Best's Rating Report

THE CINCINNATI LIFE INSURANCE COMPANY

Fairfield, Ohio

Financial Strength
AM BEST
A Excellent

A

Ultimate Parent:
Cincinnati Financial Corporation

THE CINCINNATI LIFE INSURANCE COMPANY

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Ultimate Parent#: 058704 **FEIN#: 31-1213778**

BEST'S CREDIT RATING

Best's Financial Strength Rating: A **Outlook**: Stable
Best's Financial Size Category: VIII

RATING RATIONALE

Rating Rationale: The ratings for The Cincinnati Life Insurance Company (Cincinnati Life) reflect its adequate risk-adjusted capitalization despite recent declines in its capital and surplus, good quality investment portfolio, continued premium growth in its core ordinary life line of business and its strategic role within Cincinnati Financial Corporation. Partially offsetting these positive rating factors are challenges related to managing the new business expense strain related to ordinary life sales and interest-sensitive reserves in the low interest rate environment, declines in statutory surplus due primarily to recent operating losses tied to retaining Regulation XXX reserves, and a relatively small contribution to the revenue and earnings of the enterprise.

Cincinnati Life's risk-adjusted capitalization, as defined by Best's Capital Adequacy Ratio (BCAR), is adequate to support its insurance and business risks. This is the result of historically profitable operations and an investment portfolio that has overall good credit quality. The percentage of fixed income holdings is relatively high, with below investment grade bond holdings lower than industry averages. The investment portfolio strategy is viewed as conservative, with no exposure to common stocks, mortgages or real estate, while other invested

(Schedule BA) assets are comprised of surplus notes of highly rated insurers. Cincinnati Life has significantly reduced its sales of fixed annuities due to concerns about maintaining appropriate interest spreads in the current economic environment. Its core ordinary life insurance line of business, which is primarily term life insurance, has been the growth driver and has shown steady increases in premiums over the past five years. Cincinnati Life is an important member of Cincinnati Financial Corporation, which benefits from the ability to cross-sell life products through property and casualty agents with a strong distribution model that is highly regarded in the marketplace. The company maintains a sustained focus on independent life agents when it markets in states not served by its property/casualty affiliates.

Reported statutory operating results of the ordinary life line of business continue to be negatively impacted by new business expense strain driven by Regulation XXX and AXXX reserving requirements on its term and universal life products. The increase in life production has led to decreased operating profitability in recent years, including operating losses since 2013, when this strain combined with XXX and AXXX reserving led to a significant operating loss and a reduction in capital. With the anticipated implementation of principles-based reserving in 2017, which will largely eliminate redundant reserves, A.M. Best expects Cincinnati Life's statutory operating results to improve significantly. Interest-sensitive reserves, as a percentage of total reserves for Cincinnati Life, compare favorably to industry standards, but the company may face the challenge of managing interest rate spreads in the current low interest rate environment. While the life and fixed annuity products offered by Cincinnati Life provide the enterprise with a more diverse marketing mix, its overall contribution to revenue and earnings is relatively small.

A positive rating action could result from a positive rating action taken by A.M. Best on Cincinnati Life's parent or an increase in A.M. Best's view of the strategic importance of Cincinnati Life to its parent. Factors that could lead to a negative rating action are a reduction in A.M. Best's view of the strategic importance of Cincinnati Life to its parent, a negative rating action taken by A.M. Best on Cincinnati Life's parent, a material decline in risk-adjusted capital as measured by BCAR, continued spread compression on interest-sensitive reserves that could adversely impact operating earnings, or a change in business mix with greater focus on less creditworthy products.

KEY FINANCIAL INDICATORS ($000)

Year	Assets	Total Capital Capital Surplus Funds	Asset Valuation Reserve	Net Premiums Written	Net Invest Income	Net Income
2011	3,357,268	281,184	7,293	299,664	138,199	-13,262
2012	3,569,936	275,809	14,223	241,768	140,732	4,589
2013	3,737,512	246,992	17,263	235,312	143,098	-19,682
2014	3,915,975	223,454	17,390	243,836	148,381	-18,616
2015	4,066,837	208,355	18,749	250,060	154,138	-11,489

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

BUSINESS PROFILE

Cincinnati Life offers a variety of ordinary life insurance, disability insurance, fixed annuity and worksite products that offer a steady stream of premium payments and have the potential for generating revenue growth, while providing the enterprise a good source of revenue diversification. The types of life products offered by Cincinnati Life are: term, whole and universal life insurance, fixed annuities and disability income products. In addition, term, whole and universal life and disability insurance are offered to employees at their worksite.

