

## Cincinnati Financial Corp. And Operating Companies Ratings Lowered; Outlook Is Stable

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- The operating performance of Cincinnati Financial Corp.'s operating insurance companies has been deteriorating relative to its historical level and in relation to the property/casualty industry, and we don't expect it to return to historical levels in the next two to three years.
- We are lowering our counterparty credit and financial strength ratings on the core subsidiaries to 'A' from 'A+' and our counterparty credit rating on Cincinnati Financial Corp. to 'BBB' from 'BBB+'.
- The outlook is stable because we don't expect to change our ratings on CIC in the next 12 to 18 months.

NEW YORK (Standard & Poor's) July 19, 2010—Standard & Poor's Ratings Services today said it lowered its counterparty credit and financial strength ratings on Cincinnati Financial Corp.'s (NASDAQ:CINF) operating insurance companies, which are collectively referred to as CIC, to 'A' from 'A+'. At the same time, we lowered our counterparty credit rating on Cincinnati Financial Corp. to 'BBB' from 'BBB+'. The outlook on all of the companies is stable.

"The rating action reflects the recent decline in CIC's earnings and the substantial deterioration of underwriting performance from historical levels," said Standard & Poor's credit analyst Polina Chernyak. "Offsetting these factors are the group's very strong capitalization and strong competitive position, which is supported by a very loyal and productive independent agency force and a low-cost infrastructure."

The group's operating performance has been deteriorating relative to its historical level and in relation to the property/casualty industry. We do not believe that the company will be able to achieve above-average underwriting performance in the next two to three years. We expect CIC's operating performance to continue to lag that of its higher-rated peers as a result

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of above-average catastrophe exposure, deteriorating noncatastrophe underwriting performance (especially in the workers' compensation line of business), and lower investment income.

As of year-end 2009, CIC's capitalization was very strong on a risk-adjusted basis. We believe that the capital level is stabilizing and that the group's ongoing efforts to assess its overall risks through an improved enterprise risk-management program will result in further stabilization.

Over the past couple of years, management has changed its investment posture significantly. In 2009 and into 2010, the company has maintained a more conservative and risk-averse position, with equities accounting for about 28% of its assets (compared with 32% in 2008 and 45% in 2007) based on statutory statements. A very strong underwriting focus, with agency and field staff protecting the company from negative market trends, supports the more conservative investment position.

The stable outlook reflects our expectation that we will not change our ratings on CIC in the next 12 to 18 months. We expect the group's extremely strong and loyal agency force to support its competitive position—which remains strong and a cornerstone of its historical underwriting success. We expect the company's capital at risk to remain very strong, and we expect a combined ratio of 100% to 103% and a return on revenue of 8% to 10%, through 2011.

### **RELATED CRITERIA AND RESEARCH**

- Analysis Of Nonlife Insurance Operating Performance, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009

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