

Cincinnati Financial Corp. And Subsidiaries

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Holding Company:

Cincinnati Financial Corp.

Counterparty Credit Rating

Local Currency
BBB/Stable/—

Major Rating Factors

Strengths:

- Strong competitive position reinforced by strong distribution network.
- Low-cost infrastructure.
- Very strong capitalization.

Weaknesses:

- Continually exhibits higher weather-related losses than peers.
- Underperformance in workers' compensation business.

Rationale

The counterparty credit rating on Cincinnati Financial Corp. (CFC) and the insurer financial strength ratings on four of its operating subsidiaries—The Cincinnati Insurance Co., The Cincinnati Casualty Co., The Cincinnati Indemnity Co., and The Cincinnati Life Insurance Co. (collectively, Cincinnati Insurance Cos.)—are based on the companies' strong competitive position, which is reinforced by a loyal and productive independent agency force and a low-fixed-cost infrastructure. The ratings also reflect Cincinnati Insurance Cos.' (CIC) very strong

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency
A/Stable/—

capitalization and high degree of financial flexibility. The deterioration of CIC's property/casualty (P/C) underwriting results, due to above-average weather-related losses and the weak workers' compensation line of business, partially offsets these strengths.

CIC's good competitive position in the life insurance market and strong competitive position in the standard lines P/C market is largely due to its understanding of local independent agents' needs, a favorable commission structure, and competitive products and services that have fostered a loyal and dynamic independent agency force. CIC is the 25th-largest P/C insurer in the U.S. based on written premiums. CIC historically has been successful in its operating strategy, deploying in-home field marketing/underwriting, claims, and loss-control representatives who maintain strong local-market knowledge. CIC's business model focuses on the agent, which enables the company to maintain low fixed costs. The company keeps expenses low by enabling the claims and field representatives to work from their residences, and it uses those savings to provide the agents with higher commissions. As of year-end 2010, CIC's capitalization was very strong on a risk-adjusted basis, mainly because of the unrealized gain on its overall investment portfolio. The unrealized gain resulted from the strong performance of its bond portfolio and the improved equity market conditions. Despite recent above-average weather-related catastrophe losses, Standard & Poor's Ratings Services believes that CIC's redundant capital adequacy will continue to provide the necessary capital headroom to absorb higher-than-expected catastrophe losses. As of Dec. 31, 2010, CFC's shareholders' equity rose to \$5.03 billion from \$4.76 billion in 2009. This increase was mainly the result of investment gains.

Property catastrophe losses continued to affect underwriting profitability, a reflection of CIC's geographical concentration in the Southeast and Midwest regions, which have been marred by a series of severe and frequent weather-related losses in recent years. Over the past five years (2006-2010), homeowners' business, which contributed about 10% of the group's business volume, averaged a pure loss ratio of 77%, which is higher than the industry's pure loss ratio of 62%. In the second quarter of 2011, the company incurred about \$114 million of pretax catastrophe losses in the homeowners' lines. This is up from the \$39 million it posted during second-quarter 2010. Over the 10 years ended in 2007, the catastrophe loss ratio contributed an average of 17.4 percentage points to the homeowners' loss ratio. However, over the past three years, the catastrophe loss ratio contributed about 29 percentage points. To mitigate earnings volatility, the company has been actively managing exposure by deciding to not renew certain business in Florida and Alabama, by increasing its business in newer states outside the South and Midwest regions, by training field staff to use a catastrophic risk management system to recognize the need for higher deductibles, by filing for rate increases to achieve adequate homeowners pricing, and by limiting new business in catastrophe-prone areas. Moreover, in an effort to reduce earnings volatility, the company has continued to expand its life agency force and update its products.

CIC's workers' compensation business, which accounted for about 11% of the group's business volume in 2010, remained a drag on underwriting results. From 2006-2010, the pure loss ratio for workers' compensation averaged 81%, higher than the industry's pure loss ratio of 64%. In 2010, the company reported a pure loss ratio on workers' compensation of 80%. Although this is an improvement from 106% in 2009, the company's pure loss ratio remains higher than the industry's average of 71%.

Although the company continues to face the effects of a competitive marketplace, exacerbated by a slow economic recovery, we believe CIC's underwriting profitability in workers' compensation will

improve over the next two years. Such improvements would be the result of implementing predictive modeling to improve price adequacy as well as stronger underwriting controls, expanded loss control service, and a shortened time interval between an injury and the first report of the claim to the company.

