CINCINNATI FINANCIAL CORPORATION

Domiciliary Address: 6200 South Gilmore Road, Fairfield, Ohio 45014-5141 United States
Mailing Address: P.O. Box 145496, Cincinnati, Ohio 45250-5496 United States

AMB #: 058704 NAIC #: N/A FEIN #: 31-0746871
Phone: +1-513-870-2000 Fax: 
Website: www.cinfin.com

Cincinnati Casualty Company A+
Cincinnati Indemnity Company A+
Cincinnati Insurance Company A+
Cincinnati Specialty Undrs Ins A+
Cincinnati Financial Corporation

AMB #: 058704 | FEIN#: 31-0746871
Ultimate Parent: AMB # 058704 - Cincinnati Financial Corporation

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR) | Issuer Credit Rating (ICR)
---|---
A+ | aa
Superior | Superior
Outlook: Stable | Outlook: Stable
Action: Affirmed | Action: Upgraded

Assessment Descriptors

| Balance Sheet Strength | Strongest |
| Operating Performance | Strong |
| Business Profile | Favorable |
| Enterprise Risk Management | Appropriate |

Rating Unit - Members

Rating Unit: Cincinnati Financial Corp | AMB #: 058704

<table>
<thead>
<tr>
<th>AMB #</th>
<th>Rating Unit Members</th>
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<td>Cincinnati Casualty Company</td>
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<td>Cincinnati Specialty Undrs Ins</td>
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</tbody>
</table>

Best's Credit Rating - for the Holding Company

Issuer Credit Rating (ICR)

a | Excellent
---|---
Outlook: Stable | Action: Upgraded
Rating Rationale – for the Rating Unit Members

The Issuer Credit Ratings and Financial Strength Ratings of the member operating companies of the rating unit are determined in accordance with Best's building block rating methodology as applied to the consolidated group's financial statements, and the supporting analytics and results are described in the following sections of this report.

Balance Sheet Strength: Strongest

- Cincinnati Financial Corp. (CFC) maintains the strongest level of risk-adjusted capital position as measured by Best's Capital Adequacy Ratio (BCAR), which benefits from a consistently strong reserve position, favorable liquidity measures and adequate reinsurance protection.
- Reserves have historically developed favorably on both a calendar and accident year basis.
- Liquidity measures are favorable and are enhanced by positive cash flows.
- Common stock leverage is higher than similarly rated peers representing more than three-quarters of the group’s GAAP equity; the risk is offset by the group’s sizable capital base, which includes high-quality fixed income securities available to support the group's insurance risks.
- CFC retains a very conservative debt to total capital position, strong interest coverage and at the end of the third quarter of 2019, the holding company held more than $3 billion in cash and marketable securities.

Operating Performance: Strong

- Operating ratio has exceeded the industry in four of the most recent five years with 2014 being the outlier.
- CFC has generated positive net income in each of the past five years. For the first nine months of 2019, the group generated almost $1.4 billion of net income, which is an increase of 85% versus the same period in 2018.
- CFC has recorded an underwriting profit in each of the past five years. During the most recent five-year period, underwriting performance has consistently outperformed both the industry and the commercial casualty composite.
- High common stock leverage has produced above-average total investment returns, although unrealized losses negatively impacted results in 2015 and 2018.
- For the five years from 2014 to 2018, CFC has recorded an average ROE of 8.5%, which is in line with most peers. However, on a statutory basis, the five-year average ROE recorded by the consolidated property and casualty operations stands at 13.4%, which ranks within the higher percentile of the composite group.

Business Profile: Favorable

- CFC has a solid market position with a ranking among the 25 largest property and casualty insurance groups in the country.
- CFC has extremely strong agency relations supported by a field focus and strong claims service. It strives to be among the top two carriers in terms of business volume in most of its agency base.
- CFC's business is well diversified by product line, offering commercial, personal, life and a modest amount of assumed reinsurance. Geographic diversification is improving as the group continues to grow in states outside of its core Midwest region.

Enterprise Risk Management: Appropriate

- CFC has a comprehensive risk management framework, which has been developed over the past several years and has benefited from stresses relating to the most recent stock market crash and catastrophe events of recent years.
- The management team is experienced and knowledgeable.
- Risk management capabilities generally meet or exceed its risk profile.

Outlook

- The rating outlooks reflect AM Best's expectation of no rating actions in the near term. AM Best expects that the group's strongest level of balance sheet strength will continue to be supported by favorable reserve development, a strong level of operating performance, a diverse business profile, and a well-defined enterprise risk management program.

Rating Drivers

- The ratings of the insurance company members of Cincinnati Financial Corp. could be negatively impacted by a variety of factors including the group's new initiatives that include increasing its personal lines focus as well as higher-risk business written on an
assumed basis, negative operating or capital impacts from catastrophe losses similar to those experienced in 2011, adverse development of prior years' loss reserves, and/or an increase in underwriting leverage.

- Negative rating action could also occur if capital is impacted by a stock market correction similar to 2009.

### Rating Rationale - for the Holding Company

The rating of the holding company is determined by reference to the Issuer Credit Rating (ICR) of the operating insurance company members. It reflects consideration of holding company sources and uses of cash, the competing demands placed upon holding company resources and normal subordination of holding company creditors to claims of the policyholders of the operating insurance companies. In general, therefore, the holding company's Issuer Credit Rating is notched from those assigned to the operating companies of the rating unit.

### Credit Analysis

#### Balance Sheet Strength

Risk adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), is in excess of the strongest guidelines by a wide margin on both a stressed and non-stressed basis. Cincinnati Financial Corp's (CFC) strong capital position is supported by its historically conservative operating strategy, including redundant reserves, strict underwriting guidelines which tend to benefit performance, the increased use of predictive analytics, improved geographical diversification, and a comprehensive ERM function.

#### Capitalization

CFC's shareholder equity has grown at an annual rate of 4.5% from year-end 2014 to year-end 2018, despite paying approximately $1.7 billion in stockholder dividends during that time. P&C net premiums written (NPW) increased by approximately 5.30% annually over the same time period, which contributed to a slight increase in CFC's underwriting leverage, although this remains in line with market peers. Contributing to the NPW growth were the consistent rate increases achieved by P&C in recent years. Shareholder's equity has continued to grow through the third quarter of 2019 to $9.4 billion, underpinned by unrealized investment gains of $1.66 billion (on both equities and fixed-maturity securities).

Liquidity remains strong, with cash and fixed-income investments representing approximately 140% of CFC's gross insurance reserves (i.e. life and non-life, excluding UPR).

#### Asset Liability Management - Investments

CFC maintains an equity allocation within its investment portfolio which is significantly higher than majority of its commercial casualty peers with common stock leverage of approximately 76%. CFC's equity strategy is to maintain a long-term, low turnover position in a selection of dividend-paying common stocks in companies that have demonstrated earnings growth, proven management, and a favorable long-term business outlook. Despite the spread of risk in CFC's equity holdings and the dividend stream afforded by these companies, the level of common stock exposes equity to potential fluctuations in the stock market.

Offsetting its equity exposure, CFC maintains a large, highly rated and diversified fixed income portfolio with a laddered maturity structure that more than covers its insurance liabilities. CFC's fixed income portfolio consists of investment grade corporate, tax-exempt municipal and agency bonds with a smaller allocation to high-yield corporate, commercial mortgage backed and taxable municipal bonds.

#### Reserve Adequacy

Management implements a very conservative reserving approach, which has historically resulted in favorable loss development. The group's P&C reserves have developed favorably for thirty consecutive years. Reserves are carried at the mid-to-high range of actuarial estimates (carried at the 84th percentile as of year-end 2018). In 2018, the group had overall reserve releases of $167 million on prior accident years (2017: $119 million); personal lines and reinsurance assumed operations were the only segments recording adverse reserve development in 2018. For the first nine months of 2019, the group recorded $203 million of favorable development on prior accident years, including $153 million of favorable development in commercial lines, $17 million of favorable development in personal lines, and $11 million of favorable development in excess and surplus lines.
Balance Sheet Strength (Continued...)

