.47	53.17	-	-	-	-	(18.65)			
2015	58.94	55.71	54.74	53.71	51.70	-	-	-	-	-	(22.98)			
2016	59.39	58.48	56.62	54.07	-	-	-	-	-	-	(16.57)			
2017	59.34	59.14	55.60	-	-	-	-	-	-	-	(13.58)			
2018	58.98	59.15	-	-	-	-	-	-	-	-	(2.70)			
2019	58.08	-	-	-	-	-	-	-	-	-	-			
											A SUM of cumulative change	B Pricing During These Years	A+B=C Indicated Loss-Trend Inflation Level	D Loss Pick vs. Previous AY's Developed LR
2010		0%	3%	-4%	3%	0%	-1%	-1%	-1%	-2%	-1%	-4%	-4%	
2011		2%	-2%	3%	0%	-1%	-1%	-2%	-1%		-2%	3%	1%	-5%
2012		0%	-1%	-1%	-2%	-2%	-3%	-2%			-11%	8%	-3%	-4%
2013		-2%	-2%	0%	-2%	-3%	-2%				-12%	7%	-5%	-8%
2014		-3%	-2%	-2%	-4%	-4%					-15%	2%	-12%	-3%
2015		-5%	-2%	-2%	-4%						-13%	-2%	-15%	-1%
2016		-2%	-3%	-4%							-9%	-3%	-12%	7%
2017		0%	-6%								-6%	-2%	-8%	1%
2018		0%									0%	-3%	-3%	0%
2019												-3%	-5%	-2%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Accident Year (AY) 2018: Favorable development of ~0% and pricing growth of ~-3% implies loss trend inflation of ~-3%. The 2018 initial loss pick of 58.98% was just below the 2017 developed pick of 59.14%, and ~2.5pts higher than the 2016 developed pick of 56.62%. **Our conclusion is that this line is booked conservatively.**

AY 2017: Favorable development of ~6% and pricing growth of ~-2% implies a loss inflation trend of ~-8%. The 2017 initial loss pick of 59.34% was 1.5% higher than 2016 developed pick of 58.48%, and ~4.6pts higher than the 2015 developed pick of 54.74%.

Figure 29: Other Liability – Occurrence Incurred Loss Triangle - Our Conclusion Is That This Line Is Booked Aggressively.

Incurred Loss Ratios by Accident Year (%) - Incurred Losses (Sch P, Part 2) / Net Premiums Earned (Sch P, Part 1)

Accident Year	**12 Months**	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	% of Initial Incurred (%)
2010	54.87	51.20	50.10	48.85	49.81	49.84	49.82	49.73	48.16	47.75	3.59
2011	45.05	44.36	46.53	47.35	48.29	48.17	48.05	47.74	45.34	-	49.84
2012	50.10	50.04	50.80	51.73	52.91	52.98	51.81	51.94	-	-	(0.61)
2013	51.32	50.82	51.78	54.71	59.39	61.18	63.18	-	-	-	(1.86)
2014	52.89	54.44	59.13	59.54	60.67	62.64	-	-	-	-	(3.61)
2015	54.35	60.54	65.08	69.52	74.98	-	-	-	-	-	(9.07)
2016	55.95	57.90	64.32	70.29	-	-	-	-	-	-	(24.37)
2017	56.56	60.20	67.85	-	-	-	-	-	-	-	(16.93)
2018	59.88	64.30	-	-	-	-	-	-	-	-	(6.78)
2019	62.52	-	-	-	-	-	-	-	-	-	0.00

Annual Development by AY

Accident Year	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	A SUM of cumulative change	B Pricing During These Years	A+B=C Indicated Loss-Trend Inflation Level	D Loss Pick vs. Previous AY's Developed LR
2010	-7%	-2%	-2%	2%	0%	0%	0%	-3%	-1%	-14%	-5%	-18%	
2011	-2%	5%	2%	2%	0%	0%	-1%	-5%		1%	0%	1%	-12%
2012	0%	2%	2%	2%	0%	-2%	0%			4%	4%	7%	13%
2013	-1%	2%	6%	9%	3%	3%				21%	3%	25%	3%
2014	3%	9%	1%	2%	3%					17%	1%	18%	4%
2015	11%	7%	7%	8%						34%	-3%	31%	0%
2016	3%	11%	9%							24%	-3%	21%	-8%
2017	6%	13%								19%	-2%	18%	-2%
2018	7%									7%	1%	8%	-1%
2019											4%	1%	-3%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Accident Year (AY) 2018: Unfavorable development of ~7% and pricing growth of ~+1% implies loss trend inflation of ~+8%. 2018 initial loss pick of 59.88% was just below the 2017 developed pick of 60.20%, and 7% below the 2016 developed loss pick of 64.32%. **Our conclusion is that this line is booked relatively aggressively.**

AY 2017: Unfavorable development of ~19% and pricing growth of ~-2% implies a loss inflation trend of ~+18%. The 2017 initial loss pick of 56.56% was 2% lower than 2016 developed pick of 57.90%, and ~13% lower than the 2015 developed pick of 65.08%.

Figure 30: Other Liability – Claims Made Incurred Loss Triangle - Our Conclusion Is That This Line Is Booked Relatively Aggressively.

Incurred Loss Ratios by Accident Year (%) - Incurred Losses (Sch P, Part 2) / Net Premiums Earned (Sch P, Part 1)

Accident Year	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	% of Initial Incurred (%)
2010	64.23	73.21	68.54	63.16	60.30	57.22	57.36	56.87	56.49	55.79	3.59
2011	76.95	72.71	68.86	67.23	60.81	60.07	61.06	60.78	61.63	-	49.84
2012	60.66	58.19	58.95	59.88	61.14	63.95	59.93	61.56	-	-	(0.61)
2013	60.41	62.67	66.94	61.32	60.77	59.90	58.76	-	-	-	(1.86)
2014	55.54	51.42	53.47	51.92	50.10	47.60	-	-	-	-	(3.61)
2015	55.63	49.62	48.33	46.45	42.03	-	-	-	-	-	(9.07)
2016	57.77	57.60	57.99	53.38	-	-	-	-	-	-	(24.37)
2017	57.69	58.65	56.76	-	-	-	-	-	-	-	(16.93)
2018	56.00	62.82	-	-	-	-	-	-	-	-	(6.78)
2019	57.17	-	-	-	-	-	-	-	-	-	0.00

Annual Development by AY										A SUM of cumulative change	B Pricing During These Years	A+B=C Indicated Loss-Trend Inflation Level	Loss Pick vs. Previous AY's Developed LR
2010	14%	-6%	-8%	-5%	-5%	0%	-1%	-1%	-1%	-12%	-5%	-17%	
2011	-6%	-5%	-2%	-10%	-1%	2%	0%	1%		-21%	0%	-21%	5%
2012	-4%	1%	2%	2%	5%	-6%	3%			2%	4%	6%	-17%
2013	4%	7%	-8%	-1%	-1%	-2%				-2%	3%	1%	4%
2014	-7%	4%	-3%	-4%	-5%					-15%	1%	-14%	-11%
2015	-11%	-3%	-4%	-10%						-27%	-3%	-30%	8%
2016	0%	1%	-8%							-8%	-3%	-11%	16%
2017	2%	-3%								-2%	-2%	-3%	0%
2018	12%									12%	1%	-4%	-5%
2019											4%	-5%	-9%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Accident Year (AY) 2018: Unfavorable development of ~12% and pricing growth of ~+1% implies loss trend inflation of ~+13%. 2018 initial loss pick of 56.00% was ~5% below the 2017 developed pick of 58.65%, and 3% below the 2016 developed loss pick of 57.99%. **Our conclusion is that this line is booked relatively aggressively.**

AY 2017: Favorable development of ~2% and pricing growth of ~-2% implies a loss inflation trend of ~+3%. The 2017 initial loss pick of 57.69% was just above the 2016 developed pick of 57.60%, but ~19% higher than the 2015 developed pick of 48.33%.

Figure 31: Commercial Auto Incurred Loss Triangle - Our Conclusion Is That This Line Is Booked Neither Conservatively Nor Aggressively

Incurred Loss Ratios by Accident Year (%) - Incurred Losses (Sch P, Part 2) / Net Premiums Earned (Sch P, Part 1)

Accident Year	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	% of Initial Incurred (%)
2012	55.16	58.84	62.47	64.91	69.82	69.18	67.78	65.36	21.19
2013	63.89	64.31	68.05	70.24	71.12	70.01	68.04	-	28.90
2014	65.01	65.04	65.30	66.23	66.20	63.50	-	-	9.85
2015	64.16	67.26	67.52	66.66	66.94	-	-	-	2.58
2016	61.89	61.72	59.72	60.06	-	-	-	-	10.99
2017	64.38	62.51	64.73	-	-	-	-	-	14.23
2018	64.00	63.70	-	-	-	-	-	-	(3.64)
2019	61.66	-	-	-	-	-	-	-	-

Annual Development by AY					A SUM of cumulative change	B Commercial Auto Pricing During These Years	A+B=C Indicated Loss-Trend Inflation Level	D Loss Pick vs. Previous AY's Developed LR
2013	1%	6%	3%	1%	11%	4%	15%	9%
2014	0%	0%	1%	0%	2%	3%	4%	1%
2015	5%	0%	-1%	0%	4%	2%	6%	-1%
2016	0%	-3%	1%		-3%	3%	0%	-8%
2017	-3%	4%			1%	7%	7%	4%
2018	0%				0%	7%	7%	2%
2019						9%	6%	-3%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Accident Year (AY) 2018: Development of 0% and pricing growth of ~+7% implies loss trend inflation of +7%. 2018 initial loss pick of 64.00% was 2% higher than 2017 developed pick of 62.51%, ~4pts higher than the 2016 developed pick of 59.72%. **Our conclusion is that this line is booked neither conservatively nor aggressively**.

AY 2017: Unfavorable development of ~1% and pricing growth of ~7% implies a loss inflation trend of ~7%. The 2017 initial loss pick of 64.38% was 4% higher than the 2016 developed pick of 61.72%, but ~3pts lower than the 2015 developed pick of 67.52%.

Reinsurance Programs

AFG's reinsurance coverage for its US P&C businesses is detailed in Figure 32.

Figure 32: AFG US-based Reinsurance Coverage (Excludes Crop and Riverfront Re, see more details below)

		A	B	C	D = A+C
Notation	Coverage Area	Retention	Coverage	AFG Participation in Covered Losses	AFG Maximum Loss Prior to Reaching Limit
1	California Workers' Compensation	$2	$148	$1	$3
2	Summit Workers' Compensation	$3	$37	$0	$3
3	Other Workers' Compensation	$2	$48	$0	$2
4	Commercial Umbrella	$2	$48	$5	$7
5	Property - General	$5	$45	$0	$5
6	Property - Catastrophe	$15	$119	$0	$15

Source: Company data, Credit Suisse estimates. $ In Millions.

- **Notations 1-4:** AFG purchases select reinsurance coverage on a product-by-product basis, enabling it to support larger customer limits, often needed for several of AFG's commercial lines including certain property, environmental, aviation, executive and professional liability, umbrella and excess liability, and fidelity and surety coverages.
- **Notation 6:** AFG holds property catastrophe excess of loss reinsurance that provides $85 million in coverage in excess of $15 million per event primary retention in traditional reinsurance markets. It also holds $34 million layer of coverage in excess of $100 million in catastrophe losses (up for renewal in June 2020, and the company has not disclosed whether this was renewed).

AFG also reinsures part of its crop business via multiple reinsurance agreements. It generally reinsures 15-25% of its gross written premiums via proportional and non-proportional reinsurance agreements with the US government via the Federal Crop Insurance Corporation. It also has a private quota share reinsurance agreement in which it cedes ~50% of gross written premiums not reinsured by the FCIC. Under this agreement, AFG earns ceding and profit-sharing commissions.

In addition, in June 2017, AFG's property and casualty insurance subsidiaries obtained supplemental catastrophe protection through a catastrophe bond structure with Riverfront Re. Under the agreement, AFG receives supplemental reinsurance coverage up to 95% of $200 million (fully collateralized) for catastrophe losses in excess of $134 million of traditional catastrophe reinsurance (per occurrence and annual aggregate) through the end of 2019. As of the end of 2019, the attachment point had not been reached. The coverage costs AFG ~$11 million annually.

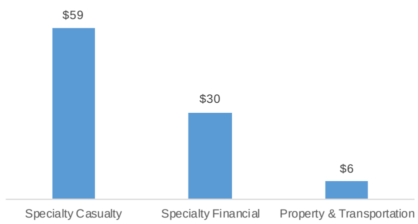
Finally, while it is in run-off and no longer part of the core business, Neon maintains an excess of loss and two quota share reinsurance agreements to protect itself against catastrophe losses (as we note in the Appendix on p. 38, AFG announced its intent to close its sale of Neon's operations in 4Q'20).

COVID Impact on P&C

Through 2Q'20 YTD, AFG has recorded $95 million in COVID-19 losses, of which 90% has been categorized as incurred but not reported (IBNR). In 2Q'20, COVID-19 losses of $85 million included $52 million in Specialty Casualty losses, primarily in the workers' comp and executive liability lines of business. Other losses in 2Q were primarily driven by $30 million from the Specialty Financial segment (primarily trade credit insurance). A breakdown of AFG's YTD COVID losses is shown in Figure 33 and Figure 34.

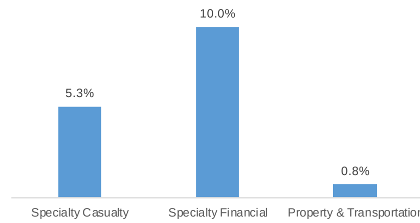
Given COVID is still spreading and the economy is in recession, the trade credit and workers' comp lines may continue to suffer losses, as an insurer can generally only accrue losses for events that have occurred. We note 15% of AFG's workers' comp business is in California, where reported COVID-19 claims have not been as bad as feared thus far (see our deep dive on the impact of COVID-19 on the workers' comp line: [Why Workers' Comp Worries Are Overblown]).

Figure 33: AFG COVID-19 Losses Reported in 1H'20



Source: Company data, Credit Suisse estimates. $ In Millions.

Figure 34: Combined Ratio Impact of AFG COVID-19 Losses Reported in 1H'20



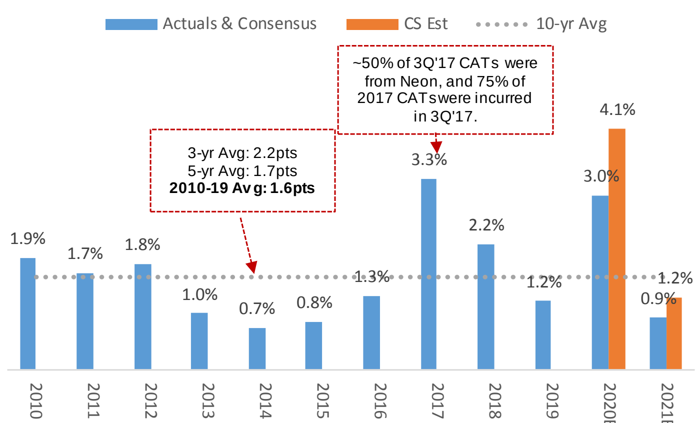
Source: Company data, Credit Suisse estimates

Catastrophe Losses – Underweight vs. Peers

Part of AFG's strategy is to have a lower net catastrophe exposure compared to its peers. AFG's mix tilt toward casualty lines means its overall business on average should on a relative basis suffer lower levels of catastrophe losses as a percentage of its premiums earned. Further, the exit of Neon in 1Q'20 should reduce AFG's catastrophe exposure. On the 4Q'19 conference call, former CFO Jeff Consolino commented, "*So I think that 2020 will be a transition year, mainly because the exposure to catastrophes from Neon will still be possible, although diminishing. And you'll see the real benefit of that in 2021, when we'll be largely clean of those types of exposures.*"

We point out Neon, which is being run-off, was the driver of AFG's Specialty Casualty segment's two largest recent quarterly catastrophe losses: 3Q'17 ($56 million in segment CAT losses, 100% from Neon) and 4Q'18 (see details above). Therefore, we view AFG should have less CAT exposure in 2021.

