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A.M. Best Downgrades Issuer Credit Ratings of Cincinnati Financial Corporation and Certain Property/Casualty Subsidiaries; Affirms Financial Strength Ratings

OLDWICK, N.J., December 23, 2011— A.M. Best Co. has downgraded the issuer credit ratings (ICR) to “aa-” from “aa” and affirmed the financial strength rating (FSR) of A+ (Superior) of **The Cincinnati Insurance Companies** (CIC) and its standard market property/casualty members. Concurrently, A.M. Best has affirmed the FSR of A (Excellent) and ICR of “a+” of **The Cincinnati Life Insurance Company** (Cincinnati Life). Additionally, A.M. Best has downgraded the ICR to “a-” from “a” and debt ratings of CIC and Cincinnati Life’s publicly traded parent, **Cincinnati Financial Corporation** (CINF) [NASDAQ: CINF]. All companies are domiciled in Fairfield, OH, except where specified. The outlook for these ratings is stable.

A.M. Best also has affirmed the FSR of A (Excellent) and ICR of “a” of **The Cincinnati Specialty Underwriters Insurance Company** (CSU) (Wilmington, DE), a wholly owned, separately rated subsidiary of The Cincinnati Insurance Company, the lead property/casualty company. The outlook for CSU remains stable.

The rating action to CIC’s ICR reflects the continued deterioration of its underwriting results in recent years. The primary source of this recent deterioration has been above-average catastrophe-related losses recorded due to CIC’s concentrated business profile. Lackluster results in the workers' compensation line of business also have contributed to the decline in underwriting performance, although to a lesser extent. As a result, the group’s underwriting and operating performance measures are no longer in line with similarly rated peers.

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Furthermore, the group's market profile is somewhat geographically concentrated relative to its rating level, as nearly 50% of its writings are derived from six states in the Midwest and Southeast. The group is therefore exposed to economic, legislative and judicial changes, as well as weather and catastrophe-related losses, as evidenced by significant losses in more recent accident years. In the first nine months of 2011, CIC reported in excess of $400.0 million in catastrophe-related losses, which is expected to add approximately 14.5 points on the year-end combined ratio.

The ratings reflect CIC's superior risk-adjusted capitalization, historically strong operating performance 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 and growing use of predictive analytic modeling tools. Furthermore, the ratings recognize the successful distribution that is centered on harnessing strong, long-term relationships with local independent insurance agencies within CIC's targeted regional markets. CIC's relationships with its agency 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 parent, CINF, which maintains modest financial leverage and additional liquidity through its access to capital markets and lines of credit.

The ratings of CSU reflect its excellent level of risk-adjusted capital, improved underwriting performance and the explicit and implicit support garnered from being part of CINF. Somewhat offsetting these positive rating factors are the execution risks associated with this relatively new excess and surplus (E&S) initiative, as CIC has not offered E&S coverages prior to 2008, coupled with challenging market conditions.

The ratings of Cincinnati Life acknowledge its strong risk-adjusted capitalization, positive trends in first year and renewal ordinary life premiums, overall good credit quality of its investment portfolio and its role in CINF as a provider for life, disability income and annuity products. Even with a $25 million dividend paid in 2011 to its parent, Cincinnati Life's risk-adjusted capitalization is more than sufficient to support its ratings. The company continues to focus on its core ordinary life line of business as it has de-emphasized annuity sales in the current year.

Offsetting factors include the challenge of managing a growing percentage of interest sensitive reserves in the current low interest environment, relatively small contribution of net income to the enterprise, and incurring costs related to new business strain and XXX reserving, which is partially offset by being funded through capital and surplus.

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 materially below similarly rated peers and results in lower risk-adjusted capitalization.

The ICRs have been downgraded to "aa-" from "aa " and the FSR of A+ (Superior) has been affirmed with a stable outlook for **The Cincinnati Insurance Companies** and its following property/casualty members:

- **The Cincinnati Insurance Company**
- **The Cincinnati Indemnity Company**
- **The Cincinnati Casualty Company**

The FSR of A (Excellent) and ICR of "a+" have been affirmed with a stable outlook for:

- **The Cincinnati Life Insurance Company**

The FSR of A (Excellent) and ICR of "a" have been affirmed with a stable outlook for:

- **The Cincinnati Specialty Underwriters Insurance Company**

The following debt ratings have been downgraded to "a-" from "a":

Cincinnati Financial Corporation—
-- $28.0 million 6.90% senior unsecured debentures, due 2028
-- $371 million 6.125% senior unsecured notes, due 2034
-- $391 million 6.92% senior unsecured debentures, due 2028

The principal methodology used in determining these ratings is Best's Credit Rating Methodology -- Global Life and Non-Life Insurance Edition, which provides a comprehensive explanation of A.M. Best's rating process and highlights the different rating criteria employed. Additional key criteria utilized include: "Risk Management and the Rating Process for Insurance Companies"; "Understanding BCAR for Property/Casualty Insurers"; "Rating Members of Insurance Groups"; "Catastrophe Analysis in A.M. Best Ratings"; "Catastrophe Risk Management Incorporated Within the Rating Analysis"; "Natural Catastrophe Stress Test Methodology"; "The Treatment of Terrorism Risk in the Rating Evaluation"; and "A.M. Best's Ratings & the Treatment of Debt." Methodologies can be found at www.ambest.com/ratings/methodology.

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