Best's Rating Report

Fairfield, Ohio

A

Ultimate Parent:
Cincinnati Financial Corporation

THE CINCINNATI LIFE INSURANCE COMPANY

Mail: P.O. Box 145496, Cincinnati, OH 45250-5496
Web: www.cinfin.com

Tel: 513-870-2000 **Fax: 513-603-5500**
AMB#: 006568 **NAIC#: 76236**
Ultimate Parent#: 058704 **FEIN#: 31-1213778**

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 IX.

RATING RATIONALE

Rating Rationale: The rating for Cincinnati Life Insurance Company (Cincinnati Life) reflects its strong risk-adjusted capitalization, overall good credit quality in its investment portfolio, positive premium growth trends in its core ordinary life line of business and integral role within the Cincinnati Financial Corporation. Partially offsetting these factors are challenges related to managing the new business strain related to ordinary life sales, modest but increasing percentage of interest-sensitive reserves, fluctuating statutory surplus and GAAP equity growth, and relatively small contribution to the enterprise and geographic concentration risk.

Cincinnati Life's risk-adjusted capitalization, as defined by Best's Capital Adequacy Ratio (BCAR), is more than sufficient to support its insurance and business risks. This is the result of profitable operations and an investment portfolio that holds overall good credit quality. The percentage of fixed income holdings is relatively high, with below investment grade bond holdings lower than industry averages. The company has also liquidated most of its more volatile common equity holdings in the current year. Its core ordinary life insurance line of business, which mainly consists of term insurance, has been the primary growth driver historically. In recent years, the company has generated relatively high annuity sales, but has de-emphasized annuity sales in the current year as the company focuses on its ordinary life line of business. Cincinnati Life is an integral member within the Cincinnati Financial Corporation, which allows for cross-selling of its core life products through property and casualty agents, where its strong distribution model is highly regarded in the marketplace. The company maintains a sustained focus on independent life agents and its worksite marketing distribution channels to generate ordinary life premium growth.

Statutory operating results of the ordinary life line of business continue to be impacted due to new business strain and XXX reserving requirements on its term products. Due to high premium growth of individual annuities in recent years, the percentage of interest-sensitive reserves to total reserves has increased, which may expose the company to spread compression risk if the low interest rate environment persists. While the life and annuity products offered by Cincinnati Life help the enterprise have a more diverse marketing mix, its net income is relatively small compared to that of the enterprise. The company is also exposed to some geographic risk as roughly half of its direct life insurance premiums come from the states of Illinois, Indiana, Michigan, Ohio and Pennsylvania, even though the company sells life insurance in 49 states and the District of Columbia.

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Cincinnati Life is well positioned for its rating. Factors that could lead to a negative rating action include a reduced commitment from its parent, continued spread compression, and an increase in interest-sensitive reserves.

Best's Financial Strength Rating: A **Outlook: Stable**

KEY FINANCIAL INDICATORS ($000)

Year	Assets	Total Capital Capital Surplus Funds	Condit'l Reserve Funds	Net Premiums Written	Net Invest Income	Net Income
2006	2,521,354	478,761	76,776	153,238	107,657	28,459
2007	2,549,965	476,935	29,083	157,648	114,430	39,285
2008	2,477,627	290,089	28	176,891	119,545	-70,121
2009	2,830,559	300,245	15,867	338,150	126,204	15,090
2010	3,165,185	302,963	15,522	368,720	133,876	14,914

BUSINESS REVIEW

The Cincinnati Life Insurance Company offers life insurance products such as ordinary life insurance, disability insurance, annuity and worksite products, to complement the enterprise's core property & casualty offerings. Cincinnati Life's immediate parent, CIC, is a multiline property and casualty insurance company located in Fairfield, Ohio, and founded in 1950. CIC's ultimate parent is Cincinnati Financial Corporation (CFC), which is a publicly traded insurance holding company founded in Ohio in 1968. CFC also wholly owns CFC Investment Company and CSU Producer Resources, Inc. CFC Investment Company complements the insurance subsidiaries with leasing and financing services. CSU Producer Resources, Inc., is an insurance brokerage subsidiary that works exclusively with CIC agencies to market excess and surplus lines policies.

EARNINGS

While Cincinnati Life has recorded statutory and GAAP profits in the current year, there has been a wide variability in reported net income in recent years, mainly as a result of new business strain and other than temporary impairments. The company recorded realized capital gains in 2009 and 2010, compared to large capital losses recorded in 2008. GAAP operating results continue to be positive due to a more favorable investment environment, favorable mortality experience and stable operating expenses.

The core ordinary life business, which is a portfolio of a variety of life products, has historically experienced statutory net operating losses, largely due to new business strain and XXX reserves associated with level premium term insurance products. The company's increased sales of ordinary life products are the result of the company's expanded product portfolio, diverse distribution strategy, and cross-selling initiatives. Individual annuities on a statutory basis recorded a net operating loss in the current year, largely due to new business strain. Compared with historical results, individual annuity premiums increased significantly in 2009 and that trend continued in 2010. Group and individual A&H products have generated mixed results.

The company continues to be challenged with profitability issues related to XXX reserves. Deficiency reserve exposure remains high as a result of new term insurance sales, but has been decreasing in recent years. The company has elected to reinsure a portion of the redundant reserves with highly rated reinsurers while retaining and managing the remaining portion through its own capital resources. Statutory operating results would have been more favorable without the impact of these "redundant" reserves. While the impact of XXX reserving will continue in coming years, management has various reinsurance treaties in place on in-force business to help relieve the company of the statutory strain.