Figure 35: AFG Catastrophe Losses



Source: Company data, Credit Suisse estimates.
10-yr avg is equal to the 2010-19 avg.

Annuities

Income from AFG's annuity business was lower by 6% y/y in 1H'20, largely due to declining returns on its alternative investments. Excluding these assets, AFG's annuity income increased by double digits y/y, driven by higher than expected persistency, lower than expected expenses related to guaranteed benefits, a strong market, and a reduction in the cost of funds.

AFG maintains a low cost structure, which is apparent when comparing its relative commission, expense and deferred acquisition costs (DAC) levels to peers. Figure 36 shows commissions and general expenses as a percentage of annuity premiums for AFG vs. its peers, and Figure 37 shows DAC as a percentage of life reserves and equity. In both figures, AFG compares favorably to most of its peers, a testament to its simpler product and lower-commission strategy.

Recall acquisition costs represent certain upfront costs insurance companies incur to generate new business. Accounting rules allow insurance companies to capitalize these costs and amortize them over time. While the pace of new business and amortization will impact DAC balances, a consistently low DAC (as is the case with AFG in Figure 37) should be indicative of a lower commission structure.

Figure 36: Statutory Commission and General Expense Ratios, AFG vs. Peers

	AEL	AFG	ATH	BHF	CNO	EQH	LNC	NWLI	PFG	Industry
Individual Annuity Mkt Share	2%	2%	3%	3%	1%	4%	7%	0%	2%	100%
Commission Ratio, 2019	10%	5%	34%	12%	12%	8%	11%	11%	10%	9%
Commission Ratio, 2015-19	12%	6%	39%	11%	12%	9%	13%	12%	10%	10%
Commission Ratio, 2010-19	11%	6%	39%	10%	12%	10%	11%	12%	12%	9%
General Expense Ratio, 2019	2%	2%	11%	17%	19%	8%	9%	12%	17%	10%
General Expense Ratio, 2015-19	2%	2%	22%	14%	19%	7%	11%	8%	19%	10%
General Expense Ratio, 2010-19	2%	2%	23%	12%	18%	7%	9%	6%	23%	10%

Source: S&P Global Market Intelligence, Credit Suisse estimates

Figure 37: AFG DAC as % of Reserves and Equity

	AEL	AFG	ATH	BHF	CNO	EQH	LNC	NWL	PFG
DAC as % of Reserves, 2019	8%	2%	3%	6%	5%	6%	6%	7%	4%
DAC as % of Reserves, 2017-2019	9%	3%	3%	6%	5%	7%	7%	8%	5%
DAC as % of Reserves, 2015-19	10%	3%	3%	-	5%	8%	8%	8%	5%
DAC as % of Equity ex-AOCI, 2019	159%	26%	35%	38%	37%	41%	55%	35%	26%

Source: Company data, Credit Suisse estimates

Further, while lower interest rates have taken a toll on life insurer valuations, we point out AFG has protections in place against rising interest rates. For instance, 85% of AFG's inforce annuities have a surrender penalty, and 52% of annuity reserves have a surrender charge of 5+%. In addition, only 12% of AFG's annuity business has a 3% or greater guaranteed minimum interest rate, and 36% of it has a market value adjustment or longevity rider. On its 2Q'20 EPS call, management noted it has the ability to produce an extra $360 million in pretax income by lowering crediting rates by 114bps on $32 billion of reserves (excludes immediate annuities and fixed indexed annuities with riders).

Further, we note that while some public companies may be resistant to breaking up businesses because a smaller revenue base is more likely to drive reduced executive compensation, management's significant ownership stake (21%) in the company means the valuation benefit from shedding the life business is more likely to outweigh the potential reduction in compensation that comes with being a smaller company. We point out that the only meaningful synergy we see between the life and P&C companies is a sharing of investment portfolio strategies.

Figure 38 highlights AFG's performance relative to guidance has been a little bit more mixed. While it has generally performed within its spread guidance (with the exception of 2018), annuity premiums have been more volatile in recent years.

Figure 38: AFG Annual Annuity Guidance Evolution vs Actual Results, 2016-2020

Met Initial Guide	Missed Initial Guide	Exceeded Initial Guide

2020 Guidance At...	Core Operating Earnings	Premiums	Growth	Investments Growth	Net Spread Earned
4Q19	$395-425	$4.5-5.2 billion	7-9%	7-9%	0.96-1.04%
1Q20	$280-310	$3.3-4.0 billion	5-7%	5-7%	0.68-0.74%*
2Q20	$300-320	$3.4-3.9 billion	5-7%	5-7%	0.75-0.80%

2019 Guidance At...	Pre-tax Annuity Income	Annuity Premiums y/y	Avg Annuity Reserves Growth	Avg Annuity Investments Growth	Net Spread Earned
4Q18	$365-425	Flat	8-10%	8-10%	0.95-1.15%
1Q19	$365-425	Flat-to-slightly down	8-10%	8-10%	0.95-1.15%
2Q19	$375-405	Down 5-10%	9-11%	9-11%	1.00-1.10%
3Q19	$380-400	Down 9-10%	10-11%	10-11%	1.00-1.06%
Actual	$398	Down 8%	11%	11%	1.05%

2018 Guidance At...	Pre-tax Annuity Income Adj*	Pre-tax Annuity Income	Annuity Premiums	Avg Annuity Reserves Growth	Avg Annuity Investments Growth	Net Spread Earned
4Q17	$400-430	$385-$425	2-6%	8-10%	8-10%	1.17-1.29%
1Q18	$410-435	$385-$425	6-12%	8-10%	8-10%	1.17-1.29%
2Q18	$430-450	$395-430	10-15%	9-10%	9-10%	1.17-1.27%
3Q18	$440-450	$385-425	17-20%	10%	10%	1.14-1.26%
Actual	$425	$361	Up 25%	10%	10%	1.07%

2017 Guidance At...	Pre-tax Annuity Income Adj*	Pre-tax Annuity Income	Annuity Premiums	Avg Annuity Reserves Growth	Avg Annuity Investments Growth	Net Spread Earned
4Q16	$375-395	$375-395	0-10%	9-10%	8-9%	1.23-1.29%
1Q17	$380-400	$375-395	0-10%	11-12%	10-11%	1.22-1.28%
2Q17	$385-405	$370-390	Relatively flat	11-12%	10-11%	1.20-1.25%
3Q17	$395-410	$370-390	Slightly lower	11-12%	10-11%	1.21-1.26%
Actual	$413	$380	Down 2%	11%	12%	1.23%

2016 Guidance At...	Pre-tax Annuity Income Adj*	Pre-tax Annuity Income	Annuity Premiums	Avg Annuity Reserves Growth	Avg Annuity Investments Growth	Net Spread Earned
4Q15	$350-370	$315-360	$4.3-4.5 billion	10-12%	10-12%	1.10-1.25%
1Q16	$350-370	$315-360	$4.3-4.5 billion	10-12%	10-12%	1.10-1.25%
2Q16	$370-385	$305-340	$4.0-4.2 billion	10-12%	10-12%	1.05-1.20%
3Q16	$377-387	$310-345	$4.1-4.2 billion	13%	12%	1.08-1.20%
Actual	$395	$368	$4.4 billion	13%	12%	1.29%

Source: Company data, Credit Suisse estimates

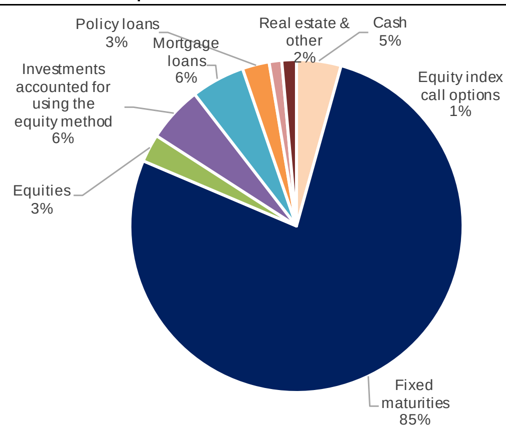
Investment Portfolio

AFG has a $57 billion investment portfolio comprised primarily of fixed maturity investments. Its largest exposures area is corporate bonds (52% of fixed maturities), of which it is most exposed to the financials sector (see Figure 42).

Its alternatives investment portfolio (~4% of total investments) has a significant real estate component, which has held in nicely during the pandemic, due in large part to the resilience of the multi-family sector. On its 2Q'20 EPS call, management noted, *"Our portfolio is geographically diversified. We do not own any properties in the large metropolitan areas that have been identified as most at risk from lifestyle changes resulting from the pandemic."* AFG's historical alternative investment returns has been ~10%.

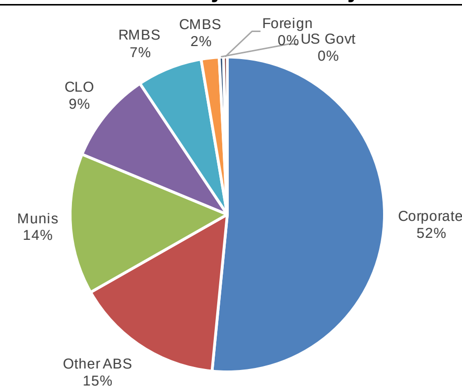
Approximately 4% of the fixed maturity portfolio is rated below investment grade (majority of these are RMBS), with 5% unrated.

Figure 39: AFG's $57 Billion Investment Portfolio by Asset Type



Source: Company data, Credit Suisse estimates

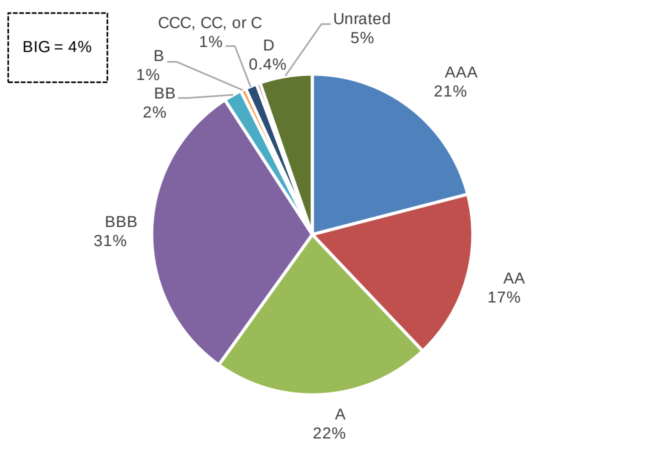
Figure 40: AFG's Fixed Maturity Portfolio by Asset Class



Source: Company data, Credit Suisse estimates

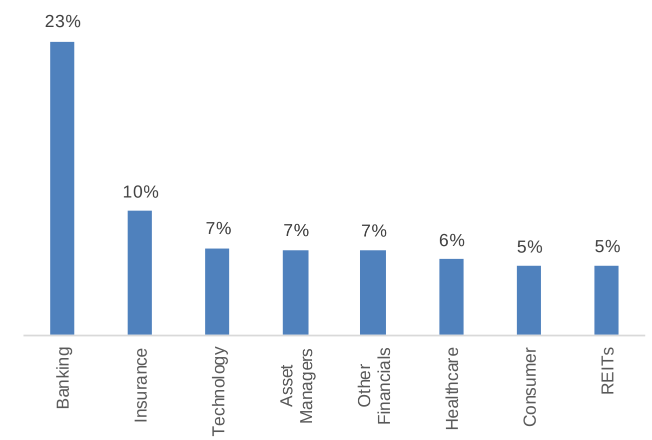
On the annuity side, AFG's asset duration is shorter than its liability duration by ~1 year, and management does not reach for yield when rates are low.

Figure 41: Mix of AFG Fixed Maturities by Credit Rating



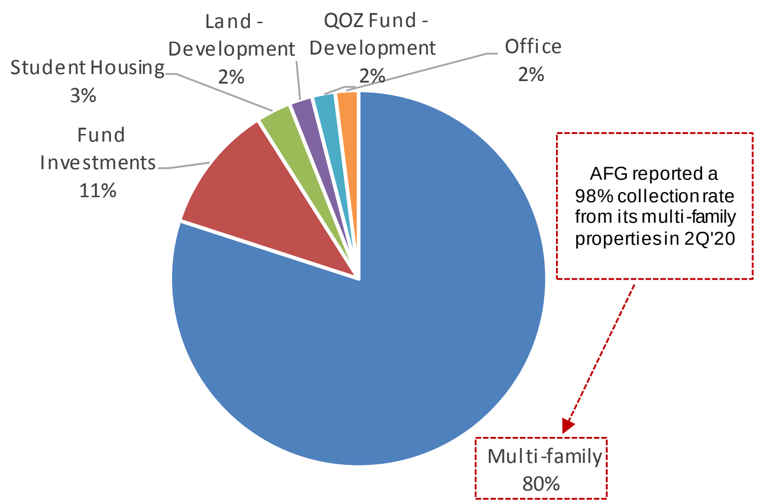
Source: Company data, Credit Suisse estimates

Figure 42: Top Corporate Fixed Maturity Exposures by Industry



Source: Company data, Credit Suisse estimates

Figure 43: AFG Alternative Investment Real Estate



Source: Company data, Credit Suisse estimates

Management Team & Ownership

AFG's management is led by Carl and Craig Lindner, brothers who share CEO duties; and newly minted CFO Brian Hertzman, who has been with AFG in multiple capacities since 1991. Carl Lindner also serves as CEO of the P&C business, and Craig Lindner serves as CEO of the Annuity business and the company's investment portfolio. Note, former CFO Jeff Consolino resigned in June to become CEO of specialty insurer StarStone US Holdings.

Figure 44 details the bios for AFG's key executives in the C-suite.

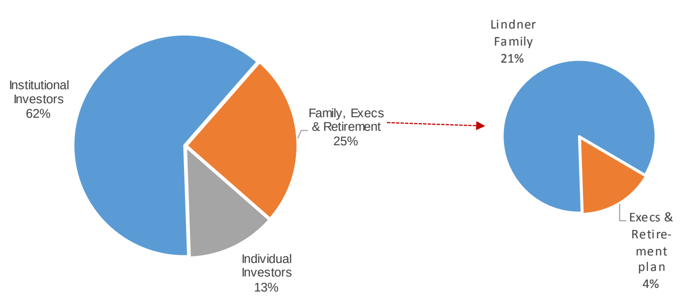
Figure 44: AFG Management Team

Officer	Title	Age	Bio
Carl H. Lindner III	Co-CEO	66	Carl Lindner has been Co-Chief Executive Officer since January 2005, and since 1996, he has served as Co-President of the Company. Until 2010, for over ten years, Mr. Lindner served as President, and since 2010, Mr. Lindner has served as CEO of AFG's Property and Casualty Insurance Group and has been principally responsible for the Company's property and casualty insurance operations.
S. Craig Lindner	Co-CEO	65	Craig Lindner has been Co-Chief Executive Officer since January 2005, and since 1996, he has served as Co-President of the Company. Mr. Lindner served as President of Great American Financial Resources, Inc., a subsidiary of the Company, for more than ten years prior to 2018 w hen he w as elected Chief Executive Officer and has been principally responsible for the Company's annuity operations. Until 2011, for over ten years, Mr. Lindner served as President of American Money Management Corporation ("AMMC"), a subsidiary that provides investment services for the Company and certain of its affiliated companies, and Mr. Lindner continues to be primarily responsible for the Company's investment portfolio. Craig and Carl Lindner are brothers.
Brian Hertzman	SVP & CFO	Undisclosed	Mr. Hertzman joined AFG in 1991 and has held positions of increasing responsibility w ithin the Company's finance and accounting areas during his nearly 30-year tenure. He previously served as Vice President and Controller of AFG, w ith responsibility for oversight of accounting policies and procedures in compliance w ith GAAP and other applicable regulations, and financial reporting to the Securities and Exchange Commission. In June 2020, Mr. Hertzman w as named interim principal financial and accounting officer. He earned a bachelor's degree in Accounting and Finance from the University of Cincinnati and a Master of Business Administration in Finance from Xavier University. He is a Certified Public Accountant (CPA) in the State of Ohio, and a member of the American Institute of CPAs, the Ohio Society of CPAs and Financial Executives International.
John B. Berding	President, American Money Management	57	John Berding w as elected President of AMMC in January 2011. Prior to his election as President, he held a number of investment-related executive positions w ith AMMC and other AFG subsidiaries. Mr. Berding has over 30 years of experience as an investment professional, and he has spent his entire career w ith the Company and its affiliates. The Board values Mr. Berding's know ledge of financial markets and investment management as w ell as his specific know ledge of the Company's investment portfolio and strategy and has determined that his ability to contribute his experience on a constant basis as a member of the Board are invaluable to the Company.
Michelle A. Gillis	Sr VP & Chief Administrative Officer	51	Michelle A. Gillis w as elected Senior Vice President and Chief Administrative Officer of the Company in March 2013 after serving as Vice President of the Company since 2011. In her current roles, Ms. Gillis has responsibilities for Human Resources, Corporate Communications, Real Estate and various shared service areas. She also serves on the Board of Directors of Great American Insurance Company. Since joining the Company in 2004 through 2011, Ms. Gillis has held various senior human resource management positions w ith the Company, most recently as Vice President of Great American Insurance Company. Previously, Ms. Gillis spent several years in senior human resources roles in the financial services sector. Ms. Gillis holds an active accreditation as Senior Professional in Human Resources (SPHR) from the Human Resources Certification Institute.
Vito C. Peraino	SVP & General Counsel	64	Vito C. Peraino w as elected Senior Vice President and General Counsel of the Company in March 2012. He previously served as Senior Vice President of Great American Insurance Company since 2002 and Assistant General Counsel of Great American Insurance Company since 2004. Through September 2014, he also served on the Board of Directors of the Company's subsidiary, National Interstate Corporation. Since joining Great American Insurance Company in 1999, Mr. Peraino has held various executive claims management positions. Previously, Mr. Peraino spent several years in private practice and has represented various insurance industry entities as an attorney since 1981.

Source: AFG 2020 Proxy Statement, Credit Suisse research

The Lindner family founded AFG in 1959 and AFG believes their significant ownership helps to align the interests of shareholders over the long term. AFG's ownership mix by shareholder type is shown in Figure 45 below.

Figure 45: AFG Insider Ownership



Source: Company data, Credit Suisse estimates.

* Lindner family's 21% ownership includes shares owned directly by Carl III, Craig, their adult children, Edyth Lindner (their mother), their foundations and other family trusts

Management Compensation

AFG's management compensation program is comprised of a base salary, stock awards, non-equity incentive plan compensation, and other compensation. Non-equity incentive plan compensation consists of: annual cash awards and long term cash awards. Other compensation includes retirement benefits, the ability to elect to defer compensation, aircraft usage and certain other perquisites. A breakdown of compensation is shown in Figure 46 and Figure 47.

Figure 46: AFG 2017-19 Compensation for Named Executive Officers

Executive	Title	Year	Salary	Stock Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
		2019	$1,250,000	$1,500,045	$6,597,992	$1,116,550	$10,464,587
Carl H. Lindner	Co-CEO	2018	$1,234,615	$1,500,474	$6,461,345	$1,012,951	$10,209,385
		2017	$1,150,000	$5,195,752	$2,231,547	$1,195,551	$9,772,850
		2019	$1,250,000	$1,500,045	$6,597,992	$1,109,383	$10,457,420
S. Craig Lindner	Co-CEO	2018	$1,234,615	$1,500,474	$6,461,345	$995,061	$10,191,495
		2017	$1,150,000	$5,195,752	$2,231,547	$1,024,850	$9,602,149
		2019	$960,000	$800,157	$2,874,267	$149,259	$4,783,683
Joseph E. Consolino	CFO	2018	$921,346	$800,177	$2,815,031	$147,246	$4,683,800
		2017	$895,192	$1,909,133	$1,535,950	$130,459	$4,470,734
		2019	$960,000	$950,062	$2,874,267	$99,597	$4,883,926
John B. Berding	President, American Money Mgt.	2018	$928,846	$950,281	$2,815,031	$99,986	$4,794,144
		2017	$900,000	$2,008,662	$1,535,950	$93,010	$4,537,622
		2019	$390,770	$320,162	$310,174	$61,482	$1,082,588
Michelle A. Gillis	Sr VP & Chief Admin Officer	2018	$355,979	$320,522	$314,040	$57,557	$1,048,098
		2017	$342,354	$300,303	$297,500	$52,587	$992,744
		2019	$625,385	$600,117	$699,302	$79,044	$2,003,848
Vito C. Peraino	SVP & General Counsel	2018	$604,615	$600,415	$697,866	$78,679	$1,981,575
		2017	$586,154	$600,134	$686,538	$75,433	$1,948,259

Source: AFG's 2020 Proxy Statement

Figure 47: 2019 Co-CEO Incentive Compensation ($ in Millions)

Co-CEOs	Target	Max	Actual
Annual Cash Bonus	$2.06	$2.82	$2.15
Long Term Cash Bonus	$2.50	$5.00	$4.44
Equity Awards	N/A	N/A	$1.51

Source: AFG's 2020 Proxy Statement

Based on our review of AFG's proxy statement, our conclusion is that management's incentive compensation has a mix of more attainable and loftier goals. Its annual bonus targets are not overly easy, and the ultimate payouts have been relatively close to the payouts implied by the performances relative to target. For its longer-term cash awards, we view its book value per share target incentivizes management to perform well in relation to its peers in the industry, while its RoE target provides a simpler target to ensure the company is focused on generating earnings for shareholders.

Annual cash awards: Each executive is issued a target cash award amount. The award amount is then allocated to various metrics: Operating EPS, Specialty P&C Earnings, and Annuity Earnings (in 2019, the allocation was 36%/36%/28%). The Board sets target achievement levels for each metric, and prescribed payout levels for each level of achievement. A breakdown of the 2019 targets is shown in Figure 48.

Note the board uses its discretion in determining how much of the target to payout. Figure 49 shows actual payouts vs the implied payouts, with the implied payouts calculated based on the actual achievements as a percentage of the achievement at the target achievement level. While the actual payouts were above the amounts implied by the achievements relative to targets, the payout in excess of the implied targets was not particularly large.

Figure 48: Annual Cash Awards: 2019 Metrics and Targets

Range	Metric: Operating EPS	% Payout*
No payout	<$7.73	0%
Target	$8.60	100%
High end	$9.46+	175%
Actual	$8.62	102%

Range	Metric: Specialty P&C Earnings	% Payout*
No payout	<$693.3	0%
Min	$693.3	85%
Target	$753.6	100%
High end	$813.9+	115%
Actual	$753.2	99.9%

Range	Metric: Annuity Earnings	% Payout*
No payout	<$415.8	0%
Min	$415.8	85%
Target	$452.0	100%
High end	$488.1+	115%
Actual	$501.6	115%

Source: Company data, Credit Suisse estimates.

*-Payout rates shown are for the CEO. Payout rates vary slightly for other executives.

Figure 49: Actual Annual Cash Award Payout vs. Expected Payout Based On Actual Performance Shown in Figure 48

	Implied Payout as % of Target	Actual Payout as % of Target	Actual Payout as % of Maximum Award
2019	104%	104%	76%
2018	103%	111%	81%
2017	103%	108%	108%

Source: Company data, Credit Suisse estimates.

*-Payout rates shown are for the CEO. Payout rates vary slightly for other executives.

Long-term cash awards: The Senior Executive Long-Term Incentive Compensation Plan calls for cash bonus awards payable upon achievement of three-year performance goals that are set annually. It utilizes two metrics, which are weighted equally: (#1) growth in adjusted book value per share relative to competitors, and (#2) average annual return on equity growth. Minimum and maximum bonus amounts are set based on ranges of achievement of those two metrics, which are shown for various three year periods in Figure 50 and Figure 51.

Figure 50: Long-Term Cash Awards: Book Value per Share Growth (Weighting = 50% of Long Term Cash Award)

3 yr Period Ending in	Min	Target	Max	Actual Ranking (of 23 peers)	Payout as % of Target
2017	Book value per share growth must exceed that of the lower quartile of that of its comps.	Book value per share growth must exceed that of 37.5% of comps.	Book value per share growth must exceed that of 100% of comps.	10th	95.7%
2018	Book value per share growth must exceed that of the lower quartile of that of its comps.	Book value per share growth must exceed that of 37.5% of comps.	Book value per share growth must exceed that of 100% of comps.	7th	133.3%
2019	Book value per share growth must exceed that of the lower quartile of that of its comps.	Book value per share growth must exceed that of 37.5% of comps.	Book value per share growth must exceed that of 100% of comps.	3rd	155.6%

Source: Company data, Credit Suisse estimates.

Figure 51: Annual Return on Equity (Weighting = 50% of Long Term Cash Award)

3 yr Period Ending in	Min RoE to Receive Bonus	Target Award Achieved at RoE of:	Max Award Achieved at RoE of:	Actual RoE	Payout as % of Target
2017	<9%	10.5%	12%	12.1%	200%
2018	<9%	10.5%	12%	13.5%	200%
2019	<9%	10.5%	12%	12.6%	200%

Source: Company data, Credit Suisse estimates.

Annual stock awards: Since February 2016, AFG has awarded restricted shares that cliff-vest after four years, which helps incentivize retention due to the potential for forfeiture of awards. AFG's Compensation Committee determines grant amounts by examining the dilutive effect to shareholders and the expense impact on AFG.

- *Change in Control:* While there are no NEOs with severance or change-in-control payment agreements, there is an acceleration in vesting of equity granted under the long-term incentive compensation plan. However, this acceleration agreement includes a "double trigger," which means that if the awards are assumed by the surviving entity, the acceleration will not occur unless the NEO has a qualifying termination.

Impact of 2017 Tax Reform

As shown in Figure 52, the Tax Cuts and Jobs Act of 2017 has reduced AFG's average effective tax rate from the upper-20% range to ~20%. Should recent tax reform be reversed, AFG's tax rate would likely move higher, and given its Neon exit, it now holds less international exposure, making it possible its tax rate would move above 2014-16 levels.

Figure 52: Effective Tax Rates Pre- and Post-Tax Reform, Select P&C Insurers

	Current Normalized Tax Rate (est)	2014-16 Normalized Tax Rate (est)	Δ
ALL	19%	33%	-13%
WRB	20%	32%	-12%
PGR	20%	31%	-11%
SIGI	18%	28%	-11%
TRV	18%	27%	-9%
HIG	16-18%	26%	-9%
CINF	19%	27%	-9%
AFG	20%	28%	-8%
THG	17%	23%	-6%
RE	6%	11%	-5%
CNA	17%	21%	-4%
MKL	21%	25%	-4%
CB	15%	16%	-1%
RNR	1%	0%	1%
ACGL	10%	5%	5%

Source: Company data, S&P Global Market Intelligence, Credit Suisse estimates

Figure 53: Effective Tax Rate Commentary

Ticker	CS Commentary
ACGL	Tax rate w ent up due to dis-incentive to use as much offshore reinsurance ceding
AFG	Effective tax rate generally in line w ith corporate tax rate. Mgt. applauded tax reform as leveling playing field for US insurers.
AJG	GAAP tax rate negative due to clean coal operations. AJG Cash Tax rate moved from 10-15% to 5%. Reduces AJG effective tax rate by 7 pts before clean energy impact.
CINF	3Q18 commentary: Investment income effective tax rate is ~16%, w ith 21% from other income (incl. underw riting income)
RE	4Q18: For 2019, w e expect our tax rate to be about 13%, w hich reflects an annual cat load of less than 7 points. RE Cat Load is low er than guidance vast majority of the time.
HIG	Hasn't paid much in the w ay of actual taxes since Financial Crisis due to tax assets expiring in next 1-2 years. Dec. 2016 commentary: Reduction of corporate tax rate to 20% w ould reduce ETR by 9pts
PGR	Pre-2020, losses from investment in solar tax business that proved to be fraudulent reduced tax rate by ~1-2pts.
RNR	RNR's actual tax rate from 2014-16 w as -3%. Similar to Reinsurer Everest Re (see above), tax rate is usually low er than guidance due to catastrophe losses. 10/30/19 EC: We now have multiple balance sheets located in taxable jurisdictions and as these businesses generate profit including investment income on their invested assets, they w ill be subject to income tax.
SIGI	9/6/18 Commentary: Clearly, tax reform has benefited us. There's about a 10 percentage point decrease in effective tax rate on the investment income. But secondly, investment portfolio yields are up. There's a little bit of pain as rates go up, but it does deliver significant profitability for us.
THG	Prior to the TCJA, tax planning strategies reduced THG's ETR from the ~33% to low -teens to mid-20s range.
ALL	Original tax reform guidance, 3/7/18: So our effective tax rate w ill drop from w hat w as probably in the low 30s over the last few years to somew here betw een 19% and 20%.

Source: AlphaSense Transcripts, Company data, Credit Suisse research

Valuation

Figure 54: FY+1 P/E Valuation Comparison, P&C Insurance, and Brokers

Current avg of commercial carriers = 12.1x or 60% of S&P 500, which is 24pts below the 6-year average

	A	B	C	D	E	F=D-E
	Current P/E, 2021, CS EPS	Current P/E, 2021 Cons EPS	6 Yr Avg P/E, FY+1, Cons EPS	Current FY+1 P/E (CS EPS), as % of Current S&P 500 P/E	6-Yr Avg, FY+1 P/E as % of S&P 500 P/E	Current vs. 6-Yr Avg
ACGL	11.3x	10.8x	14.4x	55%	89%	**-33%**
AIG	6.3x	6.3x	10.0x	31%	61%	**-30%**
AFG	8.0x	7.3x	12.2x	39%	74%	**-35%**
AJG	23.0x	22.8x	17.8x	113%	108%	**5%**
ALL	8.2x	7.8x	10.9x	41%	67%	**-26%**
BRO	26.6x	26.8x	21.0x	131%	128%	**3%**
CB	10.4x	10.4x	12.2x	51%	75%	**-23%**
CINF	20.8x	20.4x	22.8x	102%	140%	**-38%**
HIG	7.0x	6.7x	10.3x	34%	63%	**-29%**
MMC	22.3x	22.1x	18.2x	109%	111%	**-2%**
PGR	17.1x	16.8x	15.2x	84%	93%	**-9%**
RE	10.5x	8.4x	10.2x	51%	62%	**-11%**
SIGI	12.4x	11.8x	14.5x	61%	89%	**-28%**
THG	10.5x	10.3x	12.9x	52%	79%	**-27%**
TRV	11.3x	10.5x	11.7x	55%	71%	**-16%**
WRB	20.7x	19.4x	18.4x	102%	112%	**-10%**
S&P 500	-	20.3x	16.4x	-	-	**-**

Source: FactSet, Credit Suisse. *Note, **D** is equal to the P/E ratio in **A** as % of S&P 500's P/E in **B**. Based on 9/29/20 closing prices.

Figure 55: FY+1 P/E Valuation Comparison, Life Insurance

Current avg = 5.9x or 29% of S&P 500, which is 22pts below the 6-year average

	A	B	C	D	F=C-D
	Current P/E, FY+1 Cons EPS	6 Yr Avg P/E, FY+1, Cons EPS	Current FY+1 P/E (CS EPS), as % of Current S&P 500 P/E	6 Yr Avg As % of S&P 500 P/E	Current vs. 6-Yr Avg
AEL	4.4x	8.3x	21%	51%	-30%
AFG	7.3x	12.2x	36%	74%	-38%
AIG	6.3x	10.0x	31%	61%	-30%
AFL	8.0x	10.5x	39%	64%	-25%
AMP	8.1x	9.7x	40%	59%	-19%
ATH	4.2x	7.1x	21%	42%	-22%
BHF	2.3x	4.4x	11%	26%	-15%
EQH	3.4x	4.6x	17%	28%	-11%
GL	10.5x	9.9x	52%	61%	-9%
LNC	3.2x	7.2x	15%	44%	-28%
MET	6.0x	8.2x	29%	50%	-21%
PFG	6.4x	7.1x	32%	42%	-11%
PRU	5.3x	7.8x	26%	48%	-21%
RGA	7.4x	10.5x	36%	64%	-28%
UNM	3.1x	7.8x	15%	48%	-32%
VOYA	7.8x	9.5x	38%	58%	-20%

Source: FactSet, Credit Suisse. *Note, **C** is equal to the P/E ratio in **A** as % of the S&P 500's P/E. Based on 9/29/20 closing prices.