Factors Specific To Holding Company

Standard & Poor's rates the operating companies three notches higher than the holding company, which is the normal notching. This reflects the holding company's dependence on dividends from its operating subsidiaries, as well as regulator's ability to prohibit those dividends.

As of Dec. 31, 2010, CFC's insurance subsidiaries could pay up to \$378 million in dividends in 2011 without having to obtain prior approval from their states' insurance departments. The insurance subsidiaries paid \$220 million in dividends in 2010.

CFC had approximately \$839 million in corporate debt and \$5.12 billion in shareholders' equity as of March 31, 2011. Its financial metrics are strong and consistent with the ratings, with total financial leverage and EBITDA fixed-charge coverage of approximately 14% and 7x, respectively, as of Dec. 31, 2010. On a consolidated basis, cash and short-term investments totaled approximately \$385 million at year-end, which was about 7x the holding company's annual level of net obligations.

Outlook

Standard & Poor's expects CIC to report a midsingle-digit increase in consolidated net premium written in 2011 because of new agency appointments in established geographic markets, a rate increase in the homeowners line, and expansion into newer states.

In full-year 2011, we expect the company's operating performance to generate a combined ratio of 110%-112% (excluding any additional outsize catastrophe losses for the remainder of the year), with a pretax return on revenue (excluding realized gains/losses) of less than 1%. Assuming a normal catastrophe loss ratio of 4.5%, we expect a combined ratio of close to 100% and a return on revenue (ROR) of about 9%.

We also expect that CIC will maintain very strong capitalization and a strong competitive position, supported by a highly effective distribution channel and a low fixed-expense infrastructure. Given the company's geographical concentration in the Southeast and Midwest regions, which are susceptible to severe weather-related losses, we expect capital adequacy to remain redundant, providing the necessary protection to absorb weak underwriting performance through soft cycles and higher-than-expected catastrophic losses.

The stable outlook also reflects our expectation that the life company will remain core to CIC, as well as our expectation that the life company will continue to increase sales through P/C distribution and worksite marketing. The Cincinnati Life Insurance Co.'s (CLIC) capital adequacy should remain very strong, with investment quality and yield expected to exceed the industry average in 2011.

Given CIC's business profile, we are unlikely to raise the ratings over the next 24 months. However, we could take a rating action over the next 12-24 months, subject to CIC's financial performance and our further review of its prospective operating fundamentals and the overall market conditions. We would consider a downgrade if:

The company does not meet our stated expectations (specifically, if the full-year 2011 combined ratio is more than 112%, including catastrophic losses, or losses totaling more than one year's worth of earnings);

- Its financial position weakens (such as capital eroding more than 10%); or
- Catastrophe losses appear much higher than peers'.

The rating on CLIC reflects Standard & Poor's view that the company is currently core to CIC (CLIC's parent). The rating on CLIC would likely move in tandem with the rating on CIC.

Competitive Position: Maintaining A Strong Position As It Expands Into New States

CIC's competitive position in the standard lines P/C market is strong. It is the 25th-largest P/C insurer in the U.S. based on written premiums in 2010. To maintain its market share, the company cultivates a sustainable distribution channel by developing strong relationships with independent agencies. As part of the strategic initiative to achieve profitable growth, CIC introduced the use of predictive modeling tools in 2008. The tools are designed to enhance effectiveness when selecting, underwriting, and pricing profitable business. Moreover, CIC's low overhead cost, combined with local field representatives working from home, helps CIC to preserve a strong presence and to provide service support for each agency and the agencies' clients, while allowing agents to earn competitive commissions. These strengths have translated into stable business volume amid the soft market cycle. For example, CIC's direct premium written totaled \$3.12 billion at year-end 2010, compared with \$3.07 billion in 2009 and \$3.18 billion in 2008.

As a P/C writer since 1950, CIC conducts business in 39 states through 1,281 independent agencies spread out over 1,593 locations. CIC's business consists of commercial (74% of total net premium earned), personal (25%), and excess and surplus (less than 2%).

Table 1

<i>Cincinnati Financial Corp./Competitive Position</i>				
	<i>—Year ended Dec. 31—</i>			
<i>(Mil. \$)</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Total revenue	3,613	3,567	3,686	3,877
Net premium earned	3,082	3,054	3,136	3,250
Annual change in net premium earned (%)	0.92	(2.61)	(3.51)	N.M.
Total assets under management	12,514	11,785	10,447	13,775
Growth in assets under management (%)	6.19	12.81	(24.16)	N.M.

N.M.—Not meaningful.

