Overview of Insurance Operations

Property Casualty Insurance Operations: Growth

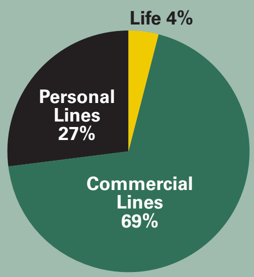
Property casualty statutory net written premiums grew 19.4 percent for the year. For comparison purposes, the growth rate was 14 percent excluding an adjustment that reflected refinement of the estimation process for matching written and earned premiums to policy effective dates. Commercial statutory net written premiums rose 22.8 percent, or 15.8 percent to $1.795 billion excluding the adjustment; premiums for personal lines rose 11 percent, or 9.8 percent to $700 million excluding the adjustment.

While firm commercial pricing drove this growth, increases also arose from agent and underwriter efforts to verify that coverage amounts matched insured values.

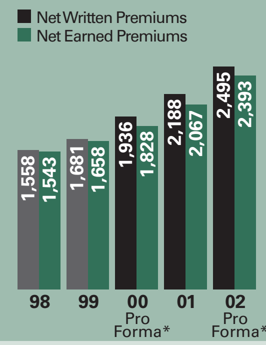
New business written directly by agents in 2002 reached an all-time high of $317 million as double-digit price increases more than offset a lower number of new policies. New commercial business rose 14.4 percent and new personal lines business rose 27.2 percent.

Growth of new business moderated during the fourth quarter as we continued making deliberate, case-by-case decisions to leave some risks on the table. We have historically written workers' compensation to help agents present a full package of Cincinnati coverage to the policyholder. Because rising loss cost trends concern us, and agents in most states can easily provide workers' compensation on a stand-alone basis, we reduced writings in this line. New workers' compensation business was down 17.4 percent for the year while total direct written premiums rose 8.9 percent on improved pricing of new and renewal policies.

Premium Mix
Percent of 2002 Consolidated Net Earned Premiums

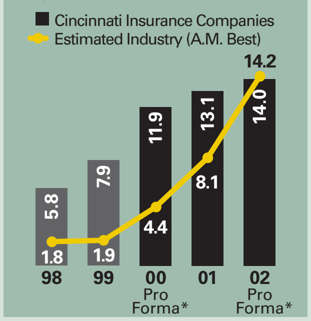


Property Casualty Premiums
Statutory
(dollars in millions)



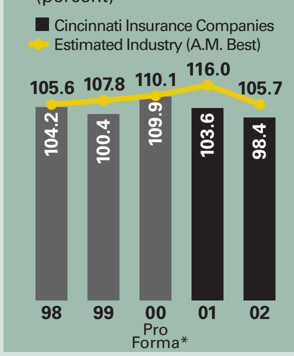
Growth in established states fueled a $332 million increase in agency direct premiums. Ohio, with 24.2% of total direct volume, grew 11.4%. Other top states: Illinois, up 15.1%; Indiana, up 12.3%; Michigan, up 17.7%.

Property Casualty Net Written Premium Growth Rate
Statutory
(percent)



Cincinnati's five-year average growth of 12.2% doubled the 6% industry average. Commercial premiums accounted for 73% of 2002 property casualty volume.

Combined Loss and Expense Ratio
Statutory, Post-Dividend
(percent)



Cincinnati's ratio improved to 98.4%, the best full-year result since 1997. The 2002 ratio included 3.6 points for catastrophes and compared favorably with the industry average of 105.7%, with 1.4 catastrophe points.

As more fully discussed in the company's Form 10-K for 2002, 2001 statutory data for the property casualty subsidiaries reflects the company's adoption of Codification effective January 1, 2001. Codification of Statutory Accounting Principles required recognition of net written premiums on the basis of the policy contract term rather than the policy billing period. For comparison purposes, a $402 million one-time net written premium adjustment required to conform with Codification was excluded from 2001 data, and 2000 statutory data was reclassified; information was not readily available to reclassify earlier years' statutory data presented above.

