

Best's Rating Report



THE CINCINNATI LIFE INSURANCE COMPANY

Fairfield, Ohio



A

Ultimate Parent:
Cincinnati Financial Corporation
THE CINCINNATI LIFE
INSURANCE COMPANY

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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 reflects its more than adequate risk-adjusted capitalization, integral role within the Cincinnati Financial Corporation, increased statutory surplus and GAAP equity, and continuing premium growth while improving net gains from operations in the current year. Partially offsetting these factors are challenges related to the new business strain related to ordinary life sales and the large increase in fixed annuity premiums, downward credit migration in its fixed income holdings, and continuing geographic concentration risk.

An improved economic environment, enhanced investment performance and profitable operations in the current year increased statutory surplus, leading to a risk-adjusted capitalization that is more than sufficient to support its business and investment risks. Cincinnati Life is an integral member within the Cincinnati Financial Corporation,

which allows for cross-selling of its core life products with 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. Its core ordinary life insurance line of business, which mainly consists of term insurance, has been the primary growth driver historically.

While net income has become more favorable, operating results of the ordinary life line of business continue to be hindered due to new business strain and XXX reserving on its term products. Operating results will continue to be negatively impacted until the desired scale of operations is attained and the impact of XXX reserving begins to decrease. The company did record a substantial increase in fixed annuity premiums compared to prior years, and will be challenged to maintain its spreads considering the current low interest rate environment. A.M. Best notes that while the investment portfolio has substantially improved compared to the prior two years, there has been some downward credit migration in its fixed income holdings, which may increase the company's exposure to credit risk. Investments in equities have decreased significantly in the current year, but their value as a percentage of surplus remains somewhat high relative to its peers. The life and annuity products offered by Cincinnati Life help the enterprise to build a more complete marketing mix, but its net income is small compared to that of the enterprise. Roughly half of its direct premiums come from the states of Illinois, Indiana, Iowa, Ohio and Pennsylvania, even though the company sells life insurance in thirty-seven states. While this increases the exposure of geographic concentration risk to the company, it is partially mitigated as the company plans to market its insurance products in two new states.

Best's Financial Strength Rating: A

Outlook: Stable

Best's Rating Report

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital		Net		Net Income
		Capital Surplus	Condit ¹ Reserve	Net Premiums	Net Invest	
2005	2,351,689	450,779	60,143	193,813	99,324	21,002
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

BUSINESS REVIEW

The Cincinnati Life Insurance Company is the life insurance subsidiary of The Cincinnati Insurance Company (CIC). Cincinnati Life offers a variety of ordinary life insurance, disability insurance, annuity and worksite products. Cincinnati Life's immediate parent, CIC, is a multi-line 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.

Cincinnati Life sells life insurance, disability income insurance and annuities in 49 states and the District of Columbia, with a primary focus on insurance operations conducted through an extensive network of independent property/casualty agents in 37 states. Historically, the company has relied on its property/casualty-based agencies to grow its life insurance business. In an effort to grow its business, Cincinnati Life introduced new additional distribution channels and expanded its product portfolio to foster new business opportunities. Independent life agents and worksite marketers have emerged as additional sources of distribution, leading to the expansion of marketing efforts into additional states beyond the 37 where CIC actively markets property/casualty insurance. As a result, Cincinnati Life has a secondary, but significant, source of business in states in which the parent does not operate. The total number of life agencies has been flat for the past four years. Cincinnati Life's marketing program calls for aggressive cross-selling initiatives and encouraging the life producers in property/casualty agencies to promote Cincinnati Life as a primary company in their distribution arena for life insurance products.

Cincinnati Life's business is predominantly in the Midwest and Southeast regions of the United States, which roughly parallels its property/casualty parent, CIC. CIC recently expanded into the Texas, Colorado and Wyoming markets. Cincinnati Life offers a variety of ordinary life insurance, disability insurance, annuity and worksite products. While annuity business has increased substantially in 2009, management maintains that it is essentially taking advantage of an opportunity and does not plan any large scale moves into the fixed annuity market. The life product portfolio includes term life, its main line of business; whole life; universal life; and survivor universal life. The company has been actively growing its worksite marketing program in recent years, providing payroll deduction programs to the employer marketplace. This program has complemented the compa-

ny's marketing focus to capitalize on new opportunities through its select property/casualty-based agency force. The company also has a block of bank-owned life business under both its separate and general accounts. This business is more opportunistic and not actively marketed to date. Cincinnati Life also looks to grow its business by continually rolling out new products and updating existing ones. In 2010, the company plans to roll out a new survivor universal life product with a secondary guarantee and a worksite return of premium term product.

EARNINGS

While Cincinnati Life has recorded statutory and GAAP profits in 2009, there has been a wide variability in earnings the past few years, mainly as a result of new business strain and other than temporary impairments. GAAP operating results continue to be positive due to a more favorable investment environment, continued favorable mortality experience and stable operating expenses. The core ordinary life business, which is a portfolio of a variety of life products, has experienced statutory net operating losses the past few years, largely due to XXX reserve issues. The company's increased sales of ordinary life products are the result of the company's expanded product portfolio, diverse distribution strategy, and sales modules that support cross-selling initiatives. However, the strain associated with new business and the rising level of required XXX reserves for its term life products have adversely affected Cincinnati Life's statutory operating results.