The company wrote approximately 52% of the \$3.1 billion in direct premium written in the Midwest and 32% in the Southeast in 2010. Given that the risk portfolio is largely concentrated, CIC's book of business is subject to high loss levels resulting from catastrophes or economic downturns in the regions. Recognizing the need to achieve diversification, the company has continued to tap growth opportunities in the western states while expanding personal lines product offerings in its established commercial markets. In 2010, CIC's total net premium written in the Western region increased by 19% to \$209 million (which represented about 7% of the total volume) from \$176 million in 2009, with a combined ratio of 85% in both years. Although CIC is actively pursuing this balance, CIC's earnings volatility will persist until the company achieves meaningful diversification, in our view.

In the commercial lines, CIC remains an active writer of small business accounts, including apartments, offices, artisan contractors, and light manufacturers. Small business accounted for one-third of commercial lines' premium volume in 2010. CIC is working to increase its share of the small business market by increasing efficiency through technology and by providing dedicated services to support small business accounts. The company's efforts to improve efficiency include integrating agency management systems with real-time policy ratings, implementing automated data collection, and using predictive analytics and submission and billing.

In the life insurance segment, CLIC has employed a conservative underwriting approach, offering primarily straightforward traditional life insurance products and fixed annuities. In 2011, CLIC expanded its product suite to include single premium and flexible premium deferred annuity, term series, returns of premium term series, and worksite whole life policies. The company historically has had a stable and favorable mortality experience. Mortality rates increased at year-end 2010 because of a higher number of cases and higher policy face amount, but we expect this to be a short-term fluctuation. Offsetting these strengths is the life company's reliance on P/C distribution, both in exclusive agency (EA) as well as worksite promotion through independent P/C distributions. Conservative pricing, combined with commoditized basic products that have limited unique features, makes it difficult to compete in the traditional life insurance market.

Over the years, a selective approach to appointing agencies has enabled CIC to build a very productive force. At year-end 2010, CIC had about 1,544 agency locations, up from 1,463 at year-end 2009. The company has aligned the interests of these agents with its own and continues to position itself to be the company of choice for these agents. The largest single agency relationship accounted for approximately 1.2% of total P/C earned premium in 2010. No aggregate locations under a single ownership structure accounted for more than 2.2% of earned premium in 2010.

Cincinnati Life

CLIC is a subsidiary of The Cincinnati Insurance Co. We consider CLIC to be core to the group under our group methodology criteria. CLIC helps to diversify the earnings of the group and provides independent agents with another product offering for their clients. The company primarily sells individual term life insurance, but it also sells universal life, worksite, and whole life.

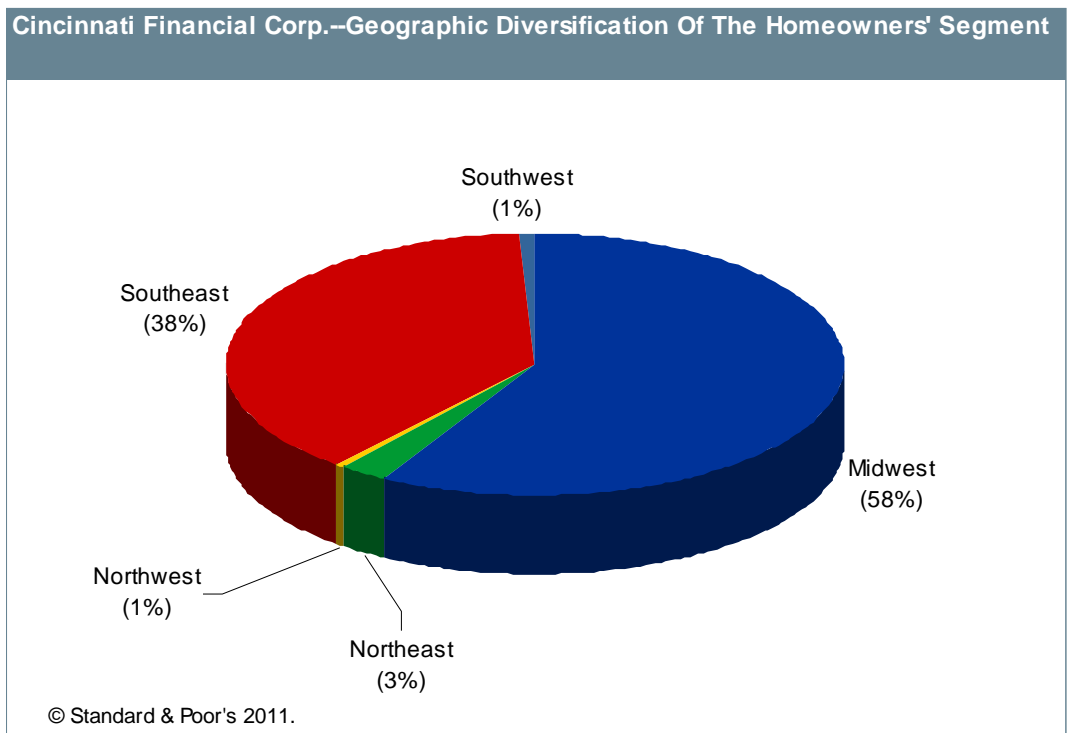
At year-end 2010, CLIC's GAAP EBIT (excluding realized gains and losses) improved modestly, to \$57.7 million from \$55.2 million in 2009. The stronger earnings were due to an increase in earned premium and net investment income, partially offset by an increase in benefits. As of December 2010, CLIC's \$2.4 billion portfolio was composed of approximately 96% of investments in fixed-income securities. Of the total, 97% of fixed-income securities were rated investment grade. CLIC also maintains extremely strong capitalization, as measured by Standard & Poor's capital model. At year-ended 2010, CLIC's total adjusted capital of \$318.5 million was redundant at 'AAA'.

