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Ratings

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Cincinnati Financial Corp.

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Cincinnati Financial Corp.

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

\+

Support	**0**
Group support	0
Government support	0

=

A+/Stable/--
Financial strength rating

BBB+/Stable/--
Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Extremely strong capital adequacy with a significant buffer at the 'AAA' level, little financial leverage, and exceptional liquidity	Susceptible to earnings volatility due to high allocation of investment portfolio to equity investments
Strong and consistent underwriting margins	Geographic concentration in the Midwest, although reducing
Agent-centric business model and profit-driven commission structure	

Cincinnati Financial continues to diversify risk geographically and by product line. Cincinnati Re, Cincinnati Global, and its excess and surplus lines business are all gradually representing more of the consolidated results. Additionally, the group continues to diversify risk, which has reduced geographic concentration in the Midwest and Southeast regions, thus lessening volatility from weather-related losses.

The group has robust capital to absorb asset-risk shock amid stock market volatility. Cincinnati Financial Corp. (CFC) and its subsidiaries' (collectively, Cincinnati Financial) capital position remains excellent. The group produced strong underwriting results and investment gains throughout 2021. While the group is subject to earnings volatility because of the higher allocation to equity investments than peers, we expect Cincinnati Financial's earnings generation will continue to support the company maintaining capital adequacy commensurate with the rating.

The combination of a strong business risk profile and very strong financial risk profile leads to an anchor of 'a+' or 'a'. We select the higher anchor based on Cincinnati Financial's significant capital redundancy at the 'AAA' level and operating performance that is in line with 'A+' rated peers.

Outlook: Stable

The stable outlook reflects our expectation that Cincinnati Financial will maintain capital at the excellent level per our risk-based capital model, produce stable and profitable operating results, and improve risk diversification.

Downside scenario

We could lower our ratings over the next 24 months if, contrary to our expectations, capital adequacy deteriorates below the excellent level and we believe the company will not be able to improve its capital position. We could also lower the ratings if operating performance weakens significantly and we expect that improvement is unlikely.

Upside scenario

We could raise our ratings if the group demonstrates consistent profitability while maintaining product and geographic diversification through its global, reinsurance, and excess and surplus (E&S) businesses and excellent capital adequacy.

Assumptions

- Real year-over-year U.S. GDP growth of 2.4% in 2022 and 1.6% in 2023
- 10-year Treasury rate of about 2.7% in 2022 and 3.2% in 2023
- Core Consumer Price Index at 5.6% in 2022 and 3.3% in 2023
- Unemployment rate at 3.7% in 2022 and 4.1% in 2023
- A stable sector outlook for both life and property/casualty (P/C) insurers

Cincinnati Financial Corp.--Key Metrics

(Mil. $)	2023*	2022*	2021	2020	2019
Net premiums earned	6750-7250	6250 - 6750	6,482.0	5,980.0	5,604.0
Net income	600-800	50 - 250	2,946.0	1,216.0	1,997.0
EBITDA fixed-charge coverage (x)	18-20	4-6	26.23	14.17	17.87
Financial leverage (%)	6-8	6-8	6.41	7.89	7.74
Return on equity (%)	4-2	0-2	24.66	11.78	22.57
P/C: Net combined ratio (%)	94-96	94-96	88.34	98.07	93.81
Return on revenue excluding investment gains/losses (%)	11-12	1-3	18.21	10.32	13.95
S&P Global Ratings' capital adequacy	AAA	AAA	AAA	AAA	AAA

*Forecast data represents S&P Global Ratings' base-case assumptions.