Figure 56: Book Value Valuations – P&C Companies

	Current	3-yr	*3-yr vs. Current*	6-yr	*6-yr vs. Current*
ACGL	1.09x	1.40x	*-22%*	1.43x	*-24%*
AFG	0.95x	1.58x	*-40%*	1.46x	*-35%*
AIG	0.36x	0.67x	*-46%*	0.71x	*-48%*
AIZ	1.28x	1.21x	*6%*	1.16x	*11%*
CB	0.93x	1.22x	*-23%*	1.23x	*-24%*
CINF	1.29x	1.61x	*-20%*	1.57x	*-18%*
HIG	0.82x	1.27x	*-35%*	1.13x	*-27%*
MKL	1.21x	1.53x	*-21%*	1.51x	*-20%*
SIGI	1.37x	1.94x	*-29%*	1.69x	*-19%*
THG	1.21x	1.60x	*-24%*	1.40x	*-13%*
TRV	1.06x	1.41x	*-25%*	1.39x	*-24%*
WRB	1.84x	1.91x	*-3%*	1.69x	*9%*
Avg	**1.12x**	**1.45x**	***-23%***	**1.37x**	***-18%***

Source: FactSet, Credit Suisse estimates. Based on 9/29/20 closing prices.

Figure 57: Book Value Valuations – Life Companies

	Current	3-yr	*3-yr vs. Current*	6-yr	*6-yr vs. Current*
AEL	0.44x	0.86x	*-49%*	0.85x	*-49%*
AFG	0.95x	1.58x	*-40%*	1.46x	*-35%*
AFL	0.90x	1.34x	*-33%*	1.39x	*-35%*
AIG	0.36x	0.67x	*-46%*	0.71x	*-48%*
AMP	3.25x	3.26x	*0%*	2.98x	*9%*
ATH	0.45x	0.84x	*-46%*	0.94x	*-52%*
BHF	0.17x	0.31x	*-45%*	0.32x	*-46%*
EQH	0.67x	0.74x	*-10%*	0.74x	*-10%*
GL	1.17x	1.55x	*-25%*	1.60x	*-27%*
MET	0.51x	0.73x	*-31%*	0.71x	*-28%*
PFG	0.76x	1.18x	*-36%*	1.32x	*-43%*
PRU	0.40x	0.69x	*-42%*	0.77x	*-48%*
RGA	0.51x	0.92x	*-44%*	0.94x	*-45%*
UNM	0.34x	0.78x	*-57%*	0.89x	*-62%*
VOYA	0.67x	0.79x	*-16%*	0.67x	*0%*
Avg	**0.78x**	**0.85x**	***-8%***	**0.89x**	***-12%***

Source: FactSet, Credit Suisse estimates. Based on 9/29/20 closing prices.

Sum of the Parts: Our $95 Target Price for AFG is based on a sum of the parts of its P&C and Annuity businesses, shown in Figure 58 below.

For AFG's P&C business, we use a 13.2x FY+1 P/E multiple, equal to 65% of the S&P 500's FY+1, which compares to the current 61% average relative multiple for HIG, SIGI, THG, TRV, and WRB (56% ex-HIG & WRB). We view the premium is warranted given AFG is more levered to commercial pricing increases than those peers, with the exception of WRB, which has the higher multiple.

For the Annuity business, we use a 6.0x FY+1 P/E multiple, which is approximately in line with the life comps shown in Figure 55 above, and a premium to annuity-heavy peers AEL and ATH's multiples of ~4.3x. We view this premium is appropriate given AFG's simpler, lower risk product offering. We assign 50% of AFG's corporate earnings (i.e., the difference between consolidated core earnings and segment core earnings) to each segment.

Figure 58: Sum of the Parts Analysis

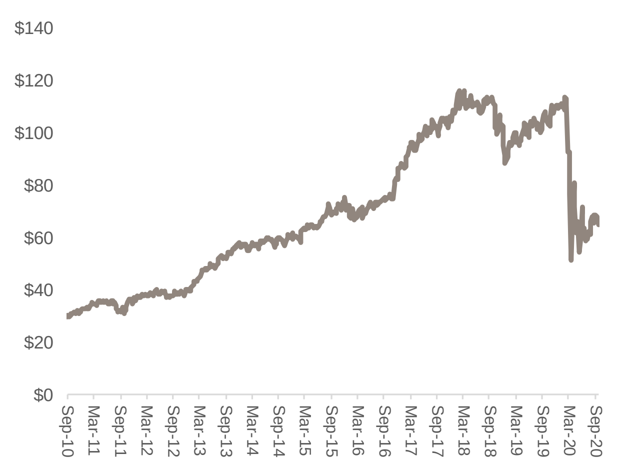
P&C	
2021 EPS	$6.25
P/E Multiple	13.2x
Implied P&C Value per Share	$83
Life	
2021 Earnings Per Share	$2.06
P/E FY+1 Multiple	6.0x
Implied Life Value per share	$12
Consolidated	
Price per share	$95
2021 Earnings per Share	$8.31
P/E FY+1 Multiple	11.4x

Source: Company data, Credit Suisse estimates

Our $115 blue sky scenario embeds continued rate acceleration in the specialty P&C book, with COVID-19 charges tailing off sequentially in 2H'20, and a healthy 2021 crop season, in addition to muted social inflation trends driving margin expansion for AFG. In the annuity book, our blue sky embeds strong persistency with some recovery in spreads as AFG's cost of funds reductions work its way through the book into 1H'21.

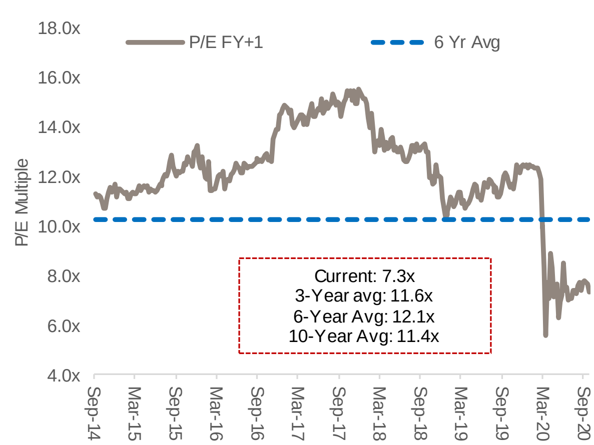
Our $55 grey sky scenario embeds rate deceleration in the P&C book, with COVID-19 charges continuing into 2021, a poor 2021 crop season, and an acceleration in social inflation trends driving topline declines and margin contraction for AFG. In the annuity book, our grey sky embeds weaker persistency, and volatility in its alternative investment book, driving continued lower levels of annuity income.

Figure 59: AFG Stock Price, Last 10 Years



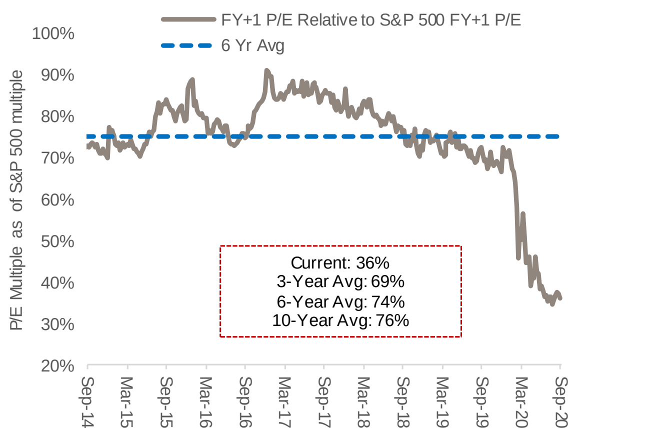
Source: FactSet, Credit Suisse estimates. Based on 9/25/20 closing prices.

Figure 60: AFG Valuation, P/E FY+1



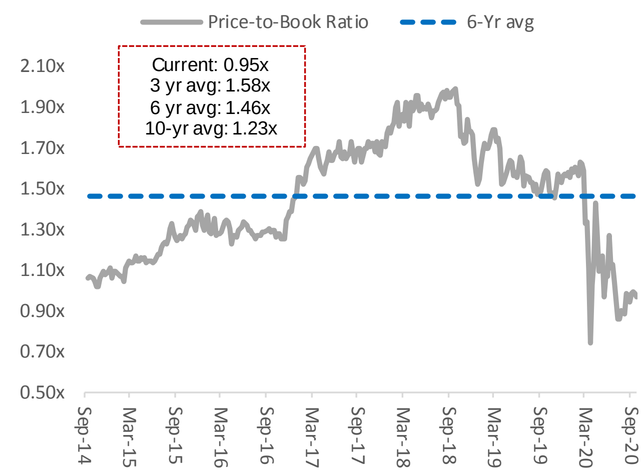
Source: FactSet, Credit Suisse estimates. Based on 9/29/20 closing prices.

Figure 61: AFG Valuation, P/E FY+1 as % of S&P 500 P/E FY+1



Source: FactSet, Credit Suisse estimates. Based on 9/29/20 closing prices.

Figure 62: AFG Valuation, Price/Book Value



Source: FactSet, Credit Suisse estimates. Based on 9/29/20 closing prices.

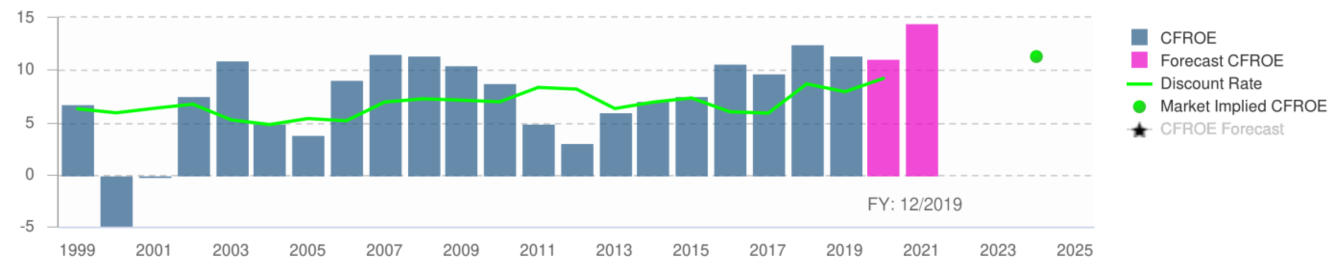
Risk Factors

- **Higher Tort/Social Inflation Leading To Reserve Additions:** Commercial insurance carriers have suffered losses in recent years due to what insurers have called a more litigious and tougher tort environment, owing to factors such as a more aggressive plaintiff's bar and litigation funding. Should social inflation trends accelerate, greater-than-expected pressure on AFG's underwriting margins could arise.
- **Higher Catastrophe Losses:** Factors such as climate change and higher populations on the coastlines where hurricanes, earthquakes, and wildfires have been prevalent could drive greater future losses. Greater levels of precipitation could hurt the performance of AFG's crop insurance business.
- **Net Investment Income Pressure:** Historically low Treasury yields have hindered AFG's ability to grow or possibly even maintain its net investment income profile, given ~85% of its investment portfolio is composed of fixed-maturity assets.
- **COVID-19 Losses:** AFG has recorded COVID-19 losses of $95 million YTD (~4pts on the combined ratio), primarily in lines such as workers' comp, D&O, and trade credit. Should a resurgence of COVID-19 cases in the US occur and drive further shut downs, AFG's estimate of losses could increase materially.
- **Commercial Pricing May Slow:** While commercial pricing tends to be driven by insurance cycles (i.e., based on P&C loss and investment income trends), and these trends continue to drive rate increases, a decline in the macroeconomic environment could slow pricing or premium growth in the future if small businesses are unable or unwilling to pay greater rates. In addition, a lack of discipline from AFG or its peers could lead to greater competition and lower prices.
- **Broker/Agent Disintermediation:** A number of Insurtechs have been founded with the intent of disintermediating traditional agents and brokers, and disrupting the insurance supply chain. Given AFG's strategy is dependent on distributing product through independent agents, significant penetration from these Insurtechs could put it at a disadvantage relative to peers.
- **Family dynamics:** As noted above, AFG has significant family ownership, and the company's co-CEOs are brothers. While we do not view this is the case currently, should family incentives become misaligned with those of the rest of the company's shareholder base, AFG's performance may lag.

HOLT® Analysis

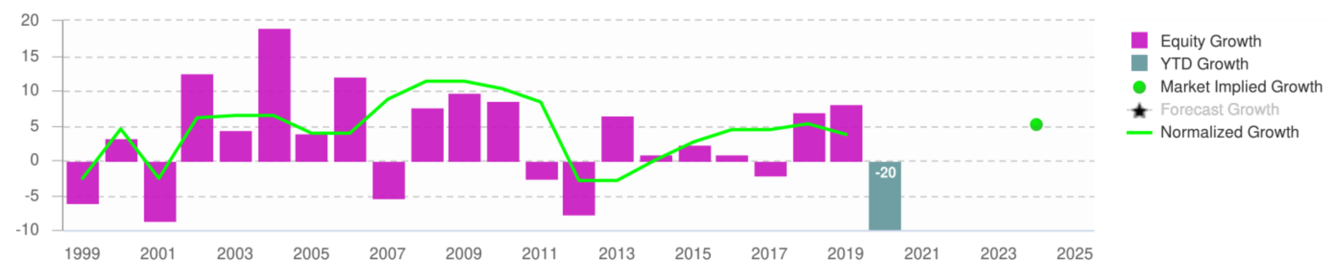
We have used the proprietary CS HOLT framework to compare market-implied expectations for AFG vs. peers. This analysis indicates that AFG's returns on capital have been increasing steadily since 2012. Market implied expectations are conservative, indicating attractive valuation. AFG has generated one of the highest returns on equity of its peers, as shown in Figure 65.

Figure 63: Historical performance and market implied expectations – Cash Flow Return on Equity ("CFROE")



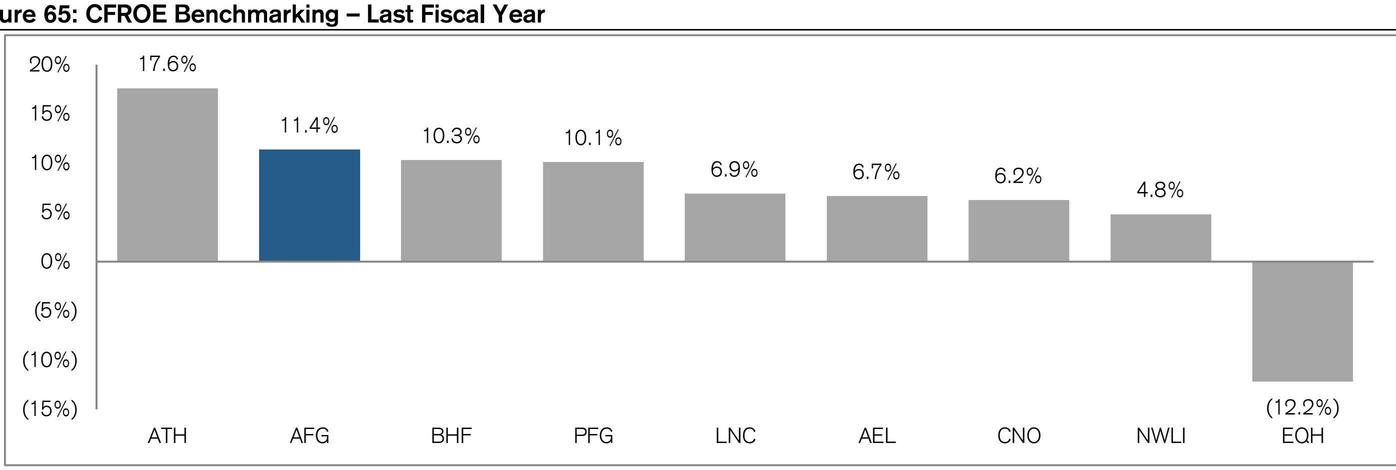
Source: Credit Suisse HOLT Lens on September 29, 2020

Figure 64: Historical performance and market implied expectations (Equity Growth)



Source: Credit Suisse HOLT Lens on September 29, 2020

Figure 65: CFROE Benchmarking – Last Fiscal Year



Source: Credit Suisse HOLT Lens on September 29, 2020

Appendix: Company Background

American Financial Group (NYSE: AFG) is an insurance company that sells property and casualty (P&C) insurance, and traditional fixed and fixed indexed annuities. Approximately 50% of AFG's P&C gross written premiums are generated by businesses with top 10 market rankings, down from over 60% in 2017.