These products provide the property/casualty agency force with excellent cross-serving opportunities for both commercial and personal accounts. Annuity products include single premium and flexible premium deferred annuities. These products are offered through multi-line independent property/casualty agents and independent life only agents, primarily in the states where Cincinnati Financial's property/casualty companies do not operate. Cincinnati Life's business is predominantly in the Midwest and Southeast regions of the United States, which roughly parallels its property casualty parent, The Cincinnati Insurance Company (CIC).

Cincinnati 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 company'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. Cincinnati Life is licensed 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 39 states. Historically, the company has relied on its property casualty based agencies to grow its life insurance business. As a result, Cincinnati Life's business is predominantly in the Midwest and Southeast regions of the United States, which roughly parallels its property casualty parent, CIC. In an effort to grow its business, Cincinnati Life introduced 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 states 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 had been flat for the past four years, but in 2015, 73 independent life agencies that do not represent the PC companies were appointed. 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. Approximately 69 percent of 2015 term and other life insurance product premiums were generated through the property casualty insurance agency relationships.

Four lines of business – term life insurance, universal life insurance, worksite products and whole life insurance – account for 95.3 percent of the life insurance segment's revenues. Worksite products include term life insurance, return of premium term life insurance, whole life insurance, universal life and disability insurance offered to employees through their employer. Worksite insurance products provide the property casualty agency force with excellent cross-serving opportunities for both commercial and personal accounts.

While annuity business increased markedly in 2009 as a result of the low interest rate environment, management viewed this as taking advantage of an opportunity, and doesn't plan any large scale moves into the fixed annuity market. Annuity premium has declined year over year since 2010.

Affiliations: 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, fixed 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 (CinFin), which is a publicly traded insurance holding company founded in Ohio in 1968. CinFin 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. Other subsidiary companies of CIC include The Cincinnati Casualty Company, The Cincinnati Indemnity Company, and The Cincinnati Specialty Underwriters Insurance Company.

Scope of Operations: Cincinnati Life is licensed to do business in all states except New York. States where Cincinnati Financial has only a life presence are: Alaska, California, Hawaii, Nevada, Oklahoma, Louisiana, Maine, Mississippi, Massachusetts, and Rhode Island. Almost 88 percent of the more than 1,900 property casualty agency reporting locations offer Cincinnati Life products to their clients, and life business is also produced from approximately 620 other independent life insurance agencies. Distribution expansion within the property casualty insurance agencies remains a high priority. The 31 life field marketing representatives work in partnership with 136 property casualty field marketing representatives. Approximately 69 percent of term and other life insurance product premiums were generated through property casualty insurance agency relationships, with the balance from life insurance agents.

Territory: The company is licensed 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, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

OPERATING PERFORMANCE

Operating Results: The core ordinary life business, which consists of a portfolio of a variety of life products, has historically experienced statutory net operating losses, largely due to new business strain and XXX and AXXX reserves associated with level premium term insurance products and universal life with secondary guarantees. 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 fixed annuities, on a statutory basis, recorded a net operating profit in the current year, due to less new business strain. Individual fixed annuity premiums have decreased in recent years as management elected to moderate sales in the current low interest rate environment. The company does not offer variable or indexed products. Group and individual A&H products have generated modest operating losses in recent years.

The company continues to be challenged with statutory profitability issues related to XXX and AXXX reserves. Deficiency reserve exposure remains high as a result of new term and secondary guarantee universal life insurance sales. The company has elected to retain and manage the redundant reserves through its own capital resources, but monitors the statutory reserve growth of AXXX and XXX business. Statutory operating results would have been more favorable without the impact of these "redundant" reserves.

As of January 2017, Principles-Based Reserving (PBR) will be used in setting up reserves, and the redundant reserving issue will be eliminated for new business written, leading to improved statutory results. Going forward, the recovery of the redundant reserves will flow through income as the legacy business matures or lapses.

Cincinnati Life has historically recorded consistent GAAP operating profits. Cincinnati Life reported GAAP operating income $40.3 million in 2015 compared to $35.9 million in 2014. The increase in GAAP operating income is primarily due to more favorable mortality experience. For 2013, GAAP operating income was $44.4 million compared to $34.2 million in 2012.