The life company uses the P/C operating company's consistently very strong independent agency force to promote its products and enhance persistency on both life and P/C insurance policies. In addition, there were approximately 500 agencies selling only the life products, who contributed 31% of total first-year and renewal gross collected premiums (excluding first-year annuity premiums) as of March 31, 2011. CLIC has complete control over its career life agency force and its life specialists, as well as its exclusive agency distribution that also sells life policies. Most P/C independent agents have long-standing relationships with CIC. The company offers incentives to CIC's agencies to sell life

insurance policies, and CLIC's life field marketing representatives provide product training and customer service support to agents and their customers. As a result, CLIC is able to leverage multiple sales channels to reach potential clients across 49 states. However, Ohio remains an important market because it contributes 15% of total direct premium written. In addition, 50.5% of premiums come from the top five states, and 72% is from the top 10 states.

Diversification

Within the homeowners' segment, the company derived about 38% and 58% of premium written from the Southeast and Midwestern states, respectively. In light of the severity and frequency of weather-related losses affecting the homeowners' business in recent years, CIC has been actively pursuing geographical diversification outside the two regions and expanding personal lines product offerings within CIC's established commercial markets.



Prospective

Standard & Poor's expects CIC to report a midsingle-digit increase in net premium written in 2011 because of new agency appointments in both new and established geographic markets, a rate increase in personal lines, and expansion into new states.

Management And Corporate Strategy: Focusing On Keeping Fixed Costs Low And Building A Strong Network Of Agents

The company continues to enhance its financial and operating performance by focusing on capital stability, building agency relationships, expanding small account businesses, improving underwriting discipline, and maintaining an investment strategy to support earnings amid the soft market cycle. Moreover, CIC maintains strong claims management and reserving practices.

CIC depends heavily on building a strong network of agents who effectively serve local businesses and families. Maintenance of low fixed costs also complements the company's agency force. Its ability to keep expenses low is largely a function of the claims and field representatives who work from their residences, as this helps eliminate operating costs and branch offices. CIC also reduces expenses by offering multiyear commercial policies that minimize renewal costs (which is an uncommon practice in the industry). Finally, CIC's strategy of only appointing a limited number of agents enables it to dedicate resources to earning more business from each producer, thereby reducing acquisition costs and enabling CIC to offer higher commissions than its competitors.

CIC leverages its strong network of agents and their relationships to cross sell basic life insurance products to supplement the P/C insurance products being offered. CIC is able to do this by providing incentives to CIC's P/C independent agents and independent life-only agents to promote the life products, with the support of CLIC's agents and specialists. Policy persistency has benefited both life and P/C as a result.

Standard & Poor's believes that the appointment of the company's former chief financial officer (CFO) as its president and CEO, as well as the appointment of a new CFO, should help CIC focus on underwriting profitability and volume growth with geographical diversification. At the same time, the members of the executive team will continue to focus on agency relationships, supporting the company's 1,222 field associates that maintain daily contact with agencies.

Financial management

Since 2007, the company has reduced its equity investments from 50% to 26% of total investment assets as of year-end 2010. Standard & Poor's believes that CIC's asset reallocation—from equities to bonds—was a positive move for the company. Although CIC is prone to investment losses because of its relatively high equity allocation compared with most P/C companies, CIC invests in a diverse selection of large capitalization, high-dividend paying companies with relatively low beta with respect to the S&P 500. The company also has a high-quality ladder fixed-income portfolio with an average credit rating of 'AA.'