Unlike many other publicly traded P&C companies, ~60% of AFG's consolidated equity is tied to businesses uncorrelated to the P&C cycle, such as crop, equine, and lender-placed insurance, in addition to its annuity businesses. We also argue below that AFG's P&C business is less exposed to catastrophe losses than most publicly traded commercial peers, a potentially important feature for the stock in an evolving world where climate change is increasing the severity and frequency of large storms.

Property & Casualty Insurance

AFG's P&C operations are comprised of 34 businesses, primarily focused on specialized commercial products and distributed via independent agents. Several of its businesses rank in the top 10 in their respective markets, including: crop, equine, executive liability, fidelity and crime, financial institution services, Florida workers' comp, nonprofit/social services, and passenger transportation, among others.

AFG utilizes a decentralized model, allowing its 34 businesses to make decisions at the local level regarding underwriting, claims, and policy servicing. AFG distributes its products through several thousand agents and brokers, and the top three brokers represent <7% of its overall business, which speaks to lower concentration risk.

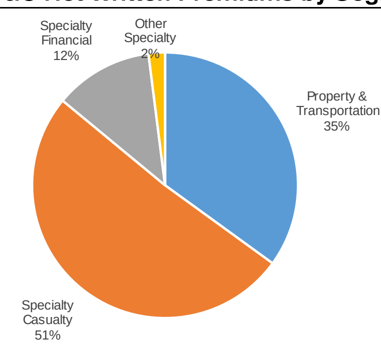
AFG's P&C executives strive to achieve underwriting profitability benchmarks, with their annual incentive compensation tied to accident year combined ratio targets. AFG designs annual underwriting targets for the individual business units, paid out over two- to three-year periods. It also has long-term incentive compensation programs that utilize five-year measurement terms for each group of business leaders, with payouts executed over the following five years. AFG target returns vary by business but range from 12-23%.

Figure 66: AFG P&C Segment Information

Segment	Line of Business
Property & Transportation	Agricultural-related
Property & Transportation	Commercial auto
Property & Transportation	Property, Inland marine, and Ocean marine
Specialty Casualty	Excess & surplus
Specialty Casualty	Executive & Professional liability
Specialty Casualty	General liability
Specialty Casualty	Targeted programs
Specialty Casualty	Umbrella & Excess liability
Specialty Casualty	Workers' compensation
Specialty Financial	Fidelity & Surety
Specialty Financial	Lease & Loan services

Source: Company data, Credit Suisse estimates

Figure 67: % of P&C Net Written Premiums by Segment



Source: Company data, Credit Suisse estimates

Property and Transportation (35% of P&C net written premiums): AFG's Property and Transportation is comprised of agriculture-related, commercial auto, and property and marine businesses. While it does not disclose a breakdown of premiums, it has noted crop and National Interstate are its two largest business units in the segment.

Agriculture: AFG engages in both crop-hail (private) and multiple peril crop insurance (public/private partnership), in addition to equine insurance.

- *How crop insurance works:* There are dates that range from mid-May to late June by when crops need to be in the ground. If farmers cannot plant their first crop by these dates, they also have an option to plant an alternative crop which can be planted later, in which case there may be a small crop insurance payout that is equal to just a fraction of the payout should no crop be planted at all (typically corn is planted first, soybean second).

  In the event of full prevention of planting, the payout under the federal scheme is 60% of the crop value as determined at the time the insurance cover is purchased. Given such a 60% payout level is low, many farmers are incentivized to get an alternate crop planted. Also, farmers can take a risk and forego their prevented planting payout and plant their main crop a couple weeks late. Historically, even if the main crop goes into the ground a couple of weeks after the deadlines, their ultimate crop yields have still reached fairly healthy levels. See more details on crop insurance, here.

Figure 68: Crop Insurance Market Share (Gross Basis)

	Crop Multiple Peril	Private Crop
Total Industry Premiums	**$10,305,156**	**$1,105,780**
CB	18%	11%
Zurich	15%	17%
QBE	14%	12%
CGB	11%	10%
AFG	9%	7%
Sompo	7%	5%
Farmers Mutual	6%	14%
Fairfax	5%	2%
AIG	5%	10%
Tokio Marine	5%	4%

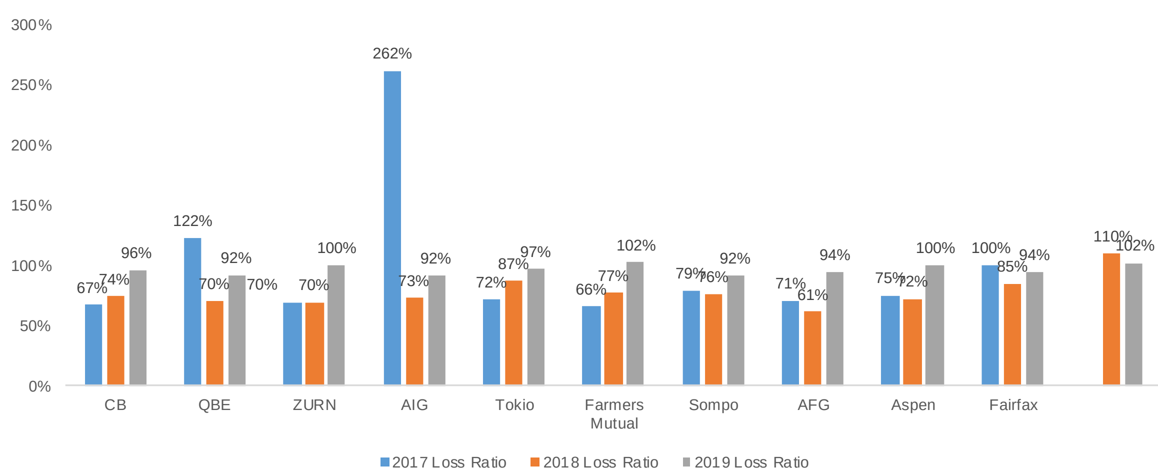
Source: S&P Global Market Intelligence, Credit Suisse estimates. $ In 000.

Figure 69: Crop Multiple Peril Insurance Statistics

			Combined Ratios					
	2019	2019	Historical Avg Combined Ratio		Recent Combined Ratios			
	Mkt Share	Premiums Earned	5-Yrs	10-Yrs	2016	2017	2018	2019
Industry		$6,480,989	77%	89%	61%	66%	77%	104%
CB	18%	$1,449,571	67%	78%	58%	68%	73%	70%
Zurich	15%	$672,489	68%	80%	67%	44%	59%	102%
QBE	14%	$955,504	80%	92%	53%	75%	73%	119%
AFG	9%	$330,381	75%	93%	54%	72%	68%	105%
Sompo	7%	$367,196	89%	102%	57%	79%	104%	118%

Source: S&P Global Market Intelligence, Credit Suisse estimates. $ In 000.

Figure 70: P&C Industry Multiple Peril Crop Loss Ratios



Source: S&P Global Market Intelligence, Company data, Credit Suisse estimates

Figure 71: Management's Description of Crop Performance, 2012-2020E

Year	Management's Categorization	Details
2020E	Shaping up nicely	Shaping up nicely; lower crop earnings in 1Q
2019	Poor	Delayed planting due to greater precipitation resulted in pushing of premiums from 2Q'19 into 3Q'19. Record levels of prevented planting claims drove underwriting losses.
2018	Above Avg	Lower y/y premiums
2017	Above Avg	Strong profitability, but lower y/y
2016	Outstanding	Higher premiums and underwriting profit from favorable growing conditions and relatively stable commodity pricing. Significantly better than the previous five year average.
2015	Successful	Higher profits. Corn and soybeans finished 3Q strong as August and September growing conditions were ideal.
2014	Profitable but below historical levels	Lower underwriting profits
2013	Met expectations but lower than historical	Improved profitability
2012	Poor	Losses from Midwest drought, partially offset by favorable prior year development

Source: Company transcripts and company filings

Commercial Auto: AFG's commercial auto business is tailored to buses and trucks in a broad range of businesses including moving and storage, and transportation industries (i.e., charter and tour bus companies, municipal transit systems, school transportation contractors, limousine companies, inter-city bus services and community service and paratransit operations).

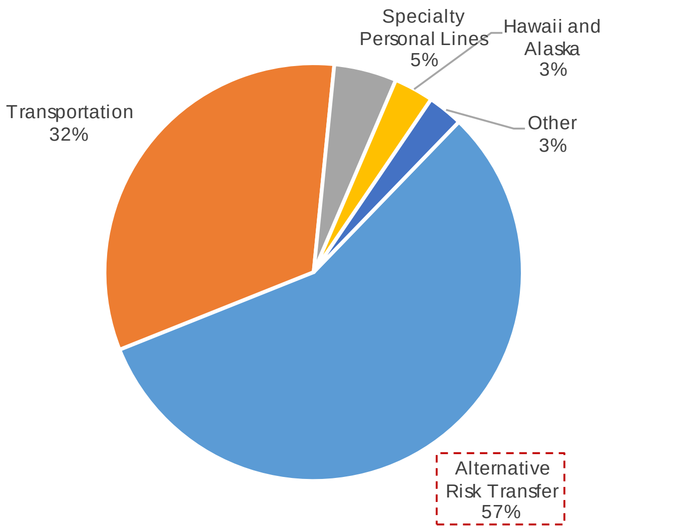
AFG's commercial auto business differs from its peers in that it has a significant *alternative risk transfer* (ART) component to it and has a higher mix of passenger transportation. The ART component is derived primarily from AFG's National Interstate entity (formerly NASDAQ: NATL), an entity in which AFG held a majority stake prior to acquiring the remaining outstanding shares in November 2016. ART differs from traditional coverage in that program participants (insureds) share in the underwriting profits or losses and the investment results associated with the risks insured under the program.

NATL's Form 10-K details more of the ART policy economics as follows: *Participants may assume 100% of the losses in the first loss layer or participate in a quota share arrangement, where the losses are shared between the participants and us. The loss layers typically range from $50,000 to $700,000 per occurrence and our members' participation percentages in quota share arrangements generally range from 30% to 50%.*

These economics, in turn, incentivize the insureds to achieve strong underwriting performance. Whereas traditional large fleet trucking businesses have thin margins – and put pressure on insurance pricing – the ART model likely helps insulate AFG from commercial auto losses.

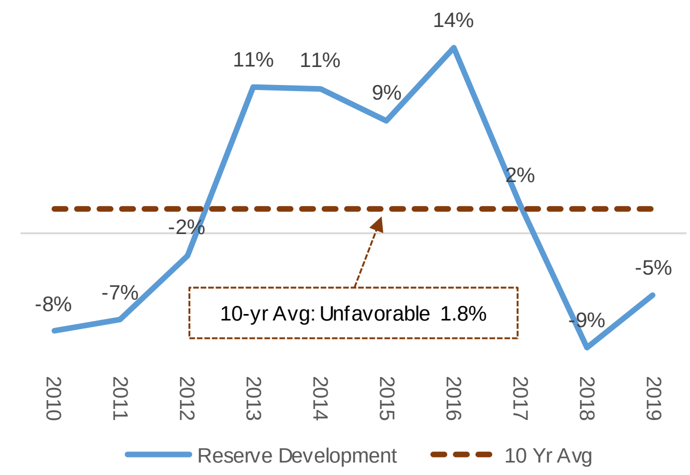
We note AFG generates more traditional commercial auto business from its Great American Insurance entity as well. However, Figure 72 highlights legacy NITL's historical commercial auto business mix. While AFG has felt pressure in commercial auto liability from more aggressive/effective attorney activity and larger jury awards, it noted in 3Q'19 that increased rates have stopped its commercial auto business from meeting profit targets. Figure 73 illustrates that AFG's commercial auto liability reserve development turned more favorable in 2018 and 2019.

Figure 72: Legacy NITL Premium Mix – 2015



Source: Company data, Credit Suisse estimates. Specialty Personal Lines coverages include RVs, campsite liability, vehicle replacement coverage and coverage for trailers, golf carts and campsite storage facilities.

Figure 73: Commercial Auto Liability Statutory Reserve Development (Negative=releases, meaning favorable; positive =deficient, meaning unfavorable), 2010-19



Source: S&P Global Market Intelligence, Credit Suisse estimates

Specialty Casualty (51% of P&C net written premiums): AFG's Specialty Casualty business has been one its strongest beneficiaries of hard market pricing conditions, with pricing up 12% y/y in 2Q'20, and +21% y/y ex-workers compensation.

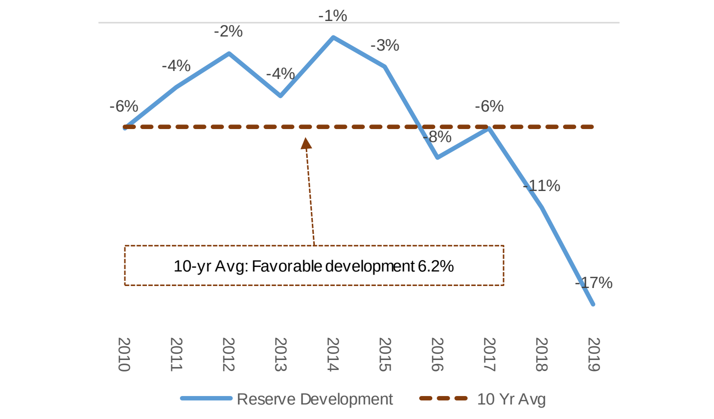
Management has consistently cited its Excess and Surplus lines products – within which we estimate AFG holds ~2% of US E&S market share – as a driver of growth since the beginning of 2019. Conversely, management booked a reserve charge due to higher claim severity in 2Q'19 and 3Q'19, and it raised its loss picks in 4Q'19 due to higher social inflation exposures.

While we noted above that AFG is a leader in D&O, public D&O represents only ~15% of its D&O business. AFG maintains specialty D&O niches within markets such as not-for-profits, private companies, and small accounts. It has experienced loss cost pressure in that public D&O book, which it is addressing with increased rates, and it views its lower limits (average net limits <$5 million) as likely to help it insulate from large losses.

- *Recent M&A:* AFG acquired ABA Insurance Services (ABAIS) in November 2018 for ~$30 million in cash, with additional contingent consideration of up to $3 million due within four years of the acquisition date. ABAIS is a leading provider of D&O liability insurance, in addition to other complementary products for banks, small businesses, and non-profits.

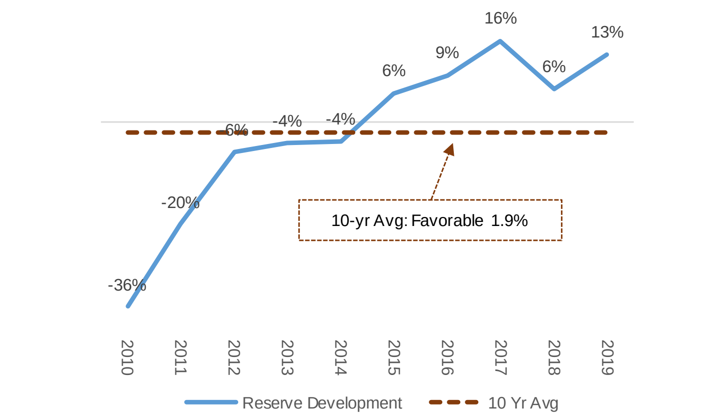
In 2018 and 2019, AFG cited workers' comp as a driver of Specialty Casualty's favorable development, similar to industry peers. Figure 74 illustrates the acceleration in the favorability of AFG's workers' comp reserve development over the last 10 years. As shown in Figure 75, this has been partially offset by unfavorable other liability reserve development.