While annuities on a statutory basis recorded a net operating loss in the current year, premiums increased relative to the prior year. Group and individual A&H products have generated mixed results. Realized capital losses in 2009, which were mainly due to other than temporary impairments, were significantly less when compared to 2008 as a result of more favorable market conditions.

The company continues to be challenged with profitability issues related to XXX reserves. In 2009, deficiency reserve exposure remained high as a result of the new term insurance sales. The company has elected to reinsure some 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 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 in 2009 increased slightly from year-end 2008, mainly due to more favorable capital gains results, and more favorable operating and investment results. In 2009, the company recorded both positive realized gains and a positive change in unrealized gains, whereas both had been in loss positions in the prior year. GAAP equity increased substantially as a result of profitable operations and improved market conditions which increased other comprehensive income.

Total adjusted statutory capital had shown a decreasing trend from years 2006 through 2008, mainly due to net realized and unrealized

Best's Rating Report

investment losses. Realized losses on a statutory basis were due to other than temporary impairments in mostly bonds and preferred stocks, with a small portion accounted for by common stocks.

A.M. Best notes that Cincinnati Life continues to have more than sufficient capitalization to support its current rating. No dividend payments to its parent are expected in the current year, 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 2009 was 85 percent in fixed income securities, 5 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. These common stocks were purchased at relatively low costs and had shown notable appreciation in market values over the years, helping Cincinnati Life provide strong returns. With the onset of sharply deteriorating equity markets in 2008, the value of its equity portfolio declined significantly. Through the evolution and implementation of its enterprise risk management program, management recognized the elevated level of risk associated with the size and concentration of its common stock holdings. Consequently, its entire holdings in Fifth Third Bancorp were sold along with the common stock of other companies. While the level of common stock holdings has decreased significantly from historical trends, 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. In 2009, the fair value of the fixed income portfolio increased significantly, reversing the unrealized losses reported in 2008. While most of the company's bonds are investment grade, there has been some downward credit migration from NAIC-1 to NAIC-2. If the downward credit migration trend continues, the company could face increased holdings of below investment grade bonds, which already make up about 30 percent of capital and surplus. However, Cincinnati Life's below investment grade holdings comprised 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 philosophy 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 2009, the company maintained a higher liquidity position, with a higher than normal (approximately 7%) allocation to cash and short-term investments.

OFFICERS

Chairman, John J. Schiff, Jr.; Chief Executive Officer, Kenneth W. Stecher; President and Chief Operating Officer, David H. Popplewell; Executive Vice President, Jacob F. Scherer, Jr. (Sales & Marketing); Senior Vice President and Chief Investment Officer, Martin F. Hollenbeck; Senior Vice President and Chief Underwriting Officer, Brad E. Behringer; Senior Vice President and Chief Marketing Officer, Glenn D. Nicholson; Senior Vice President, Secretary and Chief Financial Officer, Steven J. Johnston; Senior Vice Presidents, Richard W. Cumming (Actuarial), Craig W. Forrester (Information Technology), Eric N. Mathews (Corporate Accounting), Timothy L. Timmel (Operations); Vice President and Treasurer, Todd H. Pendery (Corporate Accounting); Vice President and Actuary, Roger A. Brown (Actuarial); Vice Presidents, Michael R. Abrams (Investments), David L. Burbink (Life Field Services), Teresa C. Cracas (Planning & Risk Management), J. Michael Dempsey (Life Marketing Administration), 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), Robyn C. Muhlberg (Information Technology), Michael K. O'Connor (Investments), Thomas J. Scheid (Inspection Services & Facilities), Gregory D. Schmidt (Staff Underwriting), Steven A. Soloria (Investments), Michael B. Wedig (Corporate Accounting), Mark A. Welsh (Staff Underwriting), Brian K. Wood (Personnel), Gregory J. Ziegler (Personnel).

DIRECTORS

William F. Bahl, James E. Benoski, Gregory T. Bier, Richard W. Cumming, 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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Best's Rating Report

Balance Sheet	
Assets (\$000)	
	12/31/2009
*Total bonds	\$1,791,670
*Total preferred stocks	11,646
*Total common stocks	96,697
Contract loans	38,971
Cash & short-term inv	152,025
Net deferred tax asset	53,097
Prem and consids due	60,315
Accrued invest income	31,686
Other assets	24,111
Separate account bus	570,341
	<hr/>
Assets	\$2,830,559
 Liabilities (\$000) 	
Net policy reserves	\$1,663,858
Policy claims	11,220
Deposit type contracts	198,892
Comm taxes expenses	7,772
Asset val reserve	15,867
Other liabilities	62,363
Separate account bus	570,341
	<hr/>
Total Liabilities	\$2,530,314
Common stock	3,000
Paid in & contrib surpl	1,000
Unassigned surplus	282,365
Other surplus	13,880
	<hr/>
Total	\$2,830,559
*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.	

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 Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract 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 the 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 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 Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

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

Secure Best's Ratings

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

Vulnerable Best's 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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