* In 2002, the company refined its estimation process for matching written and earned premiums to policy effective dates. For comparison purposes only, pro forma results exclude the benefit. Including the 2002 adjustment, statutory written premiums rose 19.4 percent to $2.613 billion.

In 2000, the company incurred a one-time charge for asset impairment. For comparison purposes only, pro forma results exclude the charge. Including the 2000 charge, the statutory combined ratio for 2000 was 111.6 percent.

■ The Cincinnati Insurance Companies (statutory, property casualty subsidiaries)

■ The Cincinnati Insurance Companies (statutory, including effects of Codification, property casualty subsidiaries)

Property Casualty Insurance Operations: Profitability

In 2002, the company recorded its best statutory combined ratio in five years, outperforming the 105.7 percent industry average estimated by A.M. Best Co. Our ratio improved to the sub-100 level on both a statutory basis, at 98.4 percent, and on a GAAP accounting basis, at 99.7 percent. We achieved a GAAP underwriting profit of $8 million, with $48 million of profits for the second half offsetting a first-half underwriting loss due to unusually heavy catastrophes.

This was our first full-year underwriting profit since 1997 and compared with a loss of $102 million last year. It reflected better pricing and profitability initiatives such as re-underwriting programs, renewal field reviews, risk reports, rate increases and changes in policy terms and conditions. Task forces have researched, recommended and implemented changes to eligibility and underwriting guidelines for business lines that have incurred some of our largest losses, including commercial auto and contractor risks.

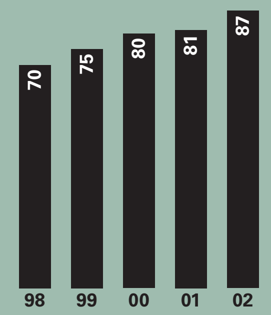
For commercial lines business, our statutory combined ratio was very satisfactory at 95.3 percent versus 103.4 percent estimated for the industry. And while our personal lines ratio remained above the level we consider acceptable, at 106.5 percent versus the industry's estimated 105.6 percent, our ratio included 7.1 percentage points of catastrophes versus only 1.8 percentage points in the industry ratio. As has been the case over the past two years, our homeowner business was the main cause of the high ratio, with a loss and loss expense ratio of 98.6 percent versus 67.6 percent for personal auto. In addition to stricter underwriting and policy changes, we are working to package homeowner accounts with the more profitable auto business. New direct homeowner-auto package business rose 47.4 percent to $26 million.

Life Insurance Operations

The Cincinnati Life Insurance Company reported net income of $17 million in 2002. Revenues rose 2.8 percent, with earned premiums up 8.3 percent and pre-tax investment income up 6.9 percent. After higher expenses related to strong growth and increased regulatory and legal expenses, 2002 net income before net realized investment gains and losses was $25 million, compared with $30 million in 2001.

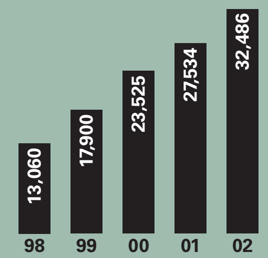
New submitted applications rose 16 percent to more than 47,600 on strong sales of ordinary life products. Excluding the sale of a $33 million bank-owned life insurance policy, first-year net ordinary life premiums written in 2002 increased 21 percent to $24 million, primarily from the sale of LifeHorizons term and universal life products. First-year annuities written reached $84 million, up from $9 million in 2001, reflecting the appeal of return of principal and guaranteed income and interest-rate features in today's low interest-rate environment.

Net Earned Premiums
The Cincinnati Life Insurance Company
(dollars in millions)



Cincinnati Life's 2002 net earned premiums rose 8.3%, contributing to a five-year compound growth rate of 7.3%.

Life Policy Face Amounts in Force
Excluding Annuities, Accident and Health Business
(dollars in millions)



Face amounts of ordinary life insurance policies in force increased 18% from 2001 to 2002. Policy count rose to 332,783 from 319,281.