

Best's Rating Report



Fairfield, Ohio



A+

Associated With:
Cincinnati Financial Corporation
**THE CINCINNATI INSURANCE
COMPANIES**

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Associated Ultimate Parent#: 058704

BEST'S FINANCIAL STRENGTH RATING
Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A+ (Superior). The group's Financial Size Category is Class XV.

RATING UNIT MEMBERS

The Cincinnati Insurance Companies

(AMB# 004294):

| AMB# | Company | Best's FSR |
|--------|------------------------------|---------------|
| 000258 | Cincinnati Insurance Company | A+ |
| 004289 | Cincinnati Casualty Company | A+ r |
| 010650 | Cincinnati Indemnity Company | A+ r |

RATING RATIONALE

Rating Rationale: The ratings apply to The Cincinnati Insurance Company and its subsidiaries and are based on the consolidation of these companies and The Cincinnati Insurance Company's separately rated excess and surplus lines subsidiary, The Cincinnati Specialty Underwriters Insurance Company, which are collectively referred to as The Cincinnati Insurance Companies (CIC).

The ratings reflect CIC's excellent risk-adjusted capitalization and conservative loss reserving standards that have allowed for substantial

favorable loss-reserve development on prior accident years. The ratings also consider the group's generally conservative operating fundamentals, favorable balance sheet liquidity, growing use of predictive analytic modeling tools and historically strong operating performance. Furthermore, the ratings recognize the successful distribution within its targeted regional markets that is centered on harnessing strong, long-term relationships with local independent insurance agencies. CIC's relationships with its agent base are strengthened by the local presence of field support associates, competitive commission structure and comprehensive portfolio of insurance products. The ratings also acknowledge the strong franchise value of CIC, which ranks among the top 30 property/casualty organizations in the United States, based on net premiums written. Lastly, CIC benefits from the financial flexibility afforded by its publicly traded parent, Cincinnati Financial Corporation (CINF), which maintains modest financial leverage and additional liquidity through its access to capital markets and lines of credit.

The positive rating factors are somewhat offset by CIC's underwriting performance in recent years relative to its rating level, elevated common stock leverage, and geographic concentration of risk. CIC's underwriting performance has deteriorated in recent years from its historically strong levels, impacted by underperforming results in its homeowners and workers' compensation lines of business, which continue to place pressure on the group's overall underwriting results. Management has implemented a number of strategic initiatives to improve the performance of these lines, including enhanced pricing techniques, improved risk selection, increased use of technology, greater geographic diversification and the establishment of a workers' compensation claims reporting center. The group's market profile is somewhat geographically concentrated rel-

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ative to its rating level, as nearly 50% of its writings are derived from six states in the Midwest and Southeast. As a result, the group remains exposed to economic, legislative and judicial changes, as well as catastrophe-related losses, as evidenced by significant weather-related losses in more recent accident years. Although management restructured the group's investment portfolio in 2008 and 2009 following significant unrealized capital losses, CIC still maintains high common stock leverage relative to its peers. The group's allocation to equity securities was in excess of 50% of policyholders' surplus in 2011, remaining a potential source of volatility in operating results and capitalization during difficult economic times. Despite these concerns, the outlooks reflect CIC's strong level of risk-adjusted capitalization, which supports the ongoing variability in the group's underwriting and operating performance.

While A.M. Best believes positive rating actions are unlikely in the near term, key factors that could trigger negative rating actions on CIC's ratings include the continued deterioration of underwriting and operating results, particularly if the resulting performance is material-ly below similarly rated peers.

Best's Financial Strength Rating: A+

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

| Year | Net Written Premiums | Pretax Operating Income | Total Admitted Assets | Policy- holders' Surplus | Comb. Ratio |
|------|----------------------------|-------------------------------|-----------------------------|--------------------------------|----------------|
| 2006 | 3,180,419 | 574,384 | 10,998,528 | 4,750,168 | 93.8 |
| 2007 | 3,119,169 | 700,771 | 10,099,001 | 4,307,150 | 90.3 |
| 2008 | 3,012,197 | 340,675 | 8,699,989 | 3,360,298 | 100.4 |
| 2009 | 2,913,748 | 207,697 | 9,221,371 | 3,647,792 | 104.4 |
| 2010 | 2,965,462 | 294,665 | 9,466,136 | 3,777,233 | 101.8 |

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

BUSINESS REVIEW

The property/casualty insurance operations of Cincinnati Financial Corporation (CINF) are led by The Cincinnati Insurance Company, which together with two of its reinsured subsidiaries, is known as The Cincinnati Insurance Companies. The group ranks among the 30 largest property/casualty insurance groups in the country, based on net premiums written in 2011. Through its single channel distribution network of independent agents, the group underwrites a broad array of standard commercial lines and personal lines, primarily in the Midwest and Southeast regions of the United States. Through its subsidiary companies, The Cincinnati Casualty Company and The Cincinnati Indemnity Company, the group is provided with greater underwriting and pricing flexibility. Surplus lines capability is also available though the group's separately rated subsidiary, The Cincinnati Specialty Underwriters Insurance Company.