Business Risk Profile: Strong

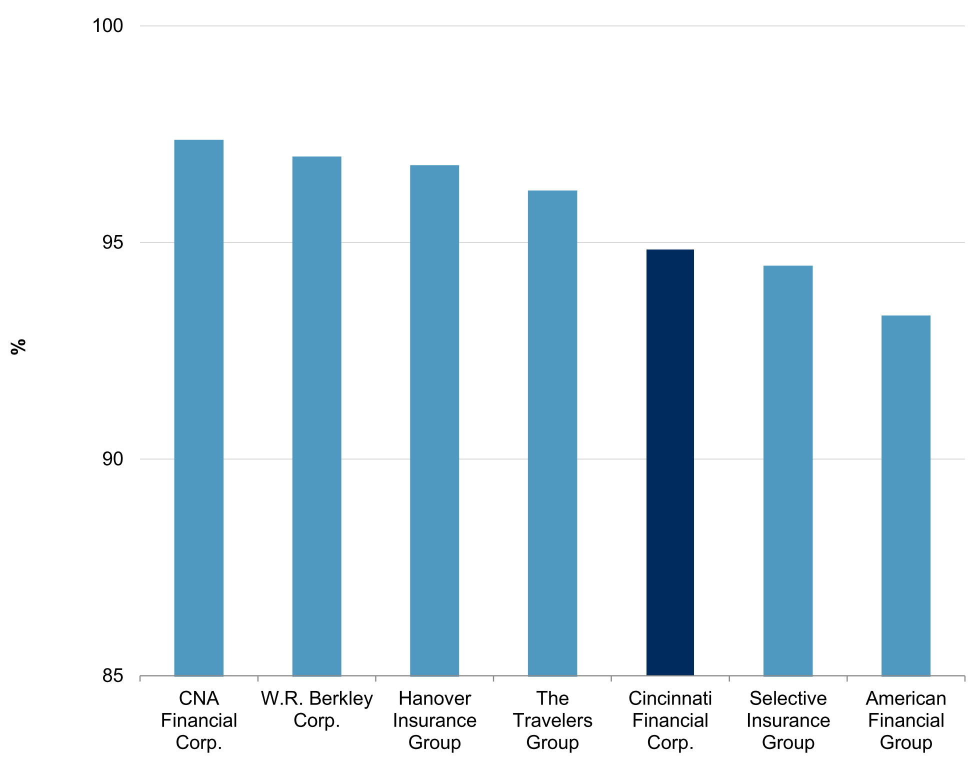
Cincinnati Financial has built its business around a low fixed-cost expense structure and competitive profit-driven agent commission structure. The group has a strong and growing network of independent agents who are supported by local field representatives to help with underwriting, claims, production, and loss control. The group carefully selects independent agents to ensure profitable business growth in line with the group's objectives.

The group continues to diversify across lines of business and geographies. At year-end 2021, net premiums written (NPW) totaled $6.8 billion, represented by:

- Commercial lines (56% of NPW),
- Personal lines (23% of NPW),
- Reinsurance via Cincinnati Re (7% of NPW),
- Excess and surplus lines (6% of NPW),
- Life insurance (5% of NPW), and
- Cincinnati Global (3% of NPW).

Chart 1

Cincinnati Financial Corp.--Combined Ratio Peer Comparison (2017-2021)



Although targeted growth has lessened geographic concentration, the P/C business is still largely concentrated in the Midwest and Southeast, exposing Cincinnati Financial to both catastrophe and non-catastrophe convective storm losses. The group has proven it can manage those risks without significant volatility in underwriting performance on a consolidated basis. Consolidated P/C results have posted a five-year average combined ratio of 94.8%.

The group's commercial lines book has an emphasis on small to midsize businesses. It has historically produced strong underwriting margins and has anchored underwriting performance, with a five-year average combined ratio of 93%. Management has proven adept in risk selection in this market, which we expect to continue.

In recent years the group has used technology to improve risk selection and geographic diversification in personal lines, which has proven successful. Combined ratios for the personal lines segment were under 100 for the last three years, and the five-year average combined ratio was 99%. Additionally, the company has become a top player in the high-net-worth market and continues to grow.

Earnings are further diversified through the E&S, reinsurance, Cincinnati Global, and life insurance segments. The E&S book focuses mainly on casualty business and has been a strong source of earnings, with a five-year average combined ratio of 81.1%. Cincinnati Re started writing in 2015 and continues to expand. Cincinnati Global, acquired in February 2019, underwrites insurance in the Lloyd's of London marketplace. The Cincinnati Life Insurance Co. (CLIC) offers primarily term life and annuity products. These segments continue to expand, represent more of the consolidated results, and diversify earnings.