Figure 74: Workers' Comp Statutory Reserve Development, 2010-19



Source: S&P Global Market Intelligence, Company data, Credit Suisse estimates

Figure 75: Other Liability (Claims Made + Occurrence) Statutory Reserve Development, 2010-19



Source: Company data, Credit Suisse estimates

We note AFG's workers' comp is led by three businesses: (#1) Republic Indemnity, which is primarily comprised by California workers' comp; (#2) Summit, which is overweight Florida/southeastern US workers' comp; and (#3) Strategic workers' comp, which issues tougher-to-write business in 30+ states.

Neon Exit: On January 6, 2020, AFG announced plans to exit the Lloyd's of London business, which includes its Lloyd's Managing Agency and Neon Underwriting entities. Beginning with 1Q'20, Neon results are no longer included in AFG's core results. Neon represented ~8% (~$401 million) of AFG's total P&C net written premiums in 2019 and was included in the Specialty Casualty segment. On September 28, 2020, AFG announced it had reached an agreement to sell Neon to RiverStone Holdings, with the transaction expected to close in 4Q'20. The sale is not expected to have a material impact on AFG's ongoing results of operations.

The history of Neon at AFG dates back to 2008 when AFG acquired a majority stake in Marketform, a Lloyd's insurer specializing in non-U.S. medical malpractice markets. In November 2015, AFG hired Martin Reith as CEO of Marketform In February 2016, Marketform began restructuring by exiting the medical malpractice and general liability lines of business. In June 2016, Marketform rebranded as Neon. While Neon's performance improved in 2017, it was still not profitable.

On its 3Q'18 EPS conference call, ~14 months before the announcement to exit Lloyd's, former CFO Jeff Consolino commented: "*We would say though that if you follow the Trade Press closely, which I'm sure you do, that the environment at Lloyd's is changing. The performance management directorate is taking a very harsh lens and training it on all of the syndicates with their goal towards improving the overall Lloyd's combined ratio as a result, many industry observers say, there's never been more challenge and more push back on business plans in the market than there is today. That will affect 2019, but that's an ongoing situation that effects Neon, that similarly effects all the syndicates in the market. And from us, from a big-picture perspective in the last couple of quarters, Carl's commented that Neon's made improvement, but still not at the level we'd like it to be at. We did rebrand and fundamentally changed the business starting in 2016 under the leadership of the new management team and have cleaned up the balance sheet by taking off the legacy liabilities through reinsurance to close transaction, and redone the business plan. And each and every year since then, inclusive of '16, we've really hit all the benchmarks we've wanted to hit. This new level of scrutiny from Lloyd's I think does call into question whether that kind of growth strategy is really going to be feasible in the new environment. So time will tell whether this is a point-in-time thing or a change in Lloyd's overall philosophy.*"

Specialty Financial (12% of P&C net written premiums): AFG's Specialty Financial segment is comprised of businesses that provide fidelity/crime and surety coverages, in addition to providing financial institution and lease and loan services. According to Surety & Fidelity Association 2019 industry rankings, Great American is the third largest writer of crime insurance in the US.

Its fidelity and crime businesses provide coverage to governmental, mercantile, and financial institutions, and have specialties in niches such as armored cars and casinos. The Specialty Financial lease/loan services business insures lending and leasing institutions with equipment leasing, collateral, and lender-placed property insurance.

Annuities

AFG is a top 10 provider of fixed-indexed annuities and it prides itself on selling simple, consumer-friendly products. AFG maintains a consistent crediting rate strategy and a low-cost structure, including lower upfront commissions.

AFG annuities are sold across various channels, including through ~35 financial institutions, retail agents, independent broker dealers, and registered investment advisors. In the financial institution channel, AFG utilizes ~4,800 agents, and in the retail channel it utilizes over 4,500 agents.

AFG's target market is middle and mass affluent baby boomers, not high wealth or high net worth clients. The company is the #2 provider of fixed-indexed annuities in the financial institutions channel, and is the top seller of fixed indexed annuities through financial institutions.

AFG has benefited over the last decade from a mix shift in the marketplace from variable to fixed annuities and fixed indexed annuities (see Figure 76). From 2012 up to the first nine months of 2019, fixed/indexed annuities moved from accounting for ~30% of industry annuity market share to >50%. AFG attributes this trend to consumers' desire for principal preservation and a greater awareness of the higher fees associated with variable annuities.

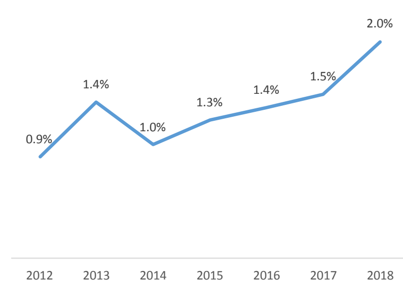
Figure 77 illustrates that these market changes have enabled AFG to gain market share. While the overall industry generated an annuity premium CAGR of -3%, AFG generated a +7% CAGR.

Figure 76: Annuity Industry: Market Share Shift, 2012-1Q'20

Product	2012	1Q'20
Variable Annuity	66%	45%
Fixed Annuity	13%	19%
Fixed Indexed Annuity	17%	32%
Single Premium Immediate Annuity	4%	3%
Deferred Income Annuity	<1%	1%

Source: LIMRA, AFG Company Presentations

Figure 77: AFG Annuity Market Share



Source: S&P Global Market Intelligence, Credit Suisse estimates

Financial Statements

Figure 78: AFG Income Statements

Consolidated

	2017 Year	2017/ 2016	2018 Year	2018/ 2017	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2019 Year	2019/ 2018
Revenues										
Net Premiums Earned	$4,579	*5.8%*	$4,865	*6.2%*	$1,173	$1,200	$1,442	$1,370	$5,185	*6.6%*
Net Investment Income	$1,831	*8.0%*	$2,094	*14.4%*	$542	$580	$588	$593	$2,303	*10.0%*
Realized gains (losses) on securities	$5		-$266		$184	$56	-$18	$65	$287	
Other income	$228		$223		$56	$56	$58	$53	$223	
Total Revenues	**$6,865**		**$7,150**		**$2,024**	**$1,960**	**$2,123**	**$2,130**	**$8,237**	
Claims and Expenses										
P&C Losses and loss expenses	$2,955	*7.0%*	$3,003	*1.6%*	$692	$723	$944	$912	$3,271	*8.9%*
P&C Underwriting expenses	$1,407	*4.3%*	$1,583	*12.5%*	$399	$426	$450	$450	$1,725	*9.0%*
Annuity benefits	$1,181	*8.2%*	$1,190	*0.8%*	$327	$340	$342	$347	$1,356	*13.9%*
Interest charges on borrowed money	$85		$62		$16	$17	$17	$18	$68	
Expenses of managed investment entities	$181		$211		$55	$59	$54	$52	$220	
Other expenses/(income)	$448		$393		$110	$104	$102	$106	$422	
Total Claims and Expenses	**$6,257**		**$6,442**		**$1,611**	**$1,701**	**$1,946**	**$1,871**	**$7,062**	
Operating income before income taxes	$724		$639		$413	$259	$177	$259	$1,108	
Income Tax Expense (GAAP)	$247		$122		$87	$50	$34	$68	$239	
Tax Rate (non-GAAP)	23.6%		19.5%		20.7%	19.0%	19.6%	19.8%	19.8%	
Net income before non-controlling interest	**$477**		**$517**		**$326**	**$209**	**$143**	**$191**	**$869**	
NCI	$2		($13)		($3)	($1)	($4)	($20)	($28)	
Net income	**$475**		**$530**		**$329**	**$210**	**$147**	**$211**	**$897**	
EPS (Net Income)	**$5.29**		**$5.87**		**$3.63**	**$2.33**	**$1.62**	**$2.31**	**$9.89**	
Weighted avg diluted share count	89.8		90.3		90.7	90.0	90.7	91.3	90.7	
Net realized gains (losses)	-$3		$210		-$145	-$45	$14	-$51	-$227	
Annuity non-core earnings (losses)	$0		$0		$0	$27	$21	-$19	$29	
Special A&E Charges	$74		$21		$0	$0	$23	$0	$23	
Neon exited lines	-$18		$0		$0	$0	$0	$58	$58	
Other non-core lines	$60		$0		$0	$0	$0	$4	$4	
Core income	**$588**		**$761**		**$184**	**$192**	**$205**	**$203**	**$784**	
Core RoE	12.7%		**15.7%**		**14.5%**	**14.6%**	**15.3%**	**15.0%**	**14.9%**	
Core EPS	**$6.55**		**$8.43**		**$2.03**	**$2.13**	**$2.26**	**$2.22**	**$8.65**	

	2020E 1Q	2020E 2Q	2020E 3QE	2020E 4QE	2020 Year	2020E/ 2019	2021E 1QE	2021E 2QE	2021E 3QE	2021E 4QE	2021 Year	2021E/ 2020E
Revenues												
Net Premiums Earned	$1,209	$1,184	$1,265	$1,242	$4,899	*-5.5%*	$1,250	$1,266	$1,287	$1,308	$5,112	*4.3%*
Net Investment Income	$544	$468	$563	$549	$2,124	*-7.8%*	$556	$553	$549	$546	$2,204	*3.8%*
Realized gains (losses) on securities	-$551	$204	$0	$0	-$347		$0	$0	$0	$0	$0	
Other income	$57	$51	$0	$0	$108		$0	$0	$0	$0	$0	
Total Revenues	**$1,275**	**$1,951**	**$1,863**	**$1,826**	**$6,915**		**$1,842**	**$1,854**	**$1,872**	**$1,889**	**$7,456**	
Claims and Expenses												
P&C Losses and loss expenses	$707	$771	$814	$751	$3,043	*-7.0%*	$737	$742	$799	$772	$3,050	*0.3%*
P&C Underwriting expenses	$420	$409	$396	$372	$1,597	*-7.4%*	$403	$405	$435	$383	$1,626	*1.8%*
Annuity benefits	$352	$331	$373	$374	$1,430	*5.4%*	$375	$375	$374	$376	$1,500	*4.9%*
Interest charges on borrowed money	$17	$23	$23	$23	$86		$23	$23	$23	$23	$92	
Expenses of managed investment entities	$48	$38	$35	$35	$156		$35	$35	$35	$35	$140	
Other expenses/(income)	$82	$101	$40	$39	$262		$39	$38	$37	$37	$151	
Total Claims and Expenses	**$1,663**	**$1,733**	**$1,681**	**$1,593**	**$6,670**		**$1,611**	**$1,619**	**$1,702**	**$1,626**	**$6,558**	
Operating income before income taxes	-$388	$218	$182	$233	$244		$230	$235	$169	$263	$897	
Income Tax Expense (GAAP)	-$84	$51	$36	$47	$50		$46	$47	$34	$53	$179	
Tax Rate (non-GAAP)	19.0%	17.4%	20.0%	20.0%	25.1%							
Net income before non-controlling interest	**($304)**	**$167**	**$145**	**$186**	**$194**		**$184**	**$188**	**$136**	**$210**	**$718**	
NCI	($3)	($10)	($5)	($5)	($23)		($5)	($5)	($5)	($5)	($20)	
Net income	**($301)**	**$177**	**$150**	**$191**	**$217**		**$189**	**$193**	**$141**	**$215**	**$738**	
EPS (Net Income)	**-$3.33**	**$1.96**	**$1.68**	**$2.15**	**$2.42**		**$2.13**	**$2.18**	**$1.58**	**$2.42**	**$8.31**	
Weighted avg diluted share count	90.3	90.3	89.6	89.0	89.8		88.8	88.6	88.7	88.8	88.8	
Net realized gains (losses)	$435	-$161			$274						$0	
Annuity non-core earnings (losses)	$30	$47			$77						$0	
Special A&E Charges	$0	$0			$0						$0	
Neon exited lines	$6	$32			$38						$0	
Other non-core lines	$0	$0			$0						$0	
Core income	**$170**	**$95**	**$150**	**$191**	**$606**		**$189**	**$193**	**$141**	**$215**	**$738**	
Core RoE	**13.1%**	**7.5%**	**11.8%**	**14.8%**	**11.4%**		**14.3%**	**14.2%**	**10.2%**	**15.2%**	**13.4%**	
Core EPS	**$1.88**	**$1.05**	**$1.68**	**$2.15**	**$6.75**		**$2.13**	**$2.18**	**$1.58**	**$2.42**	**$8.31**	

	2022E 1QE	2022E 2QE	2022E 3QE	2022E 4QE	2022 Year	2022E/ 2021E
Revenues						
Net Premiums Earned	$1,327	$1,346	$1,368	$1,386	$5,427	*6.2%*
Net Investment Income	$544	$544	$542	$540	$2,170	*-1.5%*
Realized gains (losses) on securities	$0	$0	$0	$0	$0	
Other income	$0	$0	$0	$0	$0	
Total Revenues	**$1,907**	**$1,924**	**$1,945**	**$1,961**	**$7,738**	
Claims and Expenses						
P&C Losses and loss expenses	$777	$791	$852	$835	$3,256	*6.7%*
P&C Underwriting expenses	$423	$426	$459	$405	$1,714	*5.4%*
Annuity benefits	$380	$384	$385	$388	$1,536	*2.4%*
Interest charges on borrowed money	$23	$23	$23	$23	$92	
Expenses of managed investment entities	$35	$35	$35	$35	$140	
Other expenses/(income)	$37	$37	$38	$38	$150	
Total Claims and Expenses	**$1,674**	**$1,697**	**$1,792**	**$1,724**	**$6,888**	
Operating income before income taxes	$232	$227	$153	$237	$850	
Income Tax Expense (GAAP)	$46	$45	$31	$47	$170	
Tax Rate (non-GAAP)						
Net income before non-controlling interest	**$186**	**$182**	**$123**	**$190**	**$680**	
NCI	($5)	($5)	($5)	($5)	($20)	
Net income	**$191**	**$187**	**$128**	**$195**	**$700**	
EPS (Net Income)	**$2.15**	**$2.10**	**$1.43**	**$2.18**	**$7.86**	
Weighted avg diluted share count	88.9	89.0	89.1	89.2	89.1	
Net realized gains (losses)					$0	
Annuity non-core earnings (losses)					$0	
Special A&E Charges					$0	
Neon exited lines					$0	
Other non-core lines					$0	
Core income	**$191**	**$187**	**$128**	**$195**	**$700**	
Core RoE	**13.1%**	**12.6%**	**8.4%**	**12.6%**	**11.7%**	
Core EPS	**$2.15**	**$2.10**	**$1.43**	**$2.18**	**$7.86**	