The company has not used aggregate excess-of-loss reinsurance to complement its catastrophe reinsurance program because management considers such relationships unnecessary and costly. Standard & Poor's believes the company underutilizes reinsurance to protect against catastrophic losses, as evident in the high loss ratio within the homeowners line over the past three years. However, the company's very strong capital and active planning to diversify outside the catastrophe-prone regions are mitigating factors.

The company has also maintained low leverage and strong coverage ratios, though we believe coverage ratio will be low in 2011 relative to the past. We also expect the company's debt level to remain unchanged in the short to medium term.

Enterprise Risk Management: Adequate, But Development Of The Overall Framework Has Been Slow

CFC's ERM is adequate and important to the rating, but, in our view, the company hasn't made any significant improvements to the ERM framework. CFC has enhanced its predictive modeling tools and internal process to track progress and accountability for results to improve overall effectiveness. However, the development of the overall ERM framework, particularly risk correlation and strategic

risk management, has been slow. Nevertheless, we believe CFC monitors and manages its risks appropriately, and we expect the company to make improvements to ERM over the next two to three years. These are crucial given the historically healthy top-line growth strategy by product as well as the increasing penetration into the small business accounts market and expansion into new geographic locations.

We view CFC's risk culture as adequate based on its ERM function that strives to broaden an understanding of risk management that would reach all areas of the company. The chief risk officer (CRO) is an integral part of the executive committee and a regular participant in board meetings. Internal underwriting and claims audit groups, an investment committee, a corporate risk team, and the catastrophe management team complement the ERM function. The board reviews risk categories, tolerances, limits, and action items quarterly.

CFC's adequate underwriting and pricing risk controls make effective use of the firm's predictive modeling capabilities, which ensure rate adequacy. Each morning, senior management reviews new business to monitor exposures, rate adequacy, claims history, and underwriting standards. The board of directors reviews underwriting results, growth in claims activity, hit ratio, pricing changes, changes in terms and conditions, new products, and any process changes on a quarterly basis. The company ensures it maintains adequate reserves through the use of multiple actuarial techniques as well as by appointing an external actuary to validate the estimated reserve range. Projected payouts on net reserves are fed into the economic capital model to estimate reserve risk to capital.

CFC manages catastrophe risk by limiting its one-in-250-year probable maximum loss to 15% of surplus. It has lower exposure limits for high-risk areas. Third-party catastrophe models and in-house catastrophe scoring help to establish retention for reinsurance, while CFC uses an integrated catastrophe management software tool for risk selection and pricing and to monitor, understand, and limit aggregation. The company is still working to develop limits for combined perils/storms to calibrate underwriting guidelines appropriately. Monthly reports to the catastrophe team track results of the catastrophe models with catastrophe risk tolerances.

The investment committee aligns investment strategies with the insurance operations. The company has made a deliberate effort to reduce the risk in the portfolio, and it uses sector limits to control credit risk across the enterprise. Investment risk controls are implemented through investment policy statements and parameters with the use of an analytic tool to measure risk on both market and security levels. The company reviews compliance quarterly, and results are forwarded to the CRO.

Standard & Poor's views CFC's operational risk controls as adequate based on the company's focus on business continuity, compliance, IT security, and fraud control. Emerging risk management at CFC is considered adequate because of the company's collaborative/multidisciplinary process within the organization.

CFC has an adequate set of models for its key underwriting, reserving, pricing, and catastrophe risks. Although the firm is enhancing its current ERM framework, it has yet to demonstrate an understanding of risk correlations or interdependencies, especially when evaluating remote probabilities.

We expect to see improvements in CFC's strategic risk management. Such improvements could include evidence that the company prioritizes strategic options based on economic risk/reward metrics, specifically capital budgeting that optimizes risk/reward decisions, as well as evidence that compensation drivers are consistent with company goals and across business or functional groups.

Accounting

CFC is a publicly traded entity subject to SEC filings. In addition, its insurance company subsidiaries are required to file statutory statements that are consistent with industry standards. Deloitte & Touche LLP performed the 2010 accounting and actuarial audits. The auditor found that the consolidated financial statements fairly presented the company's financial position and operations, and cash flows contained no material weaknesses.

CFC's ability to appropriately estimate its loss and loss-adjustment expense reserves has directly affected its financial strength. We often adjust our capital model for an insurer to reflect our view of reserve redundancy, adequacy, or deficiency. Standard & Poor's views year-end 2010 reserves as adequate, so we did not adjust our capital model for reserve adequacy. Moreover, we made no other material accounting adjustment that would affect our view of earnings or capital strength.

