

Report of Examination of

The Cincinnati Life Insurance Company
Fairfield, Ohio

As of December 31, 2014

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Columbus, Ohio
September 11, 2015

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

The Cincinnati Life Insurance Company

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department has performed a multi-state coordinated examination of the Company in which the Delaware Department of Insurance was also a participant. The last examination covered the period of January 1, 2009, through December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014.

The Department conducted the examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information,

etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of Deloitte & Touche LLP provided an unqualified opinion on the financial statements of the Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' reports and supporting work papers during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
William F. Bahl	Chairman Bahl & Gaynor Investment Counsel, Inc.
Gregory T. Bier	Retired Deloitte & Touche LLP
Roger A. Brown	Vice President and Actuary The Cincinnati Life Insurance Company
Martin F. Hollenbeck	Senior Vice President and Chief Investment Officer The Cincinnati Insurance Companies
Steven J. Johnston	President and Chief Executive Officer The Cincinnati Insurance Companies
W. Rodney McMullen	Chairman and Chief Executive Officer The Kroger Co.
Martin J. Mullen	Senior Vice President The Cincinnati Insurance Companies
Glenn D. Nicholson	Senior Vice President The Cincinnati Life Insurance Company
David P. Osborn	President Osborn Rohs Williams & Donohoe, LLC
David H. Popplewell	President The Cincinnati Life Insurance Company

Name	Principal Occupation
Jacob F. Scherer, Jr.	Executive Vice President The Cincinnati Insurance Companies
John J. Schiff, Jr.	Former Chairman and Chief Executive Officer The Cincinnati Insurance Companies
Thomas R. Schiff	Chairman and Chief Executive Officer John J. & Thomas R. Schiff & Co., Inc.
Michael J. Sewell	Senior Vice President and Chief Financial Officer The Cincinnati Insurance Companies
Kenneth W. Stecher	Chairman The Cincinnati Insurance Companies
Timothy L. Timmel	Senior Vice President The Cincinnati Insurance Companies

Officers

As of the examination date, the following executive and senior officers were serving in the designated position:

Name	Title
Kenneth W. Stecher	Chairman
David H. Popplewell	President
Steven J. Johnston	Chief Executive Officer
Jacob F. Scherer, Jr.	Executive Vice President
Brad E. Behringer	Senior Vice President
Teresa C. Cracas	Senior Vice President
Martin F. Hollenbeck	Senior Vice President
John S. Kellington	Senior Vice President
Lisa A. Love	Senior Vice President
Eric N. Mathews	Senior Vice President
Glenn D. Nicholson	Senior Vice President
Michael J. Sewell	Senior Vice President and Chief Financial Officer
Stephen M. Spray	Senior Vice President
Timothy L. Timmel	Senior Vice President

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly owned subsidiary of The Cincinnati Insurance Company, an insurance company domiciled in Ohio, which is a wholly owned subsidiary of Cincinnati Financial Corporation, a holding company domiciled in Ohio that is the ultimate controlling person in the holding company system.

Territory and Plan of Operations

The Company was licensed to transact business in the District of Columbia and all states except New York. The Company offers term, whole and universal life insurance, disability insurance and fixed annuities through independent agent and worksite distribution channels.

Reinsurance

The Company manages risks associated with its life insurance exposure through reinsurance treaties with a variety of highly rated carriers. The Company cedes approximately 44 percent of its life insurance in force. Retention is \$1 million on a single life. The Company currently reinsures mortality risk on an excess of retention, yearly renewable term basis. For term life insurance business written prior to 2005, the Company retains 10 percent to 25 percent of each term policy, not to exceed \$500,000, ceding the balance of mortality risk and policy reserve. In addition, there is catastrophe reinsurance coverage on life insurance operations that reimburses the Company for covered net losses in excess of \$9 million. Recovery is capped at \$75 million for losses involving associates. The Company manages risks associated with its disability income and long-term care exposures through reinsurance treaties with other highly rated reinsurers.

All contracts reviewed contained the necessary clauses that meet the guidelines prescribed by the NAIC.

Financial Statements

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The accompanying Notes to Financial Statements should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014

Assets	
Bonds	\$ 2,848,064,359
Preferred stocks	5,046,800
Cash, cash equivalents and short-term investments	65,443,098
Contract loans	29,518,986
Other invested assets	<u>56,386,740</u>
Subtotal, cash and invested assets	3,004,459,983
Investment income due and accrued	37,573,696
Uncollected premiums and agents' balances	8,675,440
Deferred premiums, agents' balances and installments	109,018,548
Amounts recoverable from reinsurers	5,315,929
Other amounts receivable under reinsurance contracts	1,688,826
Net deferred tax asset	29,146,178
Receivables from parent, subsidiaries and affiliates	3,798,379
Aggregate write-ins for other-than-invested assets	<u>1,456,393</u>
Total admitted assets excluding Separate Accounts	3,201,133,372
From Separate Accounts	<u>714,841,223</u>
Total admitted assets	<u>\$ 3,915,974,595</u>