Source: Company data, Credit Suisse estimates. $ in Millions

Figure 79: AFG Balance Sheets & Cash Flow Statements

	2017				2017	2017/	2018				2018	2018/	2019				2019	2019/	2020E	
	1Q	2Q	3Q	4Q	Year	2016	1Q	2Q	3Q	4Q	Year	2017	1Q	2Q	3Q	4Q	Year	2018	1Q	2Q
Balance Sheet																				
Assets																				
Total cash and investments	43,350	44,779	45,253	46,048	46,048		45,949	46,779	47,841	48,498	48,498		51,040	52,907	54,207	55,252	55,252		53,221	56,741
Recoverables from reinsurers	2,735	2,839	3,262	3,369	3,369		3,173	3,073	3,352	3,349	3,349		3,258	3,150	3,261	3,415	3,415		3,387	3,476
Prepaid reinsurance premiums	533	587	691	600	600		614	645	717	610	610		636	651	781	678	678		708	733
Agents balances and premiums recievable	989	1,124	1,173	1,146	1,146		1,113	1,266	1,299	1,234	1,234		1,283	1,398	1,403	1,335	1,335		1,302	1,366
Deferred policy acquisition costs	1,205	1,156	1,119	1,216	1,216		1,417	1,582	1,669	1,682	1,682		1,447	1,203	964	1,037	1,037		1,573	818
Assets of managed investment entities	5,331	4,873	4,767	4,902	4,902		5,090	5,032	4,998	4,700	4,700		4,786	4,781	4,702	4,736	4,736		4,026	4,393
Variable annuity assets (separate account)	875	923	1545	1030	1030		918	1048	1633	1090	1090		1011	999	1187	975	975		981	880
Other recievables	614	620	628	644	644		632	636	650	557	557		610	616	601	628	628		497	577
Other assets	1633	1518	1526	1504	1504		1551	1574	1832	1529	1529		1854	1785	1754	1867	1867		1741	1676
Goodwill	199	199	199	199	199		199	199	199	207	207		207	207	207	207	207		207	207
Total Assets	**57,464**	**58,618**	**60,163**	**60,658**	**60,658**		**60,656**	**61,834**	**64,190**	**63,456**	**63,456**		**66,132**	**67,697**	**69,067**	**70,130**	**70,130**		**67,643**	**70,867**
Liabilities																				
Unpaid losses and loss adjustment expenses	8621	8,730	9,563	9,678	9,678		9,193	9,093	9,670	9,741	9,741		9,623	9,577	9,847	10,232	10,232		10,106	10,321
Unearned premiums	2174	2,294	2,567	2,410	2,410		2,413	2,539	2,740	2,595	2,595		2,605	2,683	2,986	2,830	2,830		2,808	2,778
Annuity benefits accumulated	31002	32,014	32,671	33,316	33,316		33,901	34,886	35,958	36,616	36,616		38,006	39,044	39,651	40,406	40,406		40,463	41,392
Life, accident and health reserves	687	676	667	658	658		656	647	643	635	635		632	619	613	612	612		607	606
Payable to reinsurers	621	681	906	743	743		661	721	932	752	752		730	755	867	814	814		779	746
Liabilities of managed investment entities	5101	4,685	4,506	4,687	4,687		4,869	4,840	4,807	4,512	4,512		4,593	4,590	4,523	4,571	4,571		3,865	4,236
Long term debt	1283	1,405	1,284	1,301	1,301		1,301	1,301	1,302	1,302	1,302		1,423	1,423	1,423	1,473	1,473		1,473	1,912
Variable annuity liabilities (separate account)	614	620	628	644	644		632	636	650	557	557		610	616	601	628	628		497	577
Other liabilities	2,166	2,201	1,992	1,887	1,887		1,847	2,087	2,324	1,774	1,774		2,245	2,300	2,235	2,295	2,295		1,998	2,173
Total liabilities	**52,269**	**53,306**	**54,784**	**55,324**	**55,324**		**55,473**	**56,750**	**59,026**	**58,484**	**58,484**		**60,467**	**61,607**	**62,746**	**63,861**	**63,861**		**62,596**	**64,741**
Redeemable non controlling interests				3																
Shareholders' equity																				
Common stock	88	88	88	88	88		89	89	89	89	89		90	90	90	90	90		90	89
Capital surplus	1,138	1,158	1,167	1,181	1,181		1,205	1,220	1,231	1,245	1,245		1,256	1,277	1,292	1,307	1,307		1,309	1,299
Retained earnings	3,466	3,451	3,435	3,248	3,248		3,584	3,628	3,800	3,588	3,588		3,875	3,914	4,022	4,009	4,009		3,616	3,685
Unrealized gains- equity	145	158	173	221	221						-						-			
Unrealized gains -fixed maturities	384	481	533	619	619		342	191	93	83	83		464	812	920	862	862		16	1,030
Unrealized gains (losses) -fixed maturity-related cash flow he	(8)	(6)	(6)	(13)	(13)		(24)	(27)	(32)	(11)	(11)		-	18	25	17	17		44	47
Other comprehensive income, net of tax	(22)	(18)	(11)	(14)	(14)		(13)	(17)	(17)	(24)	(24)		(20)	(21)	(28)	(16)	(16)		(28)	(24)
Total shareholders' equity	**5,191**	**5,312**	**5,379**	**5,330**	**5,330**		**5,183**	**5,084**	**5,164**	**4,970**	**4,970**		**5,665**	**6,090**	**6,321**	**6,269**	**6,269**		**5,047**	**6,126**
Non controlling interests	4			1	1					2	2						0			-
Total liabilities and equity	**57,464**	**58,618**	**60,163**	**60,658**	**60,658**		**60,656**	**61,834**	**64,190**	**63,456**	**63,456**		**66,132**	**67,697**	**69,067**	**70,130**	**70,130**		**67,643**	**70,867**
check	-	-	-	-			-	-	-	-			-	-	-	-			-	-
Cash Flow Statement																				
Operating activities																				
Net earnings (loss), including noncontrolling interests	155	145	11	166	477		141	208	203	(35)	517		326	209	143	191	869		(304)	167
Depreciation and amortization	38	31	36	2	107		71	35	57	47	210		34	38	123	64	259		113	-34
Annuity benefits	196	224	215	257	892		182	260	222	334	998		311	339	250	251	1,151		276	426
Realized gains/losses on investing activities	(17)	(11)	10	(5)	(23)		93	(29)	(36)	237	265		(184)	(57)	18	(65)	(288)		550	(204)
Net sales of trading securities	3	28	(26)	12	17		61	22	33	(5)	111		1	-1	(2)	(3)	(5)		8	3
Deferred annuity and life policy acquisition costs	(67)	(66)	(44)	(48)	(225)		(57)	(70)	(65)	(71)	(263)		(64)	(56)	(43)	(43)	(206)		(49)	(30)
Change in reinsurance and other receivables	63	(354)	(1,176)	504	(963)		245	(173)	(940)	657	(211)		128	(43)	(415)	218	(112)		161	(115)
Change in other assets	(58)	50	(51)	72	13		26	(42)	(241)	353	96		(271)	(27)	17	(125)	(406)		410	(199)
Change in insurance claims and reserves	57	218	1,097	(51)	1,321		(284)	16	775	(82)	425		(112)	20	567	228	703		(152)	182
Change in payable to reinsurers	(13)	60	225	(163)	109		(82)	60	211	(180)	9		(22)	25	112	(53)	62		(35)	(33)
Change in other liabilities	45	(77)	32	(18)	(18)		(16)	71	291	(486)	(140)		304	25	88	99	516		(543)	310
Change in managed investment entities assets/liabilities	(487)	415	86	46	60		31	107	(34)	44	148		16	(19)	1	25	23		89	27
Other operating activities, net	9	(13)	4	37	37		(20)	(33)	(22)	(7)	(82)		(13)	(30)	(45)	(22)	(110)		8	55
Net cash provided by operating activities	**(76)**	**650**	**419**	**811**	**1,804**		**391**	**432**	**454**	**806**	**2,083**		**454**	**423**	**814**	**765**	**2,456**		**532**	**555**
Investing activities																				
Purchase of fixed maturities	(2,879)	(2,508)	(1,776)	(2,322)	(9,485)		(2,464)	(2,085)	(2,151)	(3,483)	(10,183)		(1,801)	(1,960)	(1,772)	(2,727)	(8,260)		(4,140)	(1,981)
Purchase of equity securities	(22)	(22)	(29)	(109)	(182)		(212)	(36)	(94)	(226)	(568)		(35)	(45)	(81)	(81)	(242)		(232)	(92)
Purchase of mortgage loans	(23)	(123)	(3)	(105)	(254)		-	(90)	(22)	(55)	(167)		(38)	(5)	(138)	(261)	(442)		(21)	(131)
Purchase of equity index options & other investments	(181)	(179)	(234)	(237)	(831)		(195)	(251)	(249)	(278)	(973)		(220)	(247)	(191)	(333)	(991)		(245)	(256)
Purchase of real estate, property and equipment	(11)	(19)	(16)	(63)	(109)		(23)	(21)	(16)	(20)	(80)		(10)	(10)	(13)	(11)	(44)		(9)	(11)
Purchases of businesses				-	-					(36)	(36)									
Proceeds from maturities & redemptions of fixed maturities	1,511	1,774	1,405	1,415	6,105		962	1,321	1,233	1,432	4,948		1,032	1,315	1,064	1,156	4,567		1,220	1,123
Proceeds from repayments of mortgage loans	12	98	81	24	215		43	25	19	114	201		29	9	38	108	184		4	3
Proceeds from sales of fixed maturities	38	112	29	213	392		105	98	72	226	501		201	258	110	358	927		1,483	1,294
Proceeds from sales of equity securities	14	36	47	119	216		32	74	44	97	247		95	44	84	230	453		80	262
Proceeds from sales and settlements of equity index options a	174	186	205	224	789		208	238	242	195	883		79	250	157	285	771		248	156
Proceeds from sales of real estate, property and equipment	24	29	1	1	55		-	1	2	-	3		1	1	1	1	4		1	3
Cash and cash equivalents from business acquired				-	-					13	13						-			
Purchases of investments	(910)	(870)	(550)	(649)	(2,979)		(606)	(655)	(413)	(443)	(2,117)		(391)	(306)	(365)	(336)	(1,398)		(414)	(189)
Proceeds from sales and redemptions of investments	1,058	680	605	431	2,774		478	557	450	463	1,948		373	329	379	328	1,409		370	170
Other investing activities, net	1	6	(1)	(4)	2		16	(5)	(7)	26	30		1	(1)	1	(4)	(3)		2	6
Net cash used in investing activities	**(1,194)**	**(800)**	**(236)**	**(1,062)**	**(3,292)**		**(1,656)**	**(829)**	**(890)**	**(1,975)**	**(5,350)**		**(684)**	**(368)**	**(726)**	**(1,287)**	**(3,065)**		**(1,653)**	**357**
Financing activities																				
Annuity receipts	1,290	1,266	876	909	4,341		1,148	1,399	1,378	1,707	5,632		1,395	1,349	1,077	1,139	4,960		1,410	687
Annuity surrenders, benefits and withdrawals	-567	(594)	(564)	(680)	(2,405)		-647	-725	(729)	(815)	(2,916)		-782	-886	(834)	(856)	(3,358)		-813	-828
Ceded annuity receipts					-						-			-	-		-			(78)
Net transfers from variable annuity assets	17	13	13	11	54		11	10	14	12	47		13	15	17	15	60		15	13
Additional long term borrowings		345	-	367	712		0	0	0	0	-		121	0	-	194	315		0	439
Reduction of long term debt	0	(230)	(125)	(390)	(745)		0	0	0	0	-				0	(150)	(150)			
Issuance of managed investment entities liabilities	537	440	949	805	2,731		775	797	-	411	1,983				0	371	371			
Retirements of managed investment entities liabilities	(212)	(623)	(1,163)	(587)	(2,585)		(684)	(777)	(2)	(472)	(1,935)		(3)	(2)	(3)	(374)	(382)		(41)	(5)
Issuance of Common Stock	15	12	3	7	37		14	7	5	7	33		7	12	10	7	36		10	2
Repurchases of Common Stock	-	-	-	-	-				-	(6)	(6)		-	-	-	-	-		(61)	(76)
Cash dividends paid on common stock	(27)	(158)	(27)	(205)	(417)		(31)	(163)	(31)	(169)	(394)		(36)	(169)	(36)	(203)	(444)		(40)	(41)
Others	-	(4)	(3)	3	(4)		-	-	-	-	-		-	-	-	-	-		-	-
Net cash provided by financiang activities	**1,053**	**467**	**(41)**	**240**	**1,719**		**586**	**548**	**635**	**675**	**2,444**		**715**	**319**	**231**	**143**	**1,408**		**480**	**113**
Net change in cash and cash equivalents	(217)	317	142	(11)	231		(679)	151	199	(494)	(823)		485	374	319	(379)	799		(641)	1,025
Cash and cash equivalents at beginning of period	2,107	1,890	2,207	2,349	2,107		2,338	1,659	1,810	2,009	2,338		1,515	2,000	2,374	2,693	1,515		2,314	1,673
Cash and cash equivalents at end of period	**1,890**	**2,207**	**2,349**	**2,338**	**2,338**		**1,659**	**1,810**	**2,009**	**1,515**	**1,515**		**2,000**	**2,374**	**2,693**	**2,314**	**2,314**		**1,673**	**2,698**

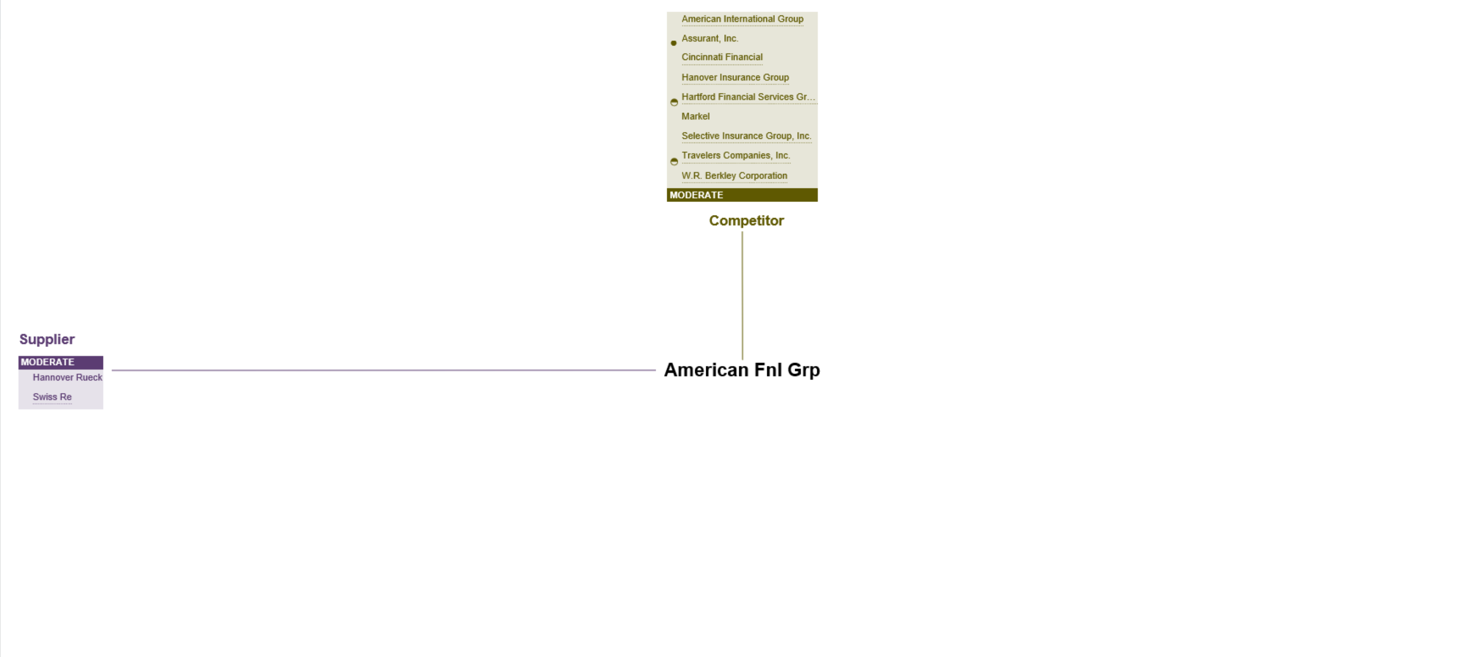
Source: Company data, Credit Suisse estimates. $ in Millions

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers, and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally.

These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage. For more information, see our November 2016 PEERs report, titled, *A Chain Reaction: Supply Chain Strategies*.