In 2015, Cincinnati Life reported a statutory after tax net operating loss of $5.4 million compared to $12.8 million in 2014. These statutory operating losses are being driven by increases in the statutory reserves associated with policies subject to Regulations XXX or AXXX. Cincinnati Life's XXX and AXXX reserves increased by $118.3 million and $16.5 million respectively in 2015 compared to $120.7 million and $21.7 million in 2014. The company internally finances the full statutory reserves on these policies. In 2013, Cincinnati Life reported a statutory after tax net operating loss of $20.7 million compared to $500,000 gain in 2012. The primary driver of this loss was XXX and AXXX reserves which increased by $119.7 million and $25.3 million respectively in 2013 compared to $104.6 million and $10.0 million in 2012. $12.3 million of the AXXX increase was due to deficiency reserves on policies issued in 2013 under revised AG38 rules. $6.1 million of the AXXX increase was due to a conversion to a new valuation software system related to policies issued prior to 2013.

Net investment income increased to $154.1 million in 2015 from $148.4 million in 2014, up 3.9 percent. Net investment income in 2014 increased 3.7 percent over 2013. Increases in investment income have principally been the result of investing cash flow from new insurance business and from interest received. Net realized investment losses of $6.1 million in 2015 compared to losses of $5.8 million in 2014, after transferring $3.0 million and $6.3 million of gains respectively to the interest maintenance reserve net of amortization.

Investment Results: Net investment income has shown a modest but steady increase in recent years, largely due to an increasing asset base, but partially offset by lower yields available on new investments. Investment yields for Cincinnati Life compare favorably to industry averages, with nearly all investment classes returning yields higher than the industry. Private placement bonds, which account for approximately 14% of the fixed income portfolio, provide an enhanced yield, but less liquidity. This is not viewed as a significant concern due to the long-term nature of the company's life liabilities.

In 2011, the company recorded an "other than temporary impairment" for a common stock holding, which impacted net income and federal income taxes. In 2013, Cincinnati Life disposed of its common stock portfolio to benefit from certain tax planning considerations. The company's investment portfolio had total net realized investment losses of $6.1 million in 2015 compared to losses of $5.8 million in 2014, after transferring $3.0 million and $6.3 million of gains respectively to the interest maintenance reserve net of amortization. The company's primary investment strategy is to maintain liquidity to meet both immediate and long-range insurance obligations through the purchase and maintenance of low to medium-risk fixed-maturity bonds.

BALANCE SHEET STRENGTH

Capitalization: Reported statutory surplus has been on a declining trend in recent periods. Capital and surplus decreased from $223.5 million in 2014 to $208.4 million in 2015, down 6.8 percent. The 2015 decline was driven by a net loss of $11.5 million and an increase in non-admitted assets of $4.1 million. The capital and surplus decline of 9.5 percent in 2014 was also caused by a net loss and an increase in non-admitted assets.

The 10.4 percent drop in capital and surplus in 2013 was primarily comprised of net loss of $19.7 million, $700,000 decrease in net unrealized capital gains, a $9.3 million increase in net deferred tax assets, an increase in the Asset Valuation Reserve of $3.0 million, an increase in non-admitted assets of $8.7 million, and a $6.1 million one-time policy reserve increase related to AXXX reserves for policies issued in a prior period due to the conversion to a new valuation software system.

Statutory surplus also decreased modestly in 2012, as net income was somewhat offset by changes in the asset valuation reserve, tax deferred assets and a change in non-admitted assets. The company also benefited from an accounting change in 2012 of about $1 million due to the adoption of SSAP 101.

While a dividend was paid in 2011, no dividends have been paid to the parent since then, and future dividend payments are subject to the ultimate parent's financial management strategy and goals. On a GAAP basis, shareholders' equity has increased as a result of profitable operations and favorable market conditions.

Despite the recent decline in statutory capital due the XXX and AXXX reserve increases, A.M. Best notes that Cincinnati Life continues to have more than sufficient capitalization to support its current rating. As an important 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. A.M. Best anticipates that the implementation of Principles-Based Reserving (PBR) in 2017, will lead to improve statutory operating results, and reverse the statutory declines in capital.

Liquidity: Sources of cash are primarily from premiums collected, net investment income, and proceeds from investments sold or matured. Cash outflows consist of benefits and loss-related payments, commissions and general expenses and investments purchased. Maintenance of a high-quality fixed-income portfolio also supports a strong liquidity position, with no exposure to less liquid assets such as mortgages and real estate. Liquidity ratios are favorable relative to industry averages. In addition, the group's liquidity position is enhanced through its parent's financial flexibility, given its access to the capital markets, lines of credit and a separate portfolio of liquid assets.

