

Best's Rating Report



Wilmington, Delaware



A

Ultimate Parent:
Cincinnati Financial Corporation
THE CINCINNATI SPECIALTY
UNDERWRITERS INSURANCE
COMPANY

Exec/Admin: 6200 S. Gilmore Road
 Fairfield, OH 45014-5141

Mailing: P.O. Box 145496, Cincinnati, OH 45250-5496

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Ultimate Parent#: 058704

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NAIC#: 13037

FEIN#: 65-1316588

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class VIII.

RATING RATIONALE

Rating Rationale: The rating reflects The Cincinnati Specialty Underwriters Insurance Company's (CSU) excellent level of risk-adjusted capital and the explicit and implicit support garnered from being part of Cincinnati Financial Corporation (CINF). In the first quarter of 2008, CSU began to market excess and surplus (E&S) coverage through CINF's wholly owned insurance brokerage, CSU Producer Resources, Inc. The company serves the needs of existing independent agencies of its immediate parent, The Cincinnati Insurance Company (CIC). CSU serves policyholders through CIC's field representatives who provide marketing, claims, loss control and other services.

The positive rating factors are somewhat offset by the execution risks associated with this relatively new initiative, as CIC did not offer E&S coverage prior to 2008, as well as the poor performance of this book over its start-up period to date. This is somewhat mitigated by the improvement of underwriting and operating results in 2011, driven primarily by favorable loss-reserve development in prior accident years. Despite these concerns, the outlook reflects the company's excellent level of risk-adjusted capitalization, the infrastructure support provided by being part of CINF and expectations for improved performance based on management's profitability improvement plan.

Key factors that could trigger negative rating actions on CSU's ratings include any material deviation from the company's submitted financial projections or lack of operational or financial support from its parent company. Positive rating actions could be taken on CSU's ratings if underwriting and operating results improve and are sustained over time, while maintaining a strong level of risk-adjusted capitalization.

Best's Financial Strength Rating: A

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policyholders' Surplus	Comb. Ratio
2007	...	129	210,181	195,946	...
2008	13,724	-3,153	193,301	174,308	190.6
2009	39,596	-5,355	216,223	167,902	129.1
2010	58,029	-1,821	263,364	171,695	118.9

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

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BUSINESS REVIEW

The Cincinnati Specialty Underwriters Insurance Company (CSU) was incorporated in August 2007 and is a wholly owned subsidiary of The Cincinnati Insurance Company (CIC). CIC is a wholly owned subsidiary of Cincinnati Financial Corporation (CINF). CSU was initially capitalized on October 1, 2007, by a cash contribution of \$20 million from CIC. CIC made additional cash and common stock contributions of over \$200 million subsequent to the initial capitalization date in 2007. CSU offers an array of non-admitted products through an affiliate, CSU Producer Resources Inc. (C-SUPR), which is a wholly owned subsidiary of CINF. C-SUPR was created solely to provide non-admitted products to CIC agents written through CSU. CIC and its wholly owned standard market subsidiaries actively market admitted products in 39 states through a network of over 1,300 independent agencies operating from more than 1,500 locations.

Since it began operations in 2008, CSU's management has worked to expand product and licensing capacity throughout the states CIC operates. Currently, a majority of premium volume is generated in OH, IN, TX, IL and GA.

2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of	Pure	Loss &
	Direct	Net	Total	Loss	LAE
			NPW	Ratio	Res.
Oth Liab Occur	31,885	27,247	47.0	49.3	26,726
Prod Liab Occur	17,492	17,294	29.8	64.3	21,634
Fire	9,181	8,036	13.8	41.0	1,098
Allied Lines	4,015	3,475	6.0	106.7	2,037
Prod Liab CM	1,594	1,577	2.7	125.4	2,811
All Other	410	400	0.7	19.5	469
Totals	64,577	58,029	100.0	58.1	54,774

HISTORY

The Cincinnati Specialty Underwriters Insurance Company was incorporated on August 13, 2007, under the laws of Delaware and commenced business on January 1, 2008. Initial capitalization of \$200,000,000 as of December 31, 2007, consists of paid-in capital stock of \$5,250,000 consisting of 3,500 common shares outstanding at \$1,500 par value each and \$194,750,000 of paid-in surplus. Total assets transferred totaled \$212,400,000, which included a deferred tax liability of \$12,400,000. There are 10,000 common shares authorized. All shares are Class A shares. There is no preferred stock.

MANAGEMENT

Administration of the company's affairs is under the direction of experienced insurance executives headed by Chairman of the Board Kenneth W. Stecher and President and Chief Executive Officer Steven J. Johnston, who serve these same roles for Cincinnati Financial Corporation and The Cincinnati Insurance Company.

Officers: Chairman, John J. Schiff, Jr. (Executive Committee); Chairman of the Board, Kenneth W. Stecher; President and Chief Executive Officer, Steven J. Johnston; Executive Vice President, Jacob F. Scherer, Jr. (Business Insurance); Senior Vice President, Treasurer and Chief Financial Officer, Michael J. Sewell; Senior Vice President and Chief Investment Officer, Martin F. Hollenbeck; Senior Vice President and Chief Information Officer, John S. Kellington; Senior

Vice President and Chief Risk Officer, Teresa C. Cracas; Senior Vice President, Secretary and General Counsel, Lisa A. Love; Senior Vice President, Donald J. Doyle, Jr. (Excess & Surplus Lines).

Directors: William F. Bahl, Gregory T. Bier, Donald J. Doyle, Jr., Martin F. Hollenbeck, Steven J. Johnston, Thomas A. Joseph, W. Rodney McMullen, Martin J. Mullen, Jacob F. Scherer, Jr., Thomas R. Schiff, Kenneth W. Stecher (Chairman), John F. Steele, Jr., Charles P. Stoneburner II, Timothy L. Timmel, Larry R. Webb, E. Anthony Woods.

TERRITORY

The company is licensed in Delaware. It also operates on a surplus lines or non-admitted basis in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

Balance Sheet Admitted Assets (\$000)

	12/31/2010	%
Bonds	\$212,111	80.5
Common stock	33,309	12.6
Cash & short-term invest	<u>10,379</u>	<u>3.9</u>
Total invested assets	\$255,799	97.1
Premium balances	76	0.0
Accrued interest	3,040	1.2
All other assets	<u>4,450</u>	<u>1.7</u>
Total assets	\$263,364	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 54,774	20.8
Unearned premiums	30,583	11.6
All other liabilities	<u>6,313</u>	<u>2.4</u>
Total liabilities	\$ 91,670	34.8
Capital & assigned surplus	200,000	75.9
Unassigned surplus	<u>-28,305</u>	<u>-10.7</u>
Total policyholders' surplus	\$171,695	65.2
Total liabilities & surplus	\$263,364	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 Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance 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 an 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 Best's 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 Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

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

Secure Best's Financial Strength Ratings

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

Vulnerable Best's Financial Strength 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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