

Best's Rating Report



Fairfield, Ohio



A+

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

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AMB#: 004294

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
004289	Cincinnati Casualty Company	A+ r
010650	Cincinnati Indemnity Company	A+ r
000258	Cincinnati Insurance Company	A+

RATING RATIONALE

Rating Rationale: The rating applies to The Cincinnati Insurance Company and its two 100% reinsured subsidiaries, The Cincinnati Casualty Company and The Cincinnati Indemnity Company, and is based on the consolidation of these companies and The Cincinnati Insurance Company's separately-rated surplus lines subsidiary, The Cincinnati Specialty Underwriters Insurance Company, which collectively are referred to as The Cincinnati Insurance Companies (CIC).

The rating reflects CIC's superior risk-adjusted capitalization,

strong five-year average operating performance, historically redundant reserves and successful distribution within its targeted regional markets centered on harnessing strong relationships with local independent insurance agencies. CIC also benefits from the financial flexibility afforded by its publicly traded parent, Cincinnati Financial Corporation (CINF), which maintains modest financial leverage and considerable liquid assets. Somewhat offsetting these strengths are CIC's elevated common stock leverage; geographic concentration in the Midwest and Southeast that exposes it to economic, legislative and judicial changes, as well as weather- and catastrophe-related losses; and underperforming personal lines business.

A key element of CIC's business strategy is the group's focus on marketing and servicing clients through a network of independent agents fostered through strong, long-term relationships. CIC's successful agency relations are demonstrated when measuring the production of its agencies, as the group is either the number 1 or number 2 carrier in more than 75 percent of reporting agency locations appointed for more than 5 years. 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 successful execution of its business strategy is evidenced by the group's historically strong underwriting and operating results, which have outperformed peer composite norms and the property and casualty industry over time and through underwriting cycles.

Although management undertook an aggressive restructuring of its investment portfolio in 2008 and 2009, which led to a more diversified and better balanced investment portfolio, CIC maintains high common stock leverage, which is approximately 50% of statutory surplus at year-end 2009. However, this concern is somewhat muted by the group's conservative underwriting and loss reserve positions

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and growing, highly rated fixed income portfolio. CIC's geographic concentration in the Midwest and Southeast, despite recent expansion initiatives, exposes it to economic, legislative and judicial changes, as well as weather- and catastrophe-related losses as evidenced by significant increases in catastrophe- and weather-related losses in 2008 and 2009. More specifically, 2009 weather-related activity in conjunction with a reduction in favorable development and adverse development in the workers' compensation line, produced a nearly \$128 million underwriting loss. These results are largely due to poor personal lines underwriting performance that continues to place a drag on overall underwriting profitability; however, management has worked to improve the performance of this segment, with enhanced pricing, improved risk selection and technology, and greater geographic diversification. Also, A.M. Best expects the continued soft pricing and continued competitive forces in the U.S. commercial lines sector will likely pressure underwriting margins over the near term.

Best's Financial Strength Rating: A+

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2005	3,078,517	667,366	10,085,715	4,219,839	89.0
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

(*) 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 its two reinsured subsidiaries, is known as The Cincinnati Insurance Companies standard market property/casualty group (the group). The group ranks among the 25 largest property/casualty insurance groups in the country based on net written premiums. 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/pricing flexibility. The group targets small- to medium-sized commercial accounts for its commercial lines and does not offer unsupported workers' compensation coverage.

Based in Ohio, the group generates almost 20 percent of 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 46 percent of the group's writings. On a consolidated basis, the group's 2009 premium writings are split approximately 76 percent commercial lines and 24 percent personal lines.

The group's pricing approach has been to write many of the commercial coverages in three-year package policies. However, in order to accurately price business, management estimates that approximately 75 percent of commercial premium is written under one-year policy terms and subject to annual renewal rating. Approximately 25 percent of the group's commercial premiums, mainly property and general lia-

bility coverages, are written on multi-year terms where the base rates are unchanged at each policy anniversary.

Business is generated through 1,180 independent agencies operating from approximately 1,463 locations. These agencies are supported by a team of 113 property/casualty field marketing representatives who operate out of their homes, eliminating the need for branch offices. The group places a great deal of value on maintaining a strong local market presence and believes that it is a critical success factor from both an underwriting and claims perspective.

2009 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril	856,226	808,082	27.7	47.4	887,718
Oth Liab Occur	422,191	396,939	13.6	32.9	730,669
Workers' Comp	337,522	322,672	11.1	106.0	974,869
Comm'l Auto Liab	291,648	292,500	10.0	51.7	366,432
Homeowners	298,159	276,667	9.5	94.6	89,617
Auto Physical	242,996	237,716	8.2	59.7	7,301
Priv Pass Auto Liab	182,070	182,193	6.3	62.2	153,976
Fire	73,665	63,666	2.2	46.6	10,332
Oth Liab CM	70,156	62,768	2.2	59.7	147,547
Inland Marine	65,208	59,625	2.0	36.2	8,302
Prod Liab Occur	58,734	58,515	2.0	28.3	140,301
All Other	172,770	152,405	5.2	47.9	143,899
Totals	3,071,344	2,913,748	100.0	58.5	3,660,963

Consolidated Balance Sheet

Admitted Assets (\$000)

	12/31/2009	%
Bonds	\$5,313,553	57.6
Preferred stock	102,816	1.1
Common stock	1,829,028	19.8
Cash & short-term invest	338,648	3.7
Other non-affil inv asset	16,189	0.2
Investments in affiliates	300,245	3.3
Real estate, offices	10,264	0.1
Total invested assets	\$7,910,743	85.8
Premium balances	986,643	10.7
Accrued interest	80,666	0.9
All other assets	243,318	2.6
Total assets	\$9,221,371	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$3,660,963	39.7
Unearned premiums	1,491,696	16.2
All other liabilities	420,920	4.6
Total liabilities	\$5,573,579	60.4
Capital & assigned surplus	366,997	4.0
Unassigned surplus	3,280,795	35.6
Total policyholders' surplus	\$3,647,792	39.6
Total liabilities & surplus	\$9,221,371	100.0

Best's Rating Report

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 Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract 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 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.

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 Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

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

Secure Best's Ratings

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

Vulnerable Best's 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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