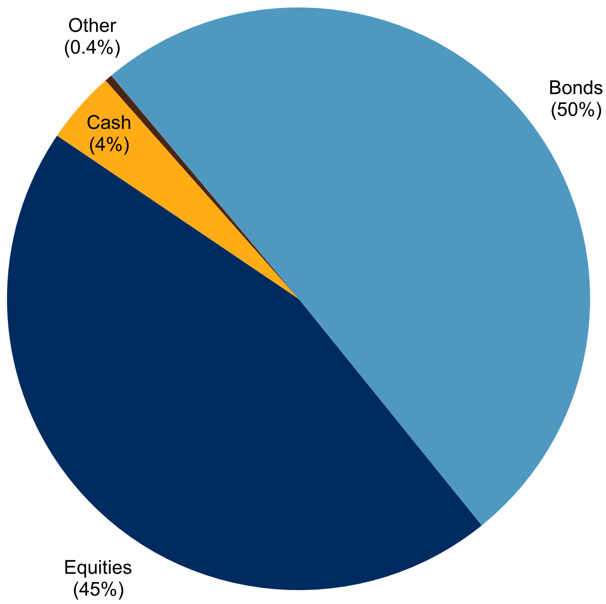
Financial Risk Profile: Very Strong

Cincinnati Financial's strong underwriting margins and consistent investment income support its capital and earnings. The group also has historically maintained relatively low leverage and excellent liquidity. CFC's shareholders' equity in 2021 increased 21% to $13.1 billion from $10.8 billion, primarily owing to gains on equity portfolio and strong underwriting profits in the commercial, personal, and E&S segments.

As of year-end 2021, CFC's $24.7 billion investment portfolio had a material exposure to common equities of about 45% of invested assets. The rest of the portfolio comprises 50% bonds, 4% cash and short-term investments, and about 1% real estate, loans, and other investments. While the equity portfolio consists of high-quality, dividend-paying stocks, we recognize the potential for earnings volatility due to equity market swings. Such swings contributed to strong growth in 2021, with a net gain on equity securities of $2.3 billion as of Dec. 31, 2021, but have also contributed to a net loss through first-quarter 2022 of $675 million. We think the group is able to comfortably withstand the risk associated with its investment allocation due to the sizable buffer at the 'AAA' level per our capital model.

Chart 2

Cincinnati Financial Corp.--Investment Portfolio Composition



Other Key Credit Considerations

Governance

Management enhances financial and operational performance by focusing on capital stability, agency relationships, small-to-midsize accounts, underwriting discipline, and an investment strategy aligned to support earnings amid a soft-market cycle. The group has a track record of achieving its operational and strategic goals.

The group's business model depends on a strong network of carefully selected independent agents to serve local businesses and customers. Management enhances operational performance by providing resources to and remaining engaged with agents. Management maintains a low fixed expense ratio, which enables the group to offer higher commissions and attract more profitable business than competitors.

Liquidity

We consider Cincinnati Financial's liquidity to be exceptional because of its strong operating cash flows and liquid investment portfolio. The company finished 2021 with $1.981 billion in operating cash flow and $198 million through the first quarter of 2022.

Factors specific to the holding company

Our rating on the holding company reflects its structural subordination to its regulated operating subsidiaries. CFC's operating performance and debt-service needs depend on the operating subsidiaries' ability to pay dividends.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5
- Physical risks				

S-1	**S-2**	S-3	S-4	S-5
N/A				

G-1	**G-2**	G-3	G-4	G-5
N/A				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Cincinnati Financial. From a catastrophe loss perspective, the majority of the losses in recent years have been attributed to convective storms in the Midwest, which have typically led to a higher frequency of catastrophe losses but lower severity/tail than peers with more coastal exposure. While historically catastrophe losses have been relatively material to earnings, the company has engrained a culture focused on risk management and has improved its ability to quantify exposures/tolerances.

Accounting considerations

Cincinnati Financial is a publicly traded company and timely prepares its financial statements under both generally accepted accounting principles (GAAP) and statutory accounting principles. We consider GAAP statements when examining the capital, earnings, and other financial metrics vis-à-vis peers'.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of July 12, 2022)*

Cincinnati Financial Corp.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Senior Unsecured	BBB+
Related Entities	
Cincinnati Casualty Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Cincinnati Indemnity Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Cincinnati Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Cincinnati Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Ohio

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and

Ratings Detail (As Of July 12, 2022)*(cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.