Figure 80: AFG PEERs Map



Source: Credit Suisse

Valuation, Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for American Fnl Grp (AFG.N)

Method: Our $95 target price for AFG is based on a sum of the parts of its P&C and Annuity businesses. For its P&C business, we use a 13.2x FY+1 P/E multiple, equal to 65% of the S&P 500's FY+1, which compares to the 61% average relative multiple for HIG, SIGI, THG, TRV, and WRB. For the Annuity business, we use a 6.0x FY+1 P/E multiple, which is a premium to annuity-heavy peers AEL and ATH's multiples of ~4.3x, which we view is appropriate given AFG's simpler lower risk product offering. We ascribe 50% of AFG's corporate earnings (i.e., the difference between core earnings and segment core earnings) to each segment.

Risk: Risks to our $95 TP and Outperform Rating include declining interest rates reducing investment returns and shrinking spreads in its annuity book; higher COVID-19 charges in its trade credit and workers' comp lines of business; social inflation pressuring the Specialty Casualty segment's core loss ratio; and, significant quarterly volatility from alternative investments may continue to drive volatility in core EPS.

Companies Mentioned *(Price as of 29-Sep-2020)*
Aflac (AFL.N, $36.02)
American Equity Life (AEL.N, $21.89)
American Fnl Grp (AFG.N, $66.15, OUTPERFORM, TP $95.0)
American International Group (AIG.N, $27.29)
Ameriprise Financial (AMP.N, $150.38)
Arch Capital Group Ltd. (ACGL.OQ, $28.87)
Arthur J. Gallagher & Co. (AJG.N, $104.77)
Assurant, Inc. (AIZ.N, $120.59)
Athene (ATH.N, $34.0)
Brighthouse Financial (BHF.OQ, $26.51)
Brown & Brown, Inc. (BRO.N, $45.17)
Chubb Limited (CB.N, $114.34)
Cincinnati Financial (CINF.OQ, $77.89)
Equitable Holdings (EQH.N, $18.34)
Everest Re Group, Ltd (RE.N, $199.78)
Fairfax Fin (FFH.TO, C$385.0)
Globe Life (GL.N, $79.01)
Hanover Insurance Group (THG.N, $92.0)
Hartford Financial Services Group, Inc. (HIG.N, $36.53)
Lincoln National (LNC.N, $30.94)
Markel (MKL.N, $968.65)
Marsh & McLennan Companies, Inc. (MMC.N, $114.05)
MetLife (MET.N, $36.77)
Metlifecare Limited (MEQ.AX, A$36.77)
Metlifecare Limited (MET.NZ, NZ$5.94)
Progressive Corporation (PGR.N, $94.15)
Prudential Financial (PRU.N, $63.09)
QBE Insurance Group (QBE.AX, A$8.79)
RGA (RGA.N, $95.28)
SOMPO Holdings (8630.T, ¥3,737)
Selective Insurance Group, Inc. (SIGI.OQ, $50.55)
The Allstate Corp. (ALL.N, $93.44)
Tokio Marine Holdings (8766.T, ¥4,743)
Travelers Companies, Inc. (TRV.N, $107.44)
Unum Group (UNM.N, $16.69)
Voya Financial (VOYA.N, $47.6)
W.R. Berkley Corporation (WRB.N, $60.97)
Zurich Insurance Group (ZURN.S, SFr321.4)

Disclosure Appendix

Analyst Certification

I, Michael Zaremski, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.
Not Rated (NR) : Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.
Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	50%	(33% banking clients)
Neutral/Hold*	36%	(28% banking clients)
Underperform/Sell*	12%	(20% banking clients)
Restricted	1%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Important Global Disclosures

Credit Suisse's research reports are made available to clients through our proprietary research portal on CS PLUS. Credit Suisse research products may also be made available through third-party vendors or alternate electronic means as a convenience. Certain research products are only made available through CS PLUS. The services provided by Credit Suisse's analysts to clients may depend on a specific client's preferences regarding the frequency and manner of receiving communications, the client's risk profile and investment, the size and scope of the overall client relationship with the Firm, as well as legal and regulatory constraints. To access all of Credit Suisse's research that you are entitled to receive in the most timely manner, please contact your sales representative or go to https://plus.credit-suisse.com .

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: https://www.credit-suisse.com/sites/disclaimers-ib/en/managing-conflicts.html .

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Credit Suisse has decided not to enter into business relationships with companies that Credit Suisse has determined to be involved in the development, manufacture, or acquisition of anti-personnel mines and cluster munitions. For Credit Suisse's position on the issue, please see https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/policy-summaries-en.pdf .

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures/view/selectArchive for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

Credit Suisse currently has, or had within the past 12 months, the following as investment banking client(s): AIG.N, AFL.N, AMP.N, ATH.N, BHF.OQ, EQH.N, LNC.N, PRU.N, MET.N, RGA.N, VOYA.N, ACGL.OQ, ALL.N, HIG.N, MMC.N, PGR.N, WRB.N, TRV.N, CB.N, ZURN.S

Credit Suisse provided investment banking services to the subject company (AIG.N, AFL.N, AMP.N, ATH.N, BHF.OQ, EQH.N, LNC.N, PRU.N, MET.N, RGA.N, VOYA.N, ACGL.OQ, ALL.N, HIG.N, MMC.N, PGR.N, WRB.N, TRV.N, CB.N, ZURN.S) within the past 12 months.

Within the last 12 months, Credit Suisse has received compensation for non-investment banking services or products from the following issuer(s): AFG.N, AEL.N, AIG.N, AFL.N, AMP.N, ATH.N, BHF.OQ, EQH.N, GL.N, LNC.N, PRU.N, MET.N, RGA.N, UNM.N, VOYA.N, ACGL.OQ, ALL.N, CINF.OQ, HIG.N, PGR.N, SIGI.OQ, THG.N, WRB.N, TRV.N, ZURN.S

Credit Suisse has managed or co-managed a public offering of securities for the subject company (AIG.N, AFL.N, AMP.N, ATH.N, EQH.N, LNC.N, PRU.N, MET.N, RGA.N, ACGL.OQ, PGR.N, WRB.N, TRV.N, ZURN.S) within the past 12 months.

Within the past 12 months, Credit Suisse has received compensation for investment banking services from the following issuer(s): AIG.N, AFL.N, AMP.N, ATH.N, EQH.N, LNC.N, PRU.N, MET.N, RGA.N, VOYA.N, ACGL.OQ, ALL.N, HIG.N, MMC.N, PGR.N, WRB.N, TRV.N, CB.N, ZURN.S

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (AFG.N, AEL.N, AIG.N, AFL.N, AMP.N, ATH.N, BHF.OQ, EQH.N, LNC.N, PRU.N, MET.N, UNM.N, VOYA.N, ACGL.OQ, ALL.N, HIG.N, PGR.N, RE.N, WRB.N, TRV.N, CB.N, ZURN.S) within the next 3 months.

Credit Suisse currently has, or had within the past 12 months, the following issuer(s) as client(s), and the services provided were non-investment-banking, securities-related: AFG.N, AEL.N, AIG.N, AFL.N, AMP.N, ATH.N, BHF.OQ, EQH.N, GL.N, LNC.N, PRU.N, MET.N, RGA.N, UNM.N, VOYA.N, ACGL.OQ, ALL.N, CINF.OQ, HIG.N, PGR.N, SIGI.OQ, THG.N, WRB.N, TRV.N, ZURN.S

Credit Suisse currently has, or had within the past 12 months, the following issuer(s) as client(s), and the services provided were non-investment-banking, non securities-related: AIG.N, AMP.N, ATH.N, EQH.N, LNC.N, PRU.N, MET.N, RGA.N, VOYA.N, ALL.N, HIG.N, WRB.N, ZURN.S

Credit Suisse or a member of the Credit Suisse Group is a market maker or liquidity provider in the securities of the following subject issuer(s): AFL.N, AEL.N, AFG.N, AIG.N, AMP.N, ACGL.OQ, AJG.N, ATH.N, BHF.OQ, BRO.N, CB.N, CINF.OQ, EQH.N, RE.N, GL.N, THG.N, HIG.N, LNC.N, MMC.N, MET.N, MEQ.AX, MET.NZ, PGR.N, PRU.N, RGA.N, SIGI.OQ, ALL.N, TRV.N, UNM.N, VOYA.N, WRB.N, ZURN.S

A member of the Credit Suisse Group is party to an agreement with, or may have provided services set out in sections A and B of Annex I of Directive 2014/65/EU of the European Parliament and Council ("MiFID Services") to, the subject issuer (AIG.N, AFL.N, AMP.N, ATH.N, BHF.OQ, EQH.N, LNC.N, PRU.N, MET.N, RGA.N, VOYA.N, ACGL.OQ, ALL.N, HIG.N, MMC.N, PGR.N, WRB.N, TRV.N, CB.N, ZURN.S) within the past 12 months.
As of the date of this report, Credit Suisse beneficially own 1% or more of a class of common equity securities of (ZURN.S, MEQ.AX, MET.NZ).

For date and time of production, dissemination and history of recommendation for the subject company(ies) featured in this report, disseminated within the past 12 months, please refer to the link: https://rave.credit-suisse.com/disclosures/view/report?i=552954&v=-64kkbocoqabql3ve5zgd5pacs .

Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from, or in connection with, this research report.
The analyst(s) involved in the preparation of this report may participate in events hosted by the subject company, including site visits. Credit Suisse does not accept or permit analysts to accept payment or reimbursement for travel expenses associated with these events.
For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html.
Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment.
Credit Suisse has entered into a strategic partnership with Jarden. Pursuant to this agreement, (MEQ.AX, MET.NZ) is jointly covered by Credit Suisse and Jarden.
This research report is authored by:
Credit Suisse Securities (USA) LLC..Michael Zaremski ; Charles Lederer, CPA

S&P Disclosures

Important Credit Suisse HOLT Disclosures

The HOLT methodology does not assign ratings or a target price to a security. It is an analytical tool that involves use of a set of proprietary quantitative algorithms and warranted value calculations, collectively called the HOLT valuation model, that are consistently applied to all the companies included in its database. Third-party data (including consensus earnings estimates) are systematically translated into a number of default variables and incorporated into the algorithms available in the HOLT valuation model. The source financial statement, pricing, and earnings data provided by outside data vendors are subject to quality control and may also be adjusted to more closely measure the underlying economics of firm performance. These adjustments provide consistency when analyzing a single company across time, or analyzing multiple companies across industries or national borders. The default scenario that is produced by the HOLT valuation model establishes a warranted price for a security, and as the third-party data are updated, the warranted price may also change. The default variables may also be adjusted to produce alternative warranted prices, any of which could occur. The warranted price is an algorithmic output applied systematically across all companies based on historical levels and volatility of returns. Additional information about the HOLT methodology is available on request.
CFROI, CFROE, HOLT, HOLT Lens, HOLTfolio, "Clarity is Confidence" and "Powered by HOLT" are trademarks or registered trademarks of Credit Suisse Group AG or its affiliates in the United States and other countries.
HOLT is a corporate performance and valuation advisory service of Credit Suisse.

Important disclosures regarding companies that are the subject of this report are available by calling +1 (877) 291-2683. The same important disclosures, with the exception of valuation methodology and risk discussions, are also available on Credit Suisse’s disclosure website at https://rave.credit-suisse.com/disclosures . For valuation methodology and risks associated with any recommendation, price target, or rating referenced in this report, please refer to the disclosures section of the most recent report regarding the subject company.

This report is produced by subsidiaries and affiliates of Credit Suisse operating under its Global Markets Division. For more information on our structure, please use the following link: https://www.credit-suisse.com/who-we-are This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in **European Union (except Germany and Spain):** by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority; **Spain:** Credit Suisse Securities, Sociedad de Valores, S.A. ("CSSSV") regulated by the Comision Nacional del Mercado de Valores; **Germany:** Credit Suisse (Deutschland) Aktiengesellschaft regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). **United States:** Credit Suisse Securities (USA) LLC; **Canada:** Credit Suisse Securities (Canada), Inc.; **Switzerland:** Credit Suisse AG; **Brazil:** Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; **Mexico:** Banco Credit Suisse (México), S.A., Institución de Banca Múltiple, Grupo Financiero Credit Suisse (México) and Casa de Bolsa Credit Suisse (México), S.A. de C.V., Grupo Financiero Credit Suisse (México) ("Credit Suisse Mexico"). This document has been prepared for information purposes only and is exclusively distributed in Mexico to Institutional Investors. Credit Suisse Mexico is not responsible for any onward distribution of this report to non-institutional investors by any third party. The authors of this report have not received payment or compensation from any entity or company other than from the relevant Credit Suisse Group company employing them; **Japan:** by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; **Hong Kong:** Credit Suisse (Hong Kong) Limited; **Australia:** Credit Suisse Equities (Australia) Limited; **Thailand:** Credit Suisse Securities (Thailand) Limited, regulated by the Office of the Securities and Exchange Commission, Thailand, having registered address at 990 Abdulrahim Place, 27th Floor, Unit 2701, Rama IV Road, Silom, Bangrak, Bangkok10500, Thailand, Tel. +66 2614 6000; **Malaysia:** Credit Suisse Securities (Malaysia) Sdn Bhd; **Singapore:** Credit Suisse AG, Singapore Branch; **India:** Credit Suisse Securities (India) Private Limited (CIN no.U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India as Research Analyst (registration no. INH 000001030) and as Stock Broker (registration no. INZ000248233), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777; **South Korea:** Credit Suisse Securities (Europe) Limited, Seoul Branch; **Taiwan:** Credit Suisse AG Taipei Securities Branch; **Indonesia:** PT Credit Suisse Sekuritas Indonesia; **Philippines:**Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above.

Additional Regional Disclaimers

Australia: Credit Suisse Securities (Europe) Limited ("CSSEL") and Credit Suisse International ("CSI") are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority under UK laws, which differ from Australian Laws. CSSEL and CSI do not hold an Australian Financial Services Licence ("AFSL") and are exempt from the requirement to hold an AFSL under the Corporations Act (Cth) 2001 ("Corporations Act") in respect of the financial services provided to Australian wholesale clients (within the meaning of section 761G of the Corporations Act) (hereinafter referred to as "Financial Services"). This material is not for distribution to retail clients and is directed exclusively at Credit Suisse's professional clients and eligible counterparties as defined by the FCA, and wholesale clients as defined under section 761G of the Corporations Act. Credit Suisse (Hong Kong) Limited ("CSHK") is licensed and regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. CSHKL does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. Investment banking services in the United States are provided by Credit Suisse Securities (USA) LLC, an affiliate of Credit Suisse Group. CSSU is regulated by the United States Securities and Exchange Commission under United States laws, which differ from Australian laws. CSSU does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. Credit Suisse Asset Management LLC (CSAM) is authorised by the Securities and Exchange Commission under US laws, which differ from Australian laws. CSAM does not hold an AFSL and is exempt from the requirement to hold an AFSL under the Corporations Act in respect of providing Financial Services. This material is provided solely to Institutional Accounts (as defined in the FINRA rules) who are Eligible Contract Participants (as defined in the US Commodity Exchange Act). Credit Suisse Equities (Australia) Limited (ABN 35 068 232 708) ("CSEAL") is an AFSL holder in Australia (AFSL 237237).

Malaysia: Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020.

Singapore: This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore Branch to overseas investors (as defined under the Financial Advisers Regulations). Credit Suisse AG, Singapore Branch may distribute reports produced by its foreign entities or affiliates pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Singapore recipients should contact Credit Suisse AG, Singapore Branch at +65-6212-2000 for matters arising from, or in connection with, this report. By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore Branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore Branch may provide to you.

EU: This report has been produced by subsidiaries and affiliates of Credit Suisse operating under its Global Markets Division

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

This material is issued and distributed in the U.S. by CSSU, a member of NYSE, FINRA, SIPC and the NFA, and CSSU accepts responsibility for its contents. Clients should contact analysts and execute transactions through a Credit Suisse subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials,management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. No information or communication provided herein or otherwise is intended to be, or should be construed as, a recommendation within the meaning of the US Department of Labor's final regulation defining "investment advice" for purposes of the Employee Retirement Income Security Act of 1974, as amended and Section 4975 of the Internal Revenue Code of 1986, as amended, and the information provided herein is intended to be general information, and should not be construed as, providing investment advice (impartial or otherwise).

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.