Operating Performance: Catastrophe Losses Have Hurt Underwriting Profitability, But The Noncatastrophe Business Remains Strong

From 2006-2010, CIC's P/C average combined ratio and ROR were 98.3% and 12.3%, respectively. In 2010, CIC's P/C combined ratio and ROR were 101.7% and 9.1%, respectively, compared with 104.5% and 6.3% in 2009 and 100.6% and 9.9% in 2008.

Table 2

<i>Cincinnati Financial Corp./Operating Performance</i>				
	—Year ended Dec. 31—			
<i>(Mil. \$)</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Return on revenue (%)	9.91	7.14	11.43	21.25
Return on equity (%)	6.88	8.59	7.79	N.A.
EBIT adjusted to total equity adjusted (%)	7.31	5.70	8.33	N.A.
EBITDA adjusted to capital (%)	6.60	5.26	7.09	N.A.
EBIT	517	591	559	1,206
EBIT adjusted	358	255	421	824
EBITDA	557	639	594	1,244
EBITDA adjusted	398	303	456	862
Net loss ratio (%)	70.73	73.41	69.93	60.40
Net investment yield (%)	4.49	4.75	4.64	N.A.

N.A.—Not available.

Through the first three months of 2011, CIC reported a combined ratio and ROR of 103.9% and 8.2%, respectively, compared with 102.6% and 9.8% during the same period in the previous year. Moreover, because of the significant weather-related losses in April and May 2011, the company reported a combined ratio of 136.6% in the second quarter.

Although catastrophe losses have affected overall underwriting profitability, the company's noncatastrophe book of business has maintained a strong combined ratio, averaging 93.5% from 2006-2010. Notwithstanding the weak underwriting performance in the workers' compensation business and sluggish pricing and economic activity from 2008-2010, CIC's noncatastrophe business maintained an average combined ratio of 96.4% during those years. Although the company will be

susceptible to earnings volatility until it achieves meaningful geographical diversification, we believe investment income will support underwriting and bottom-line earnings.

In 2010, pretax operating income (excluding net realized gains and losses) increased to \$396 million from \$301 million in 2009, mainly because of lower incurred losses and improved investment income offset by a slight increase in underwriting expenses.

Table 3

	—Three months ended March 31—		—Year ended Dec. 31—					
	2011	2010	2010	2009	2008	2007	2006	2005
Commercial lines	104.1	102.1	99.4	101.6	97.0	89.2	91.3	87.4
Commercial lines (excluding CAT)	99.3	100.3	95.3	99.1	92.5	88.5	87.6	84.0
Personal lines	101.6	102.9	107.7	111.8	111.9	94.0	103.9	94.4
Personal lines (excluding CAT)	94.2	99.9	99.6	95.7	97.4	92.7	92.6	88.1
E&S	133.3	127.3	115.4	154.9	266.0	0.0	0.0	0.0
Combined ratio (including CAT)	104.0	102.7	101.7	104.5	100.6	90.3	94.4	89.2
Combined ratio (excluding CAT)	98.5	100.6	96.6	98.8	93.8	89.5	88.9	85.1
CAT ratio	5.5	2.1	5.1	5.7	6.8	0.8	5.5	4.1
Commercial lines	4.8	1.8	4.1	2.5	4.5	0.7	3.7	3.4
Personal lines	7.4	3.0	8.1	16.1	14.5	1.3	11.3	6.3
Return on revenue	8.2	9.8	9.1	6.3	9.9	20.2	15.9	19.8

At year-end 2010, CLIC's first-year total life premium increased by 4.4%, to \$32.6 million, because of 10.1% growth in term life, partially offset by a decline in worksite and nonworksite UL first year premium. Fixed annuity sales increased by 10.8%, to \$194.5 million. However, we expect fixed annuity sales to decline in 2011 because of a less attractive guaranteed interest rate for new fixed annuity products. Standard & Poor's expects CLIC's 2011 earnings to be flat in comparison with 2010 as a result of lower fixed annuity sales, decreased net investment income, and higher operating expenses. While CLIC's contribution to CFC's total earnings is small at less than 10%, we expect CLIC's proportion of CFC earnings to remain relatively stable as long as the P/C distribution channel remains central to CLIC's sales strategy.

Prospective

We expect CIC to generate a combined ratio of 110%-112% in full-year 2011 (excluding any additional outsize catastrophe losses for the remainder of the year), with a pretax return on revenue (excluding realized gains/losses) of less than 1%. Assuming a normal catastrophe loss of 4.5%, we expect a combined ratio of about 100% and an ROR of about 9%.

Investments And Liquidity: High-Quality Portfolio And Strong Liquidity

CFC maintains a fixed-income portfolio accounting for 70% of total invested assets with an average credit rating of 'AA' as of March 31, 2011. Municipal bonds (with an average credit rating of 'AA') constitute 33.3% of the \$8.3 billion total fixed-income portfolio. The top five states are Texas (18.7% of total municipal investments, average rating of 'AA+'), Indiana (12.2%, 'AA'), Michigan (9%, 'AA'), Illinois (8.5%, 'AA'), and Ohio (8.4%, 'AA-').

As of Dec. 31, 2010, CFC's \$11.9 billion portfolio consisted of 70% fixed-maturity investments, 26% equities, 3% short-term cash and cash equivalents, and 1% other invested assets. The company predominantly invests in investment-grade bonds, which constitute about 94% of total fixed-income assets, with an average credit rating of 'AA'. The company also invests in a diverse equity portfolio composed of large capitalization, low beta, and dividend growth focus stocks, a strategy consistent with business and liquidity needs.

Table 4

Cincinnati Financial Corp./Liquidity And Investments				
	—Year ended Dec. 31—			
	2010	2009	2008	2007
Invested assets to total assets (%)	81.99	81.45	78.59	83.47
Invested assets to loss and unearned premium reserve (%)	206.80	198.27	175.89	239.59
Common equity investments to capital (%)	88.12	80.88	96.99	130.05
Total invested assets adjusted (mil. \$)	11,893	11,200	9,899	13,247
General account invested assets (mil. \$)	11,893	11,200	9,899	13,247
Separate accounts/unit linked assets (mil. \$)	621	585	548	528
Investment portfolio composition (%)				
Cash and cash equivalents	3.24	5.03	11.04	8.21
Total bonds	70.49	70.13	58.86	44.15
Common stock	25.57	24.12	29.26	47.17
Other investments	0.71	0.72	0.84	0.48

The average effective duration of the bond portfolio was approximately 4.9 years as of March 31, 2011, which was slightly above the average duration of its reserves of about 3.5 years.

Liquidity is strong. In 2010, CFC generated net operating cash flows of \$531 million, compared with \$525 million in 2009 and \$484 million in 2008, though Standard & Poor's expects operating cash flow to be less robust for 2011 because of the above-normal catastrophe losses.

Capitalization: Key Factor Supporting the Rating

CIC's capitalization is very strong. Standard & Poor's views CIC's capital adequacy as redundant above the rating level. This should provide CIC with capital to absorb potentially higher-than-expected catastrophic losses.

As of year-end 2010, CIC reported statutory surplus of \$3.8 billion, up from \$3.6 billion in 2009.

Reserves

Standard & Poor's views the company's reserve position as adequate. During calendar-year 2010, CIC experienced favorable net reserve development of \$304 million for 2009 and prior accident years' losses, compared with \$188 million in 2009. Favorable reserve development during 2010 was largely a result of the reserve releases from the commercial casualty lines of business.