Holding Company Assessment

CFC has a consistently maintained a low financial leverage ratio, and favorable interest coverage. Furthermore, CFC maintains more than $2 billion of cash and invested assets at the holding company level; most of which is represented by a portfolio of diversified equities. This is well in excess of the $826 million in debt outstanding as of the end of 2018.

Corporate Overview

Cincinnati Financial Corporation (NASDAQ:CINF) (CFC) is a publicly traded holding company with four wholly owned subsidiaries: The Cincinnati Insurance Company, CSU Producer Resources Inc., CFC Investment Company and Cincinnati Global Underwriting Ltd.

The Cincinnati Insurance Company owns 100% of four additional insurance subsidiaries. The property/casualty group includes The Cincinnati Casualty Company and The Cincinnati Indemnity Company, which writes a broad array of business, homeowner and auto policies. The Cincinnati Insurance Company also conducts the business of the group's reinsurance assumed operations known as Cincinnati Re. The Cincinnati Life insurance Company (CLIC) provides life insurance policies and fixed annuities. The Cincinnati Specialty Underwriters Insurance Company (CSU) offers excess and surplus lines insurance products.

The two non-insurance subsidiaries of CFC are CSU Producer Resources, which offers insurance brokerage services to the group's independent agencies so their clients have access to the excess and surplus lines insurance products; and CFC Investment Company, which offers commercial leasing and financing services to the group's agencies, their clients and other customers.

Operating Performance

Operating performance has been consistently profitable over the most recent five-year period. In most years, the group benefits from its higher than average common stock leverage and the dividends received from the equity portion of its investment portfolio. However, in years with significant unrealized losses, including 2015 and 2018, shareholder's equity has been negatively impacted. The group also benefits from favorable performance on its commercial lines business which is very diversified, targets small to medium insureds and is distributed through a select number of premier independent agencies. Favorable underwriting performance in recent years can be attributed to several new and ongoing initiatives that have improved growth, profitability and diversification. Management has been continually improving their risk evaluation and risk selection process in addition to conducting more thorough and frequent loss control inspections. The impact of these initiatives can be seen in the group's lower than average loss and LAE ratio when compared to peers. The group's expense ratio is in-line with peers even though the group pays higher than average commissions.

Over the past five years (2014-2018), investment income has grown steadily at an annual compound rate of 3.0%, underpinned by the group's strategy to invest in dividend-paying stocks to offset low interest rates. CFC's net investment yield stood at approximately 4% in recent years (calculated as net investment income divided by the sum of cash, fixed-maturity and stock).

For the five years from 2014 to 2018, CFC has recorded an average ROE of 8.5%, which is in line with most peers. However, on a statutory basis, the five-year average ROE recorded by the group's consolidated P&C operations stands at 13.4%, which ranks within the higher percentile of the composite group.

Business Profile

CFC writes business through a network of independent agents. There has been considerable progress in recent years in geographical expansion to new states, mainly in the west. Prior to making agency appointments in new states, the group completes a comprehensive analysis to determine if current conditions are conducive to the group's business and risk management strategies, culture and profitability targets. Appointed agencies are supported by field underwriters with an average of twenty-one years of underwriting experience. These representatives operate out of their homes, increasing their accessibility to agents, developing greater familiarity with the agents' accounts and eliminating the need for branch offices. The group places great value on maintaining a strong local market presence and believes it is a critical success factor from both an underwriting and claims perspective.

Through its network of independent agents, the group underwrites a diversified portfolio of commercial and personal lines, as well as a small portion of life and non-admitted insurance products. Additionally, business underwritten through the Lloyd's and Cincinnati Re platforms is primarily sourced via brokers. In 2018, NWP grew by 4.1% to USD 5.3 billion from the prior year, with commercial lines accounting for approximately 65% of the overall portfolio. Within the P&C operations, NWP growth has been consistent in recent years, resulting in a compounded annual growth rate (CAGR) of 5.3% for the five years from 2014 to 2018.
Business Profile (Continued...)

CFC has managed to expand its geographical footprint over time, targeting growth with new agencies and new states. In 2018, nearly 16% of the direct premium written came from outside the Midwest and Southeast regions, versus less than 6% recorded in 2008. Additionally, almost half of the 2018 new business was sourced outside these regions. However, the portfolio is still somewhat concentrated in the top five states (Ohio, Illinois, Georgia, North Carolina and Indiana), which accounted for 37% of the total P&C direct premium written in the U.S. in 2018.

Going forward, the book’s geographic and product diversification is expected to further improve thanks to the recent acquisition of MSP Underwriting Ltd., which was re-branded as Cincinnati Global Underwriting Ltd.

Enterprise Risk Management

CFC maintains a comprehensive enterprise risk management (ERM) program. The group utilizes a conservative approach towards risk management, which is supported at the board level and reflects the organization’s strategy of maintaining superior financial strength while operating within predetermined risk tolerance guidelines. The risk management committee meets frequently to discuss key risks, risk sources, as well as emerging risks while management utilizes a multi-factored approach to identify and assess risks on the horizon, and to quantify those that could potentially impact the organization. Once key risk exposures have been identified, management reviews all risks to determine the potential impact on earnings, and/or shareholders’ equity given changes in risk exposures. In addition, all defined risk exposures are reviewed frequently by internal audit.

Reinsurance Summary

The largest net amount retained for any one risk or loss occurrence is $10 million for property and casualty. Excess of loss reinsurance agreements are in effect whereby losses above the group’s net retention up to $100 million are 100% reinsured on property per risk and $25 million on casualty per occurrence business. The group has an additional $45 million in certain casualty reinsurance for workers’ compensation, extra-contractual liability coverage and clash coverage losses. On the property catastrophe treaty, the group retains the first $100 million of any loss, as well as a 5% share of losses up to $600 million.

Terrorism coverage is provided up to full treaty limits for both the property and casualty treaties. Effective July 1, 2019, the group renewed for a period of one year their property catastrophe occurrence and aggregate excess of loss treaty. The treaty applies to business written on a direct basis and by Cincinnati Re. Ceded premiums for the renewal period of coverage from this treaty are estimated to be approximately $9 million, with a total limit of $50 million for all coverages combined.
## Financial Statements

### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>12/31/2018 USD (000)</th>
<th>%</th>
<th>12/31/2017 USD (000)</th>
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<tbody>
<tr>
<td>Cash and Short Term Investments</td>
<td>784,000</td>
<td>3.6</td>
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<tr>
<td>Bonds</td>
<td>10,689,000</td>
<td>48.7</td>
<td>10,699,000</td>
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<tr>
<td>Equity Securities</td>
<td>5,920,000</td>
<td>27.0</td>
<td>6,249,000</td>
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<tr>
<td>Other Invested Assets</td>
<td>123,000</td>
<td>0.6</td>
<td>103,000</td>
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<tr>
<td>Total Cash and Invested Assets</td>
<td>17,516,000</td>
<td>79.8</td>
<td>17,708,000</td>
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<tr>
<td>Reinsurers' Share of Reserves</td>
<td>528,000</td>
<td>2.4</td>
<td>474,000</td>
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<tr>
<td>Debtors / Amounts Receivable</td>
<td>1,644,000</td>
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<td>Other Assets</td>
<td>2,247,000</td>
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<td>2,072,000</td>
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<td><strong>Total Assets</strong></td>
<td>21,935,000</td>
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<td>21,843,000</td>
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### Gross Technical Reserves:

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<tr>
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<th>12/31/2018 USD (000)</th>
<th>%</th>
<th>12/31/2017 USD (000)</th>
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<tr>
<td>Unearned Premiums</td>
<td>2,516,000</td>
<td>11.5</td>
<td>2,404,000</td>
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<td>Non-Life Reserves</td>
<td>5,707,000</td>
<td>26.0</td>
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<tr>
<td>Life Reserves</td>
<td>2,779,000</td>
<td>12.7</td>
<td>2,729,000</td>
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<td><strong>Total Gross Technical Reserves</strong></td>
<td>11,002,000</td>
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<td>10,406,000</td>
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<tr>
<td>Debt / Borrowings</td>
<td>820,000</td>
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<td>811,000</td>
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<tr>
<td>Other Liabilities</td>
<td>2,280,000</td>
<td>10.4</td>
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<td><strong>Total Liabilities</strong></td>
<td>14,102,000</td>
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<thead>
<tr>
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<th>12/31/2018 USD (000)</th>
<th>%</th>
<th>12/31/2017 USD (000)</th>
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<tr>
<td>Capital Stock</td>
<td>397,000</td>
<td>1.8</td>
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<tr>
<td>Paid-in Capital</td>
<td>1,281,000</td>
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<tr>
<td>Retained Earnings</td>
<td>7,625,000</td>
<td>34.8</td>
<td>5,180,000</td>
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<tr>
<td>Treasury Stock</td>
<td>-1,492,000</td>
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<td>Other Capital and Surplus</td>
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<td><strong>Total Capital and Surplus</strong></td>
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<td>35.7</td>
<td>8,243,000</td>
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<th>12/31/2017 USD (000)</th>
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<tr>
<td><strong>Total Liabilities, Mezzanine Items and Surplus</strong></td>
<td>21,935,000</td>
<td>100.0</td>
<td>21,843,000</td>
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Source: BestLink® - Best's Financial Suite
Cincinnati Financial Corporation

Operations

**Domiciled:** Ohio, United States  
**Business Type:** Multi-Line  
**Publicly Traded Corp:** Cincinnati Financial Corporation  
**Stock Exchange:** NASDAQ: CINF

Contact Information

Domiciliary Address:  
6200 South Gilmore Road,  
Fairfield, Ohio 45014-5141  
United States

Mailing Address:  
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United States

Web: [www.cinfin.com](http://www.cinfin.com)  
Phone: +1-513-870-2000

Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Best's Credit Ratings

Rating Relationship

**AM Best Rating Unit:** [058704 - Cincinnati Financial Corporation](http://www.ambest.com)  
Refer to the [Best's Credit Report for AMB# 058704 - Cincinnati Financial Corporation](http://www.ambest.com) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

<table>
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<tr>
<th>AMB#</th>
<th>Rating Unit Members</th>
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Best's Credit Rating History

AM Best has assigned ratings on this company since 2002. In our opinion, the company has an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](http://www.ambest.com) in BestLink:
Best's Credit Rating History (Continued...)

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Best's Issue Credit Ratings

AM Best assigns Best's Issue Credit Ratings. Refer to the profile page to view current Issue Ratings for Cincinnati Financial Corp (AMB#58704).

Management

Officers

Chairman of the Board: Kenneth W. Stecher
President and CEO: Steven J. Johnston
SVP and Chief Investment Officer: Martin F. Hollenbeck
SVP, Secretary and General Counsel: Lisa A. Love
SVP, Treasurer and CFO: Michael J. Sewell

Directors

Thomas J. Aaron
William F. Bahl
Gregory T. Bier
Linda W. Clement-Holmes
Dirk J. Debbink
Steven J. Johnston
Kenneth C. Lichtendahl
W. Rodney McMullen
Jill P. Mixer
David P. Osborn
Gretchen W. Price
Thomas R. Schiff
Douglas S. Skidmore
Kenneth W. Stecher (Chairman)
John F. Steele, Jr.
Larry R. Webb
A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer’s claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.