Operating cash flows totaled $159.7 million in 2015 compared to $140.3 million in 2014. The increase in 2015 operating cash flows can be attributable to decreased benefit and loss related payments in 2015 as the result of decreased levels of death claims paid. Overall, cash flows from operations were more than sufficient to meet operating needs in 2015 and 2014. At December 31, 2015, the company's cash position remained strong, with a balance of $44.5 million.

Investments: 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 was over 96 percent in fixed income securities, 1 percent in cash and short-term securities, and the remainder in preferred stock, policy loans and other invested assets. During 2013, Cincinnati Life disposed of their remaining exposure to common stock to benefit from certain tax planning considerations. In 2014, the company reduced its exposure to preferred stock to two holdings, while investing in surplus notes that pay an enhanced yield. These preferred holdings continued through 2015. Cincinnati Life does not have any holdings in mortgages or real estate.

The separate account portfolio supports bank-owned life insurance policies, in which the assets backing these policies are represented primarily by fixed-income 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. The company also benefits from having the support of a financially strong and highly rated parent company. The company maintains a high liquidity position, and its overall liquidity ratios are comparable to industry averages.

Investments - Bond Portfolio: Cincinnati Life's fixed-income portfolio consists mainly of corporate bonds, which make up 84 percent of this portfolio, U.S. government bonds and the balance in taxable municipal and securitized bonds. Cincinnati Life also holds approximately 16.2 percent of its bond portfolio in private placements, which had been increasing in recent years. Cincinnati Life's below investment grade holdings represent over 8 percent of the total bond portfolio, representing an increased holding of NAIC Class 3 and 4 bonds.

Investments - Equity Portfolio: Historically, Cincinnati Life held relatively large portions of its investment portfolio in common stocks. Through the evolution and implementation of its enterprise risk management program, management addressed the elevated level of risk associated with the size and concentration of common stock investments, and disposed of nearly all of Cincinnati Life's common stock holdings in 2011. The remainder of the common stock holdings was disposed of in 2013. At year-end 2015, Cincinnati Life has two holdings of investment-grade preferred stock.

MANAGEMENT

Officers: Chairman of the Board, Kenneth W. Stecher; President and Chief Executive Officer, Steven J. Johnston; Executive Vice President, Jacob F. Scherer, Jr.; Senior Vice President and Chief Operating Officer, Roger A. Brown; Senior Vice President 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 Underwriting Officer, Brad E. Behringer; Senior Vice President and Chief Risk Officer, Teresa C. Cracas; Senior Vice President, Secretary and General Counsel, Lisa A. Love (Corporate); Senior Vice Presidents, Theresa A. Hoffer (Corporate Accounting), Eric N. Mathews (Corporate Accounting), Glenn D. Nicholson (Marketing), Timothy L. Timmel (Operations); Vice President and Treasurer, Todd H. Pendery (Corporate Accounting).

Directors: William F. Bahl, Gregory T. Bier, Roger A. Brown, Martin F. Hollenbeck, Steven J. Johnston, William R. McMullen, Martin J. Mullen, Glenn D. Nicholson, David P. Osborn, Jacob F. Scherer, Jr., John J. Schiff, Jr., Thomas R. Schiff, Michael J. Sewell, Kenneth W. Stecher, Timothy L. Timmel, Larry R. Webb.

Balance Sheet
Assets ($000)

	YE 2015
Total bonds	$3,017,001
Total preferred stocks	5,047
Contract loans	29,741
Cash & short-term invest	44,486
Prems and consids due	121,163
Accrued invest income	39,145
Other assets	83,772
Tot assets w/o sep accts	3,340,354
Separate account bus	726,483
Assets	$4,066,837

Liabilities ($000)

Net policy reserves	$2,849,468
Policy claims	23,464
Deposit type contracts	176,208
Interest maint reserve	9,747
Comm taxes expenses	8,157
Asset val reserve	18,749
Other liabilities	46,207
Tot liab w/o sep accts	3,132,000
Separate account bus	726,483
Total Liabilities	$3,858,482
Common stock	3,000
Paid in & contrib surpl	1,000
Unassigned surplus	204,355
Total	$4,066,837

Best's Rating Report

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

A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of the insurance companies since 1899.

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

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. The 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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

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