

Property/Casualty
and Life Insurers
U.S. and Canada
Credit Update

Cincinnati Financial Corporation

Ratings

Security Class	Rating
Long-Term IDR	A-
Senior Unsecured Notes	BBB+

Subsidiaries

The Cincinnati Insurance Co.	
The Cincinnati Casualty Co.	
The Cincinnati Indemnity Co.	
The Cincinnati Life Insurance Co.	
Insurer Financial Strength	A+

Outlook

Stable

Financial Data

Cincinnati Financial Corporation		
Financials	Date	\$ Mil.
Net Income	6/30/09	17
Equity	6/30/09	4,144
Debt and Hybrids	6/30/09	839
Net ROAE (%)	6/30/09	9.9

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Related Research

- Property/Casualty Insurers' Financial Leverage and Debt-Servicing Capacity, April 20, 2009*
- Property/Casualty Insurers' Year-End 2008 Review, March 19, 2009*
- Insurance Ratings Criteria: Application in a Stressful Environment, Feb. 10, 2009*
- Review and Outlook 2008-2009: U.S. Property/Casualty Insurance, Dec. 18, 2008*

Rating Rationale

- Cincinnati Financial Corporation's (CFC) recent one-notch ratings downgrade was primarily driven by the company's unfavorable underwriting performance within its property/casualty operations in 2008 and thus far in 2009, on an absolute basis and relative to comparably rated peers.
- CFC's unusually high level of catastrophes losses highlight the company's limited amount of geographic diversification relative to peers in the prior rating category. The action reflects a somewhat more conservative perspective taken by Fitch Ratings than in the past with respect to concentration risk and the higher potential level of earnings volatility.
- Positively, Fitch believes that CFC's capitalization remains strong. At June 30, 2009, policyholders' surplus (PHS) at the property/casualty operating subsidiaries declined 4% to \$3.2 billion. Operating leverage, as measured by net premiums written to PHS, remains low at 0.93 times (x).
- Fitch views favorably the number of steps CFC has taken to rebalance its investment portfolio and reduce earnings volatility going forward.
- CFC has a competitive advantage from its successful single-channel distribution system that emphasizes building long-term relationships with select independent agents, low non-commission expense structure and excellent claims service.

Key Rating Drivers

- Fitch expects CFC's near-term profitability to be hampered by an unusually high level of catastrophe losses, the effects of soft-market pricing and a lower level of investment income. However, Fitch believes CFC's long-term results will outperform its regional peers.
- Fitch expects CFC's capitalization on an absolute and risk-adjusted basis to remain unchanged in 2009 from year-end 2008. Fitch notes that CFC holds \$1.0 billion of cash and investments at the holding company, which could be downstreamed to the insurance subsidiaries should capitalization deteriorate.

Recent Events

CFC reported \$17 million of net income in the first half of 2009 compared with net income of \$21 million for the same period in 2008, primarily due to a lower level of realized investment losses. However, the company's operating income was down 82% from the prior year driven by a 14% decline in investment income, a higher level of catastrophe losses, a lower level of favorable prior-year reserve development, and a higher accident-year loss ratio reflecting continued soft pricing.

Overall, the property/casualty operations posted a GAAP combined ratio of 112.1%, up 11.0 points from the prior year. Net realized investment losses totaled \$20 million in the first six months of 2009, including \$75 million in gains from sales, \$7 million in gains from changes in fair value of securities with embedded derivatives and \$102 million of other-than-temporary impairments. Financial leverage, as measured by debt to total capital, increased to 16.8% from 16.7% at year-end 2008 due to a \$38 million decline in shareholders' equity.