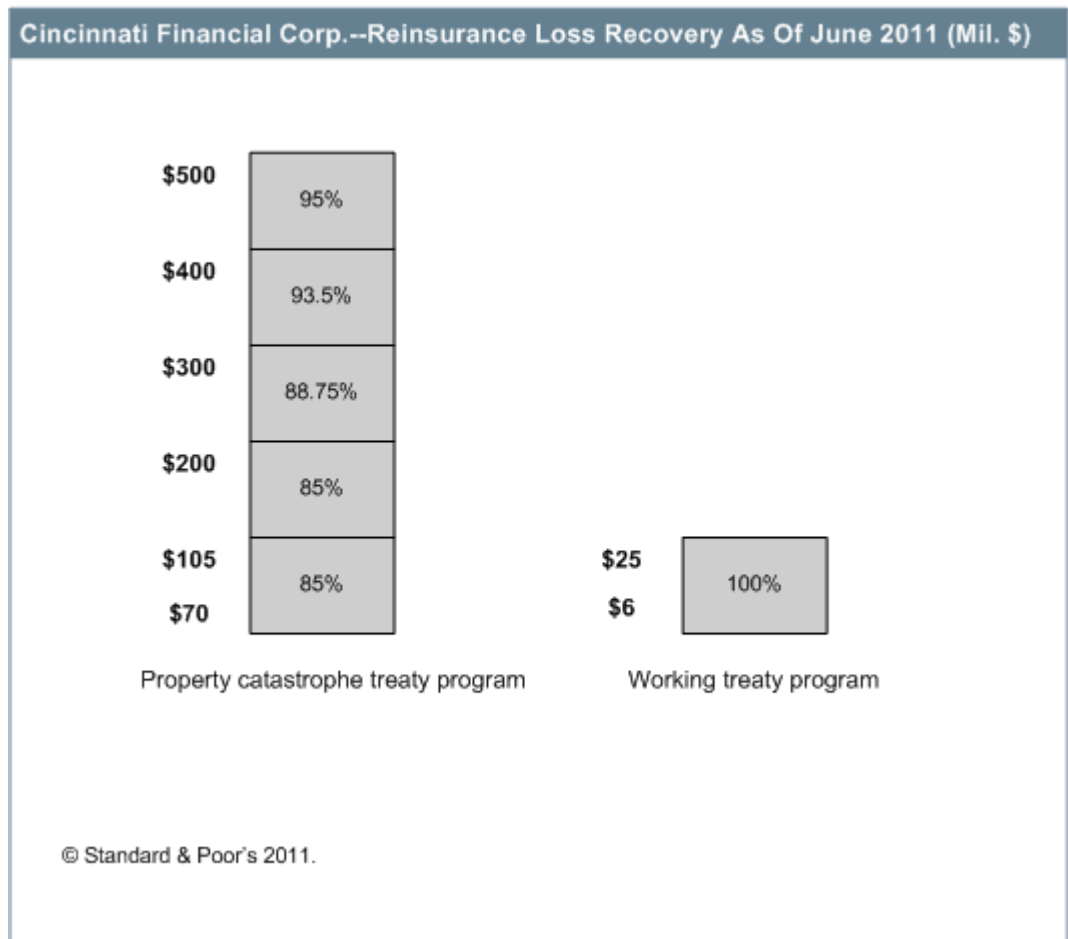
We believe that CIC's reserving practices are conservative and consistent, and we do not expect significant adverse reserve development.

Reinsurance

In addition to the incurred losses from the tornadoes that occurred in April and May 2011 (which totaled an estimated \$386 million in gross losses), the company incurred an additional \$100 million in the second quarter from small weather-related losses in April that fell outside of the reinsurance program. In light of the severity and frequency of losses, the company has exhausted the property catastrophe reinstatement provision for its first layer between \$45 million and \$70 million and has no plans to reload that working layer for the remainder of 2011. Although Standard & Poor's believes the company underutilizes reinsurance to protect against catastrophic losses, we believe the company's very strong capital and active planning to diversify outside the catastrophe-prone regions are mitigating factors.

CIC participates in property catastrophe and working treaty reinsurance (per-risk and per-occurrence) programs. Under the property catastrophe treaty program as of June 24, 2011, the company retains the first \$70 million with no additional reinsurance recoveries exceeding \$500 million. CIC retains the first \$70 million with reinsurers providing for the following:

Chart 2



CIC also participates in the working treaty reinsurance program. Reinsurers participating in the treaties are Swiss Re, Munich Re America, Partner Re, and Hannover Re. In this program, CIC retains the first \$6 million with excess-of-loss reinsurance up to \$25 million.

Financial Flexibility: Strong

Financial flexibility is strong. The company has access to the capital markets through its publicly traded parent. Debt leverage and GAAP EBITDA fixed-charge coverage were approximately 14% and 7x, respectively, as of year-end 2010. In July 2011, the company borrowed \$55 million on its existing lines of credit, raising the debt leverage to approximately 15%. Although we believe debt leverage will remain at about 15%, we believe the coverage ratio will be significantly lower in 2011.

Table 5

	<i>Cincinnati Financial Corp./Financial Flexibility</i>			
	—Year ended Dec. 31—			
	2010	2009	2008	2007
EBITDA interest coverage (x)	7.10	5.33	8.41	16.58
EBITDA fixed-charge coverage (x)	7.10	5.33	8.41	16.58
Debt leverage including additional pension deficit as debt (%)	13.31	13.44	14.13	11.30
Financial leverage including additional pension deficit as debt (%)	13.31	13.44	14.13	11.30

Ratings Detail (As Of 04-Aug-2011)**Holding Company: Cincinnati Financial Corp.**

Issuer Credit Rating

Local Currency

BBB/Stable/--

Senior Unsecured (2 Issues)

BBB

Operating Companies Covered By This Report**Cincinnati Insurance Co.**

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

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 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. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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