CAPITALIZATION

Statutory surplus decreased in 2011 to date, primarily due to the impact of a $25 million dividend paid to its parent, partially offset by operating income. Cincinnati Life's unrealized gain position has remained steady as financial markets have become less volatile. On a GAAP basis, equity increased as a result of profitable operations and improved market conditions, which increased other comprehensive income. Total adjusted statutory capital has fluctuated in recent years, mainly due to net realized and unrealized investment losses. Realized losses on a statutory basis were due to other than temporary impairments on a common stock holding and the related tax impact. A.M. Best notes that Cincinnati Life continues to have more than sufficient capitalization to support its current rating. The company paid a $25 million dividend to its parent in 2011, and future dividend payments are subject to the ultimate parent's financial management strategy and goals. As an integral member of The Cincinnati Insurance Companies, Cincinnati Life enjoys the full financial support and backing of the ultimate parent to maintain liquidity and resources to meet policyholder obligations.

INVESTMENTS AND LIQUIDITY

Cincinnati Life benefits from the internal investment expertise and cost advantages derived from being a member of The Cincinnati Insurance Companies. The composition of Cincinnati Life's general account invested assets in 2010 was 85 percent in fixed income securities, seven percent in common and preferred stock, and the remainder in cash and other invested assets. The separate account portfolio supports bank-owned life insurance policies, in which the assets backing these policies are represented primarily by fixed income securities.

Historically, Cincinnati Life, like its parent company, has invested a relatively large portion of the investment portfolio in common stocks. Through the evolution and implementation of its enterprise risk management program, management is aware of the elevated level of risk associated with the size and concentration of common stock investments, and has sold off large portions of its common stock holdings. While the level of common stock holdings has decreased significantly from historical levels, it is considered higher than its peers. Cincinnati Life's fixed income portfolio consists of corporate and U.S. government agency bonds. In 2008, this portfolio sustained large unrealized losses on a GAAP basis, which were mostly due to widening in credit spreads. Cincinnati Life's below investment grade holdings comprise about 5% of the total bond portfolio. Less than one percent of invested assets are invested in mortgage-backed securities.

Cincinnati Life follows an investment philosophy of balanced income generation and capital appreciation. The fixed income phi-

losophy is to invest in securities that provide superior risk-adjusted yields, while the equity philosophy is to target stocks with a history of both profitable growth and increasing dividends. Cincinnati Life's investment philosophy has served the company well in the past in terms of net investment income growth; however, the company remains vulnerable to potential volatility in the equity markets that could affect its capital and surplus position. These risks are mitigated by the company's buy-and-hold strategy and the financial support of the financially strong and highly rated parent company. During 2010, the company maintained a higher liquidity position, with a higher than normal allocation to cash and short-term investments.

MANAGEMENT

Officers: Chairman, John J. Schiff, Jr. (Executive Committee); Chairman of the Board, Kenneth W. Stecher; Chief Executive Officer, Steven J. Johnston; President and Chief Operating Officer, David H. Popplewell; Chief Financial Officer, Michael J. Sewell; Executive Vice President, Jacob F. Scherer, Jr. (Business Insurance); 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 Underwriting Officer, Brad E. Behringer; Senior Vice President and Chief Risk Officer, Teresa C. Cracas (Strategic Analytics); Senior Vice President, Secretary and General Counsel, Lisa A. Love; Senior Vice Presidents, Craig W. Forrester (Technology), Eric N. Mathews (Corporate Accounting), Glenn D. Nicholson (Marketing), Timothy L. Timmel (Operations); Vice President and Treasurer, Todd H. Pendery (Corporate Accounting); Vice President and Actuary, Roger A. Brown (Actuarial); Vice President, Michael R. Abrams (Investments), David L. Burbrink (Life Field Services), J. Michael Dempsey (Life Marketing Administration), Anthony W. Dunn (Planning, Analytics & Risk Management), Harold L. Eggers (Life Policy Issue), William J. Geier (Information Technology), Scott A. Gilliam (Government Relations), Theresa A. Hoffer (Corporate Accounting), Richard L. Mathews (Information Technology), Richard P. Matson (Purchasing, Fleet), Michael K. O'Connor (Investments), Thomas J. Scheid (Inspection Services & Facilities), Gregory D. Schmidt (Staff Underwriting), Steven A. Soloria (Investments), Douglas W. Stang (Corporate Actuarial), Michael B. Wedig (Corporate Accounting), Mark A. Welsh (Regulatory & Consumer Relations), Brian K. Wood (Human Resources & Community Relations).

Directors: William F. Bahl, Gregory T. Bier, Roger A. Brown, Martin F. Hollenbeck, Steven J. Johnston, W. Rodney McMullen, Martin J. Mullen, Glenn D. Nicholson, David H. Popplewell, J. F. Scherer, Jr., John J. Schiff, Jr., Thomas R. Schiff, Kenneth W. Stecher, Timothy L. Timmel, E. Anthony Woods.

TERRITORY

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Balance Sheet

Assets ($000)

	12/31/2010
*Total bonds	$2,083,160
*Total preferred stocks	11,646
*Total common stocks	89,807
Contract loans	38,714
Cash & short-term inv	139,029
Prems and consids due	85,520
Accrued invest income	33,313
Other assets	88,132
Separate account bus	595,864
Assets	$3,165,185

Liabilities ($000)

Net policy reserves	$1,959,688
Policy claims	15,507
Deposit type contracts	201,456
Comm taxes expenses	5,537
Asset val reserve	15,522
Other liabilities	68,649
Separate account bus	595,864
Total Liabilities	$2,862,222
Common stock	3,000
Paid in & contrib surpl	1,000
Unassigned surplus	282,583
Other surplus	16,380
Total	$3,165,185

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

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Best's Rating Report

Why is this *Best's® Rating Report* important to you?

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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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