In commercial lines, the group targets small-to-medium-sized accounts and does not offer unsupported workers' compensation coverage. Based in Ohio, the group generated close to 20% of 2011 direct premiums from its state of domicile. The next four largest markets based on direct writings are Illinois, Indiana, Pennsylvania and Georgia. These five states account for approximately 45% of the group's writings in 2011. On a consolidated basis, the group's premium writings are split approximately 75% commercial lines and 25% personal lines.

CIC's underwriting approach has been to write most of its commercial accounts in three-year policies with base rates for property and general liability coverages that are unchanged over that term, packaged together with annually underwritten auto, workers' compensation and umbrella coverages. As a result, approximately 75% of a commercial account's premiums are written on one-year policy terms, subject to annual renewal rating. Approximately 25% are written on multi-year terms where the base rates are unchanged at each policy anniversary. This approach provides a marketing and retention advantage while increasing efficiency and convenience for the company, its agents and policyholders.

Business is generated through approximately 1,300 independent agencies operating from more than 1,600 locations. 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 125 property/casualty field underwriters averaging 20 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.

2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

| Product Line | —Premiums Written— | | % of Total NPW | Pure Loss Ratio | Loss & LAE Res. |
|---------------------|--------------------|-----------|----------------------|-----------------------|-----------------------|
| | Direct | Net | | | |
| Com'l MultiPeril | 861,619 | 809,273 | 27.3 | 57.1 | 950,435 |
| Oth Liab Occur | 426,250 | 410,480 | 13.8 | 25.7 | 741,159 |
| Workers' Comp | 324,499 | 310,099 | 10.5 | 80.0 | 1,010,410 |
| Homeowners | 318,662 | 301,233 | 10.2 | 79.0 | 105,523 |
| Comm'l Auto Liab | 289,020 | 290,029 | 9.8 | 48.4 | 348,939 |
| Auto Physical | 253,788 | 248,495 | 8.4 | 63.2 | 8,391 |
| Priv Pass Auto Liab | 198,932 | 199,066 | 6.7 | 62.3 | 151,601 |
| Fire | 78,285 | 68,407 | 2.3 | 41.0 | 11,191 |
| Prod Liab Occur | 64,203 | 64,006 | 2.2 | 62.2 | 175,519 |
| Inland Marine | 64,346 | 59,246 | 2.0 | 38.0 | 7,389 |
| Oth Liab CM | 73,806 | 54,656 | 1.8 | 65.4 | 149,059 |
| All Other | 170,132 | 150,474 | 5.1 | 50.4 | 151,277 |
| Totals | 3,123,543 | 2,965,462 | 100.0 | 56.4 | 3,810,892 |

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Consolidated Balance Sheet Admitted Assets (\$000)

| | 12/31/2010 | % |
|------------------------------------|--------------------|--------------|
| Bonds | \$5,405,931 | 57.1 |
| Preferred stock | 109,141 | 1.2 |
| Common stock | 2,087,086 | 22.0 |
| Cash & short-term invest | 200,811 | 2.1 |
| Other non-affil inv asset | 10,058 | 0.1 |
| Investments in affiliates | 302,963 | 3.2 |
| Real estate, offices | 10,502 | 0.1 |
| Total invested assets | \$8,126,491 | 85.8 |
| Premium balances | 1,018,047 | 10.8 |
| Accrued interest | 80,607 | 0.9 |
| All other assets | 240,992 | 2.5 |
| Total assets | \$9,466,136 | 100.0 |

Liabilities & Surplus (\$000)

| | | |
|--|--------------------|--------------|
| Loss & LAE reserves | \$3,810,892 | 40.3 |
| Unearned premiums | 1,532,887 | 16.2 |
| All other liabilities | 345,126 | 3.6 |
| Total liabilities | \$5,688,904 | 60.1 |
| Capital & assigned surplus | 366,997 | 3.9 |
| Unassigned surplus | 3,410,236 | 36.0 |
| Total policyholders' surplus | \$3,777,233 | 39.9 |
| Total liabilities & surplus | \$9,466,136 | 100.0 |

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Why is this *Best's® Rating Report* important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an 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 Best's 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.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

Secure Best's Financial Strength Ratings

| | |
|------------|-----------|
| A++ and A+ | Superior |
| A and A- | Excellent |
| B++ and B+ | Good |

Vulnerable Best's Financial Strength Ratings

| | |
|------------|------------------------------|
| B and B- | Fair |
| C++ and C+ | Marginal |
| C and C- | Weak |
| D | Poor |
| E | Under Regulatory Supervision |
| F | In Liquidation |
| S | Rating Suspended |

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