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014**

Liabilities

Aggregate reserve for life contracts	\$ 2,669,119,536
Aggregate reserve for accident and health contracts	16,292,000
Liability for deposit-type contracts	183,381,030
Contract claims – life	16,599,087
Contract claims – accident and health	1,374,215
Policyholder dividends apportioned for payment	110
Premiums and annuity considerations received in advance	1,280,278
Other amounts payable on reinsurance	16,455,750
Interest maintenance reserve	9,019,623
Commissions to agents due or accrued	2,900,922
General expenses due or accrued	3,615,656
Taxes, licenses and fees due or accrued	1,258,796
Current federal and foreign income taxes	1,892,374
Unearned investment income	550,891
Amounts withheld or retained by company as agent or trustee	596,466
Amounts held for agents' account	282
Remittances and items not allocated	1,430,378
Asset valuation reserve	17,390,023
Payable to parent, subsidiaries and affiliates	241,306
Payable for securities	10,250,000
Aggregate write-ins for liabilities	<u>24,030,621</u>
Total liabilities excluding Separate Accounts	2,977,679,344
From Separate Accounts	<u>714,841,223</u>
Total liabilities	<u>3,692,520,567</u>

Capital and Surplus

Common capital stock	3,000,000
Gross paid in and contributed surplus	1,000,000
Unassigned funds	<u>219,454,028</u>
Total capital and surplus	<u>223,454,028</u>
Total liabilities, capital and surplus	<u>\$ 3,915,974,595</u>

Summary of Operations
For the Year Ended December 31, 2014

Premiums and annuity considerations	\$ 243,835,912
Considerations for supplementary contracts with life contingencies	135,169
Net investment income	148,380,858
Amortization of interest maintenance reserve	5,068,497
Commissions and expense allowances on reinsurance ceded	5,965,552
Income from fees associated with Separate Accounts	<u>5,822,423</u>
Total	<u>409,208,411</u>
Death benefits	97,670,366
Matured endowments	78,911
Annuity benefits	61,882,173
Disability benefits and benefits under accident and health contracts	2,335,957
Surrender benefits and withdrawals for life contracts	22,119,380
Interest and adjustments on contract or deposit-type contract funds	10,421,261
Payments on supplementary contracts with life contingencies	335,000
Increase in aggregate reserves for life and accident and health contracts	<u>168,692,838</u>
Total	363,535,886
Commissions on direct business written	37,786,728
General insurance expenses	33,160,723
Insurance taxes, licenses and fees	6,626,811
Increase in loading on deferred and uncollected premiums	(5,383,259)
Net transfers (from) Separate Accounts	(6,187,948)
Aggregate write-ins for deductions	<u>916</u>
Total	<u>429,539,857</u>
Net gain before policyholder dividends and federal income taxes	(20,331,446)
Dividends to policyholders	<u>109</u>
Net gain before federal income taxes	(20,331,555)
Federal income taxes incurred	<u>(7,549,020)</u>
Net gain from operations	(12,782,535)
Net realized capital (losses)	<u>(5,833,383)</u>
Net income	<u>\$ (18,615,918)</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, prior year end	\$ 246,992	\$ 275,809	\$ 281,184	\$ 302,963	\$ 300,245
Net income (loss)	(18,616)	(19,682)	4,589	(13,262)	14,914
Change in net unrealized capital gains (losses)	-	(723)	501	6,815	(4,478)
Change in net deferred income tax	2,050	9,323	(2,115)	3,763	(9,738)
Change in non-admitted assets	(6,914)	(8,668)	(2,927)	(2,587)	1,578
Change in reserve due to change in valuation basis	-	(6,104)	-	-	-
Change in asset valuation reserve	(127)	(3,040)	(6,930)	8,229	345
Cumulative effect of changes in accounting principles	-	-	1,385	-	-
Dividends to stockholders	-	-	-	(25,000)	-
Aggregate write-ins	<u>69</u>	<u>77</u>	<u>122</u>	<u>263</u>	<u>97</u>
Net change in capital and surplus	<u>(23,538)</u>	<u>(28,817)</u>	<u>(5,375)</u>	<u>(21,779)</u>	<u>2,718</u>
Capital and surplus, current year end	<u>\$ 223,454</u>	<u>\$ 246,992</u>	<u>\$ 275,809</u>	<u>\$ 281,184</u>	<u>\$ 302,963</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Policy Reserves and Related Actuarial Items

The Company's Board of Directors appointed Roger A. Brown, FSA, MAAA, Vice President and Actuary of the Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Brown prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2014 Annual Statement.

Peter A. Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the Company's policy reserves and related actuarial items. On the basis of his analysis, Mr. Weber determined that the policy reserves and related actuarial items presented in the 2014 Annual Statement are consistent with requirements in Ohio law and that the policy reserves and related actuarial items held by the Company are adequate and appropriate.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$ 3,915,974,595</u>
Liabilities	3,692,520,567
Capital and Surplus	<u>223,454,028</u>
Total Liabilities, Capital and Surplus	<u>\$ 3,915,974,595</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, CFE, AES, CISA, CISSP, CIDM; Stephen W. Bishel, CPA; Ryan S. Gibson, AES, CFE, CISA, FLMI; and Roy J. Moster, AES, CFE, CISA, CPA.

Respectfully,



Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2014.

Kevin J. Rupp
Examiner-In-Charge

10/5/15
Date

[Signature]
Assistant Chief Examiner

10/5/15
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 5 day of October, 2015.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named, Jeffrey K. Ebert, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 5 day